Front-Loaded Equity Awards: An Efficient Contracting or Rent Extraction Tool?

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Abstract

Front-loaded equity awards (FLEAs) are one-time equity grants intended as compensation for multiple years. This type of pay design has been criticized by proxy advisors and activists. We manually identify FLEAs and find that 9.1% of the firms in our sample grant the award to their CEOs at least once. Although FLEAs provide a large amount of compensation in the year of the grant when compared to annual equity awards, we do not find evidence that they provide excess compensation throughout the entire period they are intended to cover. Consistent with the efficient contracting hypothesis, we find that firms facing greater growth opportunities, incurring a loss, and hiring a new CEO make more frequent use of FLEAs. We fail to find support for the rent extraction hypothesis, with the exception that firms avoid FLEAs when shareholder voting rights are stronger. We also explore how stakeholders perceive FLEAs and find a positive and statistically significant stock market reaction of roughly 1% to the announcement of the grant. In addition, we find that ISS is 39% more likely to recommend against say-on-pay after a FLEA is granted, and the vast majority of the subsequent voting dissent is driven by shareholders following ISS recommendations. Overall, our results are consistent with the survey conducted by Edmans, Gosling, and Jenter (2023), who find that most directors would sacrifice shareholder value to avoid CEO pay controversy.

JEL Classification: D72; G34; M12; M52

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"*Proxy advisory firms, as profit-driven entities, prioritize efficiency and scale over company-specific analysis. This results in standardized recommendations that fail to account for the unique circumstances of individual companies. This one-size-fits-all approach is particularly insidious with respect to executive compensation; driving compensation practices to the mean, stifling innovation, and depriving on individual approaches.*" Business Roundtable (2025).

1 Introduction

The business media frequently writes about the highest-paid CEOs, normally using a negative tone when referring to their compensation. Several of the CEOs whose compensation ranks at the top are granted front-loaded equity awards (FLEAs).[1] We define FLEAs as one-time equity grants intended as compensation for multiple years.[2] As an example, Tim Cook's compensation was $378 million in 2011, the year he became CEO of Apple. Almost all of this amount referred to restricted stock units that were intended as compensation over a ten-year period. Except for a couple of descriptive manuscripts, the extant literature has not empirically examined FLEAs. We intend to fill this gap by exploring (1) the characteristics of FLEAs, (2) the factors that influence their adoption, and (3) how stakeholders perceive the award.

When compared to annual equity awards, FLEAs hold executives more accountable for their actions. This happens through two mechanisms that Hall (1999) describes conceptually in the context of stock options. First, the number of stocks and options granted under a FLEA is defined upfront. They differ from a fixed-*value* annual equity award, whose number of stocks and options are adjusted up (down) after a year of low (high) performance, as empirically shown by Ferrari et al. (2023). Second, FLEAs that contain performance-based stocks and options set performance targets and exercise prices in advance. When a firm provides a fixed-*number* annual equity award, however, even though the number of stocks and options are not adjusted from year to year, firms tend to adjust targets of performance-based stocks and use current stock prices as option exercise

1. For instance, Coles, Daniel, and Naveen (2024) point out that numerous business media outlets have reported Elon Musk's 2018 total compensation as $56 billion, when $230 million would be a better approximation for the annual pay of Tesla's CEO, in part because the stock options granted were front-loaded.

2. Academics and practitioners sometimes use related terms to refer to front-loaded equity awards, such as "mega grants," "moonshot grants," or "special transformational grants." These terms provide a connotation of the equity grant being large, with a convex payout scheme, or intended to support strategic corporate changes, respectively. We use the more general term "front-loaded equity award," which refers to any equity award granted with the intention to compensate an executive for multiple years. FLEAs differ from "annual equity awards," which are expected to be granted every year, even though their vesting schedules may be, and usually are, longer than one year. For reference, Gopalan et al. (2014) document that 84% (86%) of stock (option) awards vest between three and five years.

prices, resulting in lower CEO accountability. Because FLEAs create a tighter link between pay and performance ex post, they result in a stronger incentive ex ante.

FLEAs can also benefit a company by increasing executive retention immediately. Consider a CEO who was recently hired and has no ownership in the company. If the board grants the CEO annual equity awards, they will accumulate over the vesting period (e.g., three years). On the other hand, if the board provides all the annual awards over the vesting period up front, the CEO will be subject to a higher retention potential from day one for the same amount of equity awards in expectation.[3] Another benefit of FLEAs is that, because their payout schemes are more convex *ceteris paribus*, they can encourage risk-taking, making executives more willing to pursue strategic changes under market uncertainty.

In addition to benefits, FLEAs have important limitations. One of these limitations is that FLEAs are rigid and constrain the board's ability to timely adjust executive compensation. When the board grants a FLEA, it commits not to provide additional equity awards during the period the grant is in place. If forces outside the control of the CEO positively impact the stock price, it results in unnecessary shareholder ownership dilution. On the other hand, if the stock price is negatively affected, the board has two difficult choices. It can either do nothing and subject the CEO to weak incentives and retention effects or back out of its commitment and grant additional awards, potentially facing shareholder dissatisfaction.

Another drawback of FLEAs is the litigation risk. For instance, a shareholder sued Tesla for a FLEA granted to its CEO Elon Musk in 2018 valued on grant date at roughly $2.3 billion. The award was recently revoked by a Delaware judge (Elliott 2024). An additional disadvantage of FLEAs can be the inducement to excessive risk-taking, given the higher convexity of the payout scheme. Furthermore, FLEAs can encourage earnings management and decrease employee morale.

FLEAs have been criticized by activists, proxy advisors, and some institutional investors. ISS (2023) warns that pay-for-performance considerations of FLEAs are more closely scrutinized. In addition, ISS argues that it is unlikely to give a favorable voting recommendation to FLEAs that cover more than four years. Glass Lewis (2023) states that it weighs FLEAs with particular scrutiny. One of the concerns raised by Glass Lewis is that a single grant can amplify any potential perverse incentive. Some institutional investors also seem skeptical about the practice. For example, Black-

3. For simplicity, our argument ignores adjustments for the time value of money.

Rock (2023) explains that "Given the unusual structure and often sizable potential payout, we look to companies to make a strong case for how these awards serve the company's and shareholders' long term interests."

We hypothesize that FLEAs are utilized for two main reasons: efficient contracting and rent extraction. Under the efficient contracting hypothesis, a FLEA can be viewed as an additional tool available to boards to design pay plans. Boards would only adopt a FLEA when the previously mentioned benefits are greater than the costs. Based on the efficient contracting hypothesis, we predict that FLEAs would be used when the firm has high growth potential. The award would create significant incentives for the CEO to pursue growth opportunities. FLEAs would also be adopted when the firm is in financial distress, reporting losses or facing a debt overhang problem (Myers 1977). The award could induce the CEO to take risks and steer the business toward profitability. In addition, FLEAs would be expected when the firm has an immediate need to motivate and retain executives. This would be particularly important when the firm hires a new CEO, or the current CEO has low company ownership. Finally, FLEAs would be more likely adopted by low volatility firms. Firm subject to high risk can lose significant value, resulting in an award with limited incentives and retention effects (Hall 2000).

The rent extraction hypothesis assumes that FLEAs can be used as a vehicle to overpay executives. This could happen if FLEAs are announced as compensation for a longer period than the actual time until the next equity award, leading shareholders to underestimate the annualized cost of the award.[4] In addition, because FLEAs concentrate several years of equity grants in a single award, they allow for greater opportunism. For example, CEOs could depress stock prices ahead of a FLEA by accelerating bad news and delaying good news (Aboody and Kasznik 2000; Daines, McQueen, and Schonlau 2018), resulting in performance targets and exercise prices that are easier to achieve. Based on the rent extraction hypothesis, we predict that FLEAs would be used when there is greater asymmetric information between managers and shareholders, allowing CEOs to be opportunistic. FLEAs would also be more common when CEOs are more powerful. Powerful CEOs can influence the boards' decisions on whether an equity award is granted, when, and with what characteristics (Bebchuk, Grinstein, and Peyer 2010; Morse, Nanda, and Seru 2011;

4. For instance, in 2012 Tesla granted a $78 million FLEA intended to compensate Elon Musk for 10 years. Practitioners criticized the board for granting another FLEA to Elon Musk just five and a half years later (Baksa 2022).

Abernethy, Kuang, and Qin 2015). Furthermore, we expect the use of FLEAs to be inversely related to monitoring forces such as board independence and institutional investor concentration (Core, Holthausen, and Larcker 1999; Hartzell and Starks 2003). Lastly, firms would avoid FLEAs when shareholders have stronger voting rights, given that voting dissent is consequential (Ng et al. 2011; Fos and Jiang 2015; Correa and Lel 2016).

To test the two hypotheses, we manually identify FLEAs in two different steps.[5] Broadly, in the first step, we select CEOs who showed a significant year-over-year change in equity compensation. After we merge all the datasets necessary for our determinants analysis, we end up with 1,855 suspect observations. In the second step, we manually identify FLEAs by reading proxy statements while making use of a regular expression that captures 2,221 unique word sequences. It is not straightforward to identify a FLEA, as it is common for annual equity awards to also vest over a multi-year period. We only consider an equity award to be front-loaded if the firm commits to provide no additional equity award under the underlying incentive plan for a certain period of time (see examples of commitments in appendix A). Our final sample contains 273 FLEAs from 1993 through 2022.[6]

We turn to our first goal and examine the characteristics of FLEAs. We find that FLEAs are a meaningful form of compensation design, as 9.1% of the firms in our sample grant at least one award. 7.4% of the firms award exactly one FLEA, and the other 1.7% award two or more FLEAs throughout our sample period. We document that FLEAs are intended to be in place for two to ten years, with three years being the mode and four years being the median. Firms normally disclose more than one reason for providing a FLEA, with the three most common reasons being retention, incentive alignment, and achievement of strategic goals.

We also compare the CEO compensation of FLEAs to annual equity awards, our control group. The median CEO total compensation in the year a FLEA is granted is roughly $18 million as of December 2023. This amount goes down to $7.1 million across the entire period covered by the FLEA, including the first year. For comparison, the median CEO total compensation is $6.4 million adjusted for inflation for firms that grant annual equity awards. We examine excess compensation

5. We manually identify FLEAs because we are unaware of any dataset commercially available in the U.S. that does so. The ISS Executive Compensation Analytics identifies whether an award is designed to be the only grant to an executive over multiple years, and the period used to annualize the grant. However, in an email exchange, an ISS representative explained that these variables are only applicable to the Australia and New Zealand region.

6. See subsection 3.1 for the detailed steps taken to identify FLEAs.

by regressing CEO total and equity compensation on an indicator for a FLEA, and several controls based on Core, Holthausen, and Larcker (1999), Rajgopal, Taylor, and Venkatachalam (2012), and Murphy and Sandino (2020), in addition to year and industry fixed effects. When examining the first year of FLEAs, we find that CEO total (equity) compensation is 101% (138%) greater for firms that grant FLEAs compared to annual equity awards. However, when we include all years that FLEAs are in place, we do not find that CEO total or equity compensation is statistically different between front-loaded and annual equity awards. In short, even though FLEAs grant greater compensation in the first year, we do not find evidence that they provide excess compensation throughout the entire period they cover after we control for the determinants of CEO pay.

Our second goal is to explore the determinants of granting a FLEA. We find that firms are more likely to grant a FLEA during periods of high growth potential. Specifically, we find that firms with greater growth opportunities, decreases in market competition, and that announce a significant acquisition are more likely to adopt a FLEA in the following year. We also provide evidence that firms that incur losses and hire new CEOs make more frequent use of FLEAs. These findings are consistent with the efficient contracting hypothesis under which boards will put in place a FLEA when there is a greater need for CEO retention, incentives and inducement for risk-taking. In our test for the rent extraction hypothesis, surprisingly, we fail to find evidence consistent with opportunism, CEO power, and monitoring forces. We only find evidence in support of shareholder voting rights, given that firms avoid FLEAs when there is a say-on-pay proposal on the shareholder's meeting agenda or the firm has a single class of stocks with equal voting rights. In isolation, these findings are not enough to conclude that firms use FLEAs to extract rent.

We next turn to our last goal and investigate how stakeholders perceive FLEAs. Particularly, we examine the stock market reaction to FLEA announcements, the ISS recommendations for say-on-pay, and the subsequent shareholder voting behavior. To study how the stock market reacts, we manually collect 155 8-K forms that contain FLEA announcements. For each Form 8-K we identify the filing date and set a three and a five trading day window around it. Using different models for expected returns, such as Fama and French (1993) three-factor model and Carhart (1997) four-factor model, we document positive and significant cumulative abnormal returns (CARs) that range from 0.7% to 1.1%. As a robustness test, we remove all 8-K forms that contain other material events and obtain similar CARs. Results of buy-and-hold abnormal returns (BHARs) are qualitatively the

same. Overall, the stock market reaction is consistent with FLEAs being an efficient compensation design. This result is in line with our analyses of CEO excess compensation and determinants of FLEAs.

We also empirically examine how ISS, the most prominent proxy advisor, views FLEAs when issuing voting recommendations for say-on-pay proposals. We regress an indicator for a negative ISS recommendation on an indicator for the year the FLEA is granted, in addition to controls based on Ertimur, Ferri, and Oesch (2013), Malenko and Shen (2016), and Larcker, McCall, and Ormazabal (2015), and year and industry fixed effects. We find that ISS is not supportive of FLEAs. More precisely, ISS is 39% more likely to issue a negative vote recommendation for say-on-pay following the grant of a FLEA than an annual equity award. In an additional analysis, we control for CEO total compensation and the proportion of equity with the objective of understanding whether ISS is critical of other residual features of a FLEA compensation design, such as payout convexity, vesting schedule, compensation complexity, tax implications, etc. We find that ISS is 6% more likely to recommend a vote against say-on-pay after a FLEA. We conclude that ISS not only disapproves of FLEAs in general, but also is particularly concerned about the sizable amount of compensation in the year of the grant.

In our last empirical analysis, we explore how shareholders vote for say-on-pay proposals after a firm grants a FLEA. In our regression model, the dependent variable is the proportion of votes for, and the controls are the same as in the ISS recommendation analysis. We find that shareholder voting support goes down by 15% following the grant of a FLEA. However, most of this effect is driven by ISS recommendations. Once we control for it, voting support decreases by only 2%. We also analyze shareholder voting behavior controlling for both ISS recommendations and CEO compensation. In this case, we find that voting support for FLEAs goes up by a small margin of 2%, which is consistent with shareholders that vote independently of ISS endorsing characteristics of the grant design other than CEO total compensation. Our results are consistent with the vast majority of negative votes for FLEAs stemming from shareholders following ISS recommendations. This is not surprising, given that ISS is very influential (Iliev and Lowry 2015; Malenko and Shen 2016).

There is an apparent inconsistency between the stock market reaction results and the findings from the ISS recommendation analysis. Larcker, McCall, and Ormazabal (2015) explain that share-

holder voting is subject to a free-rider problem and, therefore, if investors outsource voting to proxy advisors while trying to minimize costs, that can result in low-quality recommendations. Empirical studies raise concerns about the quality of voting recommendations from ISS (Larcker, McCall, and Ormazabal 2013, 2015; Iliev and Lowry 2015; Albuquerque, Carter, and Gallani 2020; Calluzzo and Kedia 2022). Additionally, recent papers find that executive compensation has become more homogeneous in part because of proxy advisors' influence (Cabezon 2024; Jochem, Ormazabal, and Rajamani 2021). We contribute to this literature by directly showing that a distinct compensation design (i.e., FLEAs) is discouraged by ISS. Overall, our results are consistent with the survey conducted by Edmans, Gosling, and Jenter (2023), which finds that most directors would sacrifice shareholder value to avoid controversy regarding CEO compensation.

Our paper is related to a couple of manuscripts that examine FLEAs (Friestedt and Nwankwo 2019; Larcker and Tayan 2023b, 2023a). These studies explore only large FLEAs ("mega-grants"), focus on a smaller sample period, and are descriptive in nature. Our paper differs by putting together, to the best of our knowledge, the largest dataset of FLEAs over a 30-year period. In addition, our study focuses on testing whether the use of FLEAs is consistent with the efficient contracting and the rent extraction hypotheses. To achieve this goal, we raise a comprehensive set of determinants based on the extant literature. Moreover, we use regression models to estimate marginal effects while controlling for other variables. Taken together, our findings support the efficient contracting hypothesis, but not the rent extraction hypothesis.

The remaining of the paper proceeds as follows. Section 2 lays out the hypotheses of the paper. Section 3 details the data sources, the steps we take to identify FLEAs, and the research design. Our findings are discussed in section 4. Section 5 concludes.

2 Hypotheses Development

One of the biggest debates in the executive pay literature is whether compensation is used as a form of efficient contracting or rent extraction. According to the efficient contracting hypothesis, boards set executive compensation in a way that is optimal for shareholders. On the other hand, advocates for the rent extraction hypothesis claim that board members are co-opted by management and end up providing excess compensation to CEOs. The extant literature has found evidence

consistent with efficient contracting (Hall and Liebman 1998; Rajgopal, Taylor, and Venkatachalam 2012; Taylor 2013; Gipper 2021), as well as rent extraction (Core, Holthausen, and Larcker 1999; Bertrand and Mullainathan 2001; Heron and Lie 2007; Bebchuk, Grinstein, and Peyer 2010; Morse, Nanda, and Seru 2011; Ferri and Maber 2013; Abernethy, Kuang, and Qin 2015; Daines, McQueen, and Schonlau 2018). We contribute to this discussion by testing these hypotheses in the context of front-loaded equity awards (FLEAs). We define FLEAs as one-time equity grants intended as compensation for multiple years.

Supporters of FLEAs argue they are an effective way to retain talent, align incentives, and induce risk-taking in a timely manner. However, FLEAs have been criticized by activists, proxy advisors, and some institutional investors. For example, As You Sow releases annually a list of the 100 most overpaid CEOs (Weaver and Walton 2023). Several of the CEOs on the list were granted FLEAs. This is not surprising, given that As You Sow uses grant date compensation in a given year as the main input for their ranking. Such a figure prevents an apples-to-apples comparison between front-loaded and annual equity grants. In 2018, proxy advisors added to their voting guidelines specific policies for analyzing FLEAs. These policies show skepticism about the benefits of FLEAs and criticize their rigidity in adapting to unforeseen events. Vanguard (2024) seems to be particularly concerned with the magnitude of FLEAs by stating that it will generally vote against management proposals to grant one-time stock options if equity grants in a given year exceed 4% of the shares outstanding.

Critics of FLEAs have also pointed out that they increase ligation risk and can lead to excessive risk-taking. Moreover, FLEAs can encourage earnings management by having fewer performance metrics, thresholds, targets, and maxima than annual equity awards. Finally, other employees can become dissatisfied with the large compensation gap in the year the FLEA is granted to the CEO, resulting in lower employee morale.

According to the efficient contracting hypothesis, boards would adopt a FLEA if it maximizes shareholder value. A FLEA would be particularly relevant when the firm has high growth potential, as it could motivate the CEO to pursue growth opportunities. We also predict that boards would make use of FLEAs when the firm is in financial distress. The high payout convexity of a typical FLEA would lead the CEO to take risks with the intent of resuming profitability. Additionally, FLEAs would be expected at moments when there is an immediate need to motivate and retain

executives, such as when a new CEO is hired, or the current CEO has low firm ownership. Lastly, high volatility firms would be less inclined to make use of FLEAs, as a significant drop in stock prices would limit incentives and retention effects (Hall 2000). Conversely, an increase in stock prices would increase shareholder ownership dilution.

Hypothesis 1: *Boards are more likely to grant CEOs front-loaded than annual equity awards when firms have high growth potential, are in financial distress, have an immediate need for incentives and retention, and face lower stock price volatility.*

Under the rent extraction hypothesis, the CEO has captured the compensation decision process. When this happens, FLEAs would be more frequently granted if they can be used as a tool to provide excess compensation. Because FLEAs concentrate several years of equity grants in a single award, they allow for greater opportunism. For instance, CEOs could depress stock prices ahead of a FLEA by accelerating bad news and delaying good news (Aboody and Kasznik 2000; Daines, McQueen, and Schonlau 2018), resulting in performance targets and exercise prices that are easier to achieve. Additionally, shareholders may underestimate the annualized cost of a FLEA if boards announce that the grant would be in place for a longer period than it actually will.

Having established that FLEAs can, in principle, be used to overpay executives, we have specific predictions for when they are more likely to be adopted. FLEAs would be used when there is greater asymmetric information between managers and shareholders, allowing CEOs to be opportunistic. FLEAs would also be more common when CEOs are more powerful, as they have greater influence over the boards' decisions on whether an equity award is granted, when, and with what characteristics (Bebchuk, Grinstein, and Peyer 2010; Morse, Nanda, and Seru 2011; Abernethy, Kuang, and Qin 2015). In addition, we expect firms to make more use of FLEAs when the CEO faces lower monitoring pressures from boards and institutional investors (Core, Holthausen, and Larcker 1999; Hartzell and Starks 2003). However, firms would avoid FLEAs when shareholders have stronger voting rights, given that voting dissent is consequential (Ng et al. 2011; Fos and Jiang 2015; Correa and Lel 2016).

Hypothesis 2: *Boards are more likely to grant CEOs front-loaded than annual equity awards when firms have greater asymmetric information, CEOs have more power, monitoring forces are less intense, and shareholder voting rights are weaker.*

3 Data Collection and Research Design

3.1 Data Collection

To test whether the use of FLEAs is consistent with the efficient contracting and rent extraction hypotheses, we identify FLEAs in two steps. In the first step, we select CEOs whose equity compensation showed a significant change. More specifically, we start with all CEO observations in ExecuComp and calculate the year-over-year growth ratio in equity compensation adjusted for inflation. We identify suspect firms as those that show an equity compensation ratio of at least three, and the next year's equity compensation ratio of at most one third. This allows us to capture firms that choose a hybrid approach of granting a FLEA on the top of an annual equity award, or that switch from annual to front-loaded and vice-versa. In case the current (next year's) equity compensation ratio is missing, we make use of only next year's (the current) equity compensation ratio. We also take into account cases in which the current equity compensation ratio is missing because the prior year's equity compensation is zero. Finally, we require suspect firms to provide an equity award of at least $1 million as of December 2023. Our goal is to identify potential FLEAs that are significant enough that they would merit a discussion in the proxy statement. This results in an initial set of 3,413 suspect observations, as reported at the top of table 1. After we drop financial firms (SIC 6000–6999), regulated utilities (SIC 4800–4999), missing data, and merge with all other datasets necessary for our analysis of determinants of FLEAs, we end up with 1,855 suspect observations.

[Table 1 here]

In the second step, we manually identify FLEAs by reading proxy statements. It is not straightforward to identify a FLEA, as it is common for annual equity awards to also vest over a multi-year period. We only consider an equity award to be front-loaded if the firm commits to grant no additional equity award while the FLEA is in place, except for annual awards. Our appendix A provides examples of these commitments. To locate commitments in proxy statements, we make use of a regular expression. This regular expression was developed by initially reading 41 proxy statements of firms that granted FLEAs that were identified by Friestedt and Nwankwo (2019) and Larcker and Tayan (2023b, 2023a). We compile a "bag of words" based on the terms associated with the

commitments found. From this bag of words, we create a single regular expression that captures 2,221 unique word sequences. Appendix B contains our regular expression and examples of word sequences.

We implement the second step by first merging the suspect observations with WRDS' SEC Analytics Suite to obtain accession numbers for proxy statements (DEF 14A, DEFC14A, and DEFM14A) filed up to one year after the fiscal year end. We merge 1,658 observations and access the proxy statements on SEC's EDGAR website. For each proxy statement, we start by reading the text surrounding the summary compensation table. If no commitment is found, we make use of our regular expression. For every regular expression match, we read at least the matched sentence, but sometimes the paragraph to be able to put the sentence into context. We stop once a commitment is found, or all matches have been checked for that proxy statement. When a FLEA is identified, we also collect the number of years that it is intended to cover, and the reason(s) disclosed by the company to grant the award. Our final sample contains 273 FLEAs from 1993 through 2022. In appendix C we report the top 10 FLEAs based on equity awards as of December 2023.

In our determinants analysis, we compare FLEAs with annual equity awards, our control group. We construct the control group as follows. We assume that annual equity awards are granted by firms that do not have a FLEA in place, based on the intended period covered by the FLEAs we identify. In addition, since we are unable to determine whether suspect observations for which we could not find a commitment are front-loaded or annual equity awards, we drop them assuming they would cover three years. We choose this period because it is the most frequent number of years chosen by firms for which we could find a commitment. Finally, we aim at making the front-loaded and annual equity awards comparable. Given that we only classify as possible FLEAs the observations with at least $1 million in equity compensation as of December 2023, we drop annual equity awards adjusted for inflation with less than $1 million divided by three, which would be an equivalent annualized cost. As reported in table 1, this results in 23,515 observations that we classified as annual equity awards.

As previously mentioned, we merge ExecuComp with several datasets to obtain the variables necessary to analyze the factors that influence the adoption of FLEAs. We obtain inflation data from the Bureau of Labor Statistics, firm characteristics from Compustat, returns from CRSP, institutional ownership from Thomson Reuters, product market fluidity from Hoberg and Philips Data

Library, historical state headquarters from Mingze Gao's website, state non-compete enforceability score from Ertimur et al. (2018), Fama-French 48 industry classification from Kenneth French's website, acquisition data from Refinitiv, and say-on-pay data from ISS Voting Analytics. Table 1 shows the datasets that reduce the sample size of our determinants analysis. We winsorize at zero and one all continuous variables that are not supposed to take values outside that range, such as *Prop. Inst. Ownership*. We also winsorize at the 1st and 99th percentiles all other continuous variables, except compensation-related ones, which may contain extreme values for FLEAs in the year of the grant. We do not winsorize indicator and discrete variables.

We also manually collect data for the stock market reaction analysis. The SEC (2004) required disclosure of compensation arrangements with any named executive officer in a Form 8-K filed within four business days. Therefore, for each previously identified FLEA granted in or after 2004, we search on the SEC's EDGAR for all 8-K forms of the respective firm whose dates fall in the same fiscal year as the FLEA. We read each 8-K filing, comparing the compensation disclosure with the description of the FLEA in the proxy statement. If a match is identified, we collect the date the Form 8-K was filed, in addition to the item numbers included in the form. We observe that 97% of the FLEAs are disclosed under item 5.02, consistent with the SEC (2006) requirement for companies to disclose the adoption or amendment of material compensatory arrangements with any named executive officer under such item number. In robustness tests of our stock market reaction analysis, we exclude observations with possibly other material events by removing filing dates of 8-K forms that contain any item other than 5.02, 7.01, and 9.01.[7]

3.2 Research Design

The three main goals of this paper are to explore (1) the characteristics of FLEAs, (2) the factors that influence their adoption, and (3) how stakeholders perceive the award. To accomplish our first goal, we examine several FLEA characteristics, such as how often firms make use of them, their frequency over time and across industries, the distribution of the number of years they are intended to cover, and the types of reasons disclosed by the firms that adopt them. We also test whether

7. We do not remove 8-K forms containing items 7.01, "Regulation FD Disclosure," and 9.01, "Financial Statements and Exhibits," because they are usually used in our setting to, respectively, append a press release and an exhibit related to the compensatory arrangement.

FLEAs result in excess CEO compensation by estimating the following equation.

$$\text{CEO Comp}_{ijt} = \alpha_j + \beta_t + \gamma \text{FLEA}_{ijt} + \sum_{k=1}^{K} \delta_k \text{Control}_{kijt-1} + \epsilon_{ijt} \tag{1}$$

The dependent variable can be either *Ln(CEO Equity Comp.)* or *Ln(CEO Total Comp.)*. α_j and β_t capture Fama-French 48 industry and fiscal year fixed effects, respectively. We test for excess compensation in the first year of the FLEA (*FLEA Grant Year*) and over the entire period it is intended to cover (*FLEA in Place*), making use of annual equity grants as our control group. We also control for other determinants of CEO compensation based on Core, Holthausen, and Larcker (1999), Rajgopal, Taylor, and Venkatachalam (2012), and Murphy and Sandino (2020). All the variables are defined in appendix D. If FLEAs result in excess pay, γ should be positive and significant. We estimate equation 1 using median regressions. Murphy and Sandino (2020) document that OLS results can be sensitive to extreme values of CEO compensation. Guthrie, Sokolowsky, and Wan (2012) show that the effect of CEO compensation outliers can be addressed using median regressions.

To accomplish our second goal and examine the factors that influence the adoption of FLEAs, we estimate the determinants model below.

$$\begin{aligned} Prob(\textit{FLEA Grant Year}_{ijt} = 1) = F\Bigg(\alpha_j + \beta_t + \sum_{k=1}^{K} \gamma_k \text{Eff. Contract.}_{kijt-1} \\ + \sum_{l=1}^{L} \delta_l \text{Rent Extr.}_{lijt-1} + \sum_{m=1}^{M} \zeta_m \text{Control}_{mijt-1}\Bigg) \end{aligned} \tag{2}$$

The dependent variable, *FLEA Grant Year*, is equal to one (zero) if the firm grants a FLEA (an annual equity award) to its CEO. $F(\cdot)$ is the standard logistic function. Based on the predictions of the efficient contracting and rent extraction hypotheses explained in section 2, we include several independent variables in the model. According to the efficient contracting hypothesis, FLEAs would be more common when firms have high growth potential, are in financial distress, have an immediate need for incentives and retention, and face lower stock price volatility. We proxy for growth potential using *Book-to-Market*, *Revenue Growth*, *Prod. Market Fluidity*, and *Acquisition Announc.* The first and third variables are inversely related to the construct. The logic behind *Prod. Market Fluidity* is that a decrease in competition creates opportunities for the firm to grow and

expand its market share. We proxy for financial distress using *Loss*, *ROA*, and *Book Leverage*. We attempt to capture instances in which firms have an immediate need for incentives and retention through *New CEO*, *CEO Ownership*, and *Non-Compete Score (-)*. The second variable is inversely related to the construct. A higher (lower) value of *Non-Compete Score (-)* reflects weaker (stronger) contract enforceability of non-compete provisions, resulting in a proxy for retention needs. *Volatility* captures stock price volatility.

According to the rent extraction hypothesis, FLEAs would be more frequently adopted when firms have greater asymmetric information, CEOs have more power, monitoring forces are less intense, and shareholder voting rights are weaker. We develop proxies for these constructs based on Core, Holthausen, and Larcker (1999), Bebchuk, Grinstein, and Peyer (2010), Abernethy, Kuang, and Qin (2015), and Cadman and Carrizosa (2024). *Bid-Ask Spread* is our proxy for asymmetric information. We capture CEO power using *CEO Chair*, *CEO Founder*, and *Ln(CEO Tenure)*. Our proxies for monitoring forces are *Prop. Executives Dir.*, *Prop. Inst. Ownership*, and *Blockholder*. In addition, we proxy for shareholder voting rights using *Multi-Class Shares* and *Say-on-Pay on Agenda*. The former is inversely related to the construct, as shares with greater voting rights are usually in the hands of insiders. Finally, we control for *Ln(Firm Age)*, *Ln(Total Assets)*, and *R&D to Assets*. We estimate equation 2 using logit regressions.

To accomplish our last goal, we examine the stock market reaction to FLEA announcements, the ISS recommendations for say-on-pay, and the subsequent shareholder voting behavior. Regarding the stock market reaction, we manually collect announcement dates, as described in subsection 3.1. We set three and five trading day windows (i.e., $[-1, +1]$ and $[-2, +2]$) around each day a FLEA is announced. We employ different models to estimate expected returns. Specifically, we use a market-adjusted model, Capital Asset Pricing Model (CAPM), Fama and French (1993) three-factor model and Carhart (1997) four-factor model. The market-adjusted model uses CRSP value-weighted market returns and, therefore, does not require estimation. For the other three models, we follow Fee, Li, and Peng (2023) and use an estimation window of 210 trading days and a gap of 45 trading days with the event window. In addition, we require at least two thirds of the returns in the estimation window to be non-missing. Finally, we calculate cumulative abnormal returns (CARs) and buy-and-hold abnormal returns (BHARs). Abnormal returns are expected to be positive (negative) and significant if the efficient contracting (rent extraction) hypothesis is true.

Next, we detail our empirical test to examine how ISS views FLEAs when issuing recommendations for say-on-pay proposals. Say-on-pay was mandated by the Dodd-Frank Act for most companies starting in 2011, and requires firms to provide shareholders with the right to approve the compensation of top executives. We focus on ISS because it is the most prominent proxy advisor, and the extant literature has shown that its recommendations are very influential (Iliev and Lowry 2015; Malenko and Shen 2016). Therefore, we estimate the following equation.

$$Prob(ISS\ Against\ Rec._{ijt} = 1) = F\left(\alpha_j + \beta_t + \gamma FLEA\ \ Grant\ \ Year_{ijt} + \sum_{k=1}^{K} \delta_k \text{Control}_{kijt}\right) \quad (3)$$

The dependent variable, *ISS Against Rec.* is an indicator equal to one (zero) if ISS issues a recommendation against (for) say-on-pay. $F(\cdot)$ is the standard logistic function. α_j and β_t represent Fama-French 48 industry and fiscal year fixed effects, respectively. The independent variable of interest is *FLEA Grant Year*, which is equal to one if the firm grants a FLEA to its CEO, and zero if it grants an annual equity award. We match ISS recommendations to equity awards based on the shareholder's meeting that immediately follows the end of the fiscal year in which the award is granted. We also control for other determinants of ISS recommendations based on Ertimur, Ferri, and Oesch (2013), Malenko and Shen (2016), and Larcker, McCall, and Ormazabal (2015). The sign and magnitude of γ capture how ISS perceives FLEAs. In an additional analysis, we add to the model observable characteristics of FLEAs as independent variables, particularly *Ln(CEO Total Comp.)* and *Prop. Equity Comp.* Our objective is to gain insights about whether ISS is critical of residual features of a FLEA compensation design, such as payout convexity, vesting schedule, compensation complexity, tax implications, etc. We estimate equation 3 using logit regressions.

Lastly, to explore how shareholders perceive FLEAs when voting for say-on-pay, we estimate the equation below.

$$\mathbb{E}(Prop.\ \ Votes\ \ For_{ijt}) = F\left(\alpha_j + \beta_t + \gamma FLEA\ \ Grant\ \ Year_{ijt} + \sum_{k=1}^{K} \delta_k \text{Control}_{kijt}\right) \quad (4)$$

The dependent variable, *Prop. Votes For* is the number of votes for say-on-pay divided by the total number of votes for and against. $F(\cdot)$ is the standard logistic function. Given that the dependent variable is highly skewed (-2.8) and bounded between zero and one, we estimate equation

4 using fractional logit regressions. The main variable of interest is *FLEA Grant Year*, which is equal to one (zero) if the firm grants a FLEA (an annual equity award). The sign and magnitude of γ is our measure of how supportive shareholders are for FLEAs when voting for say-on-pay. In an additional analysis, we add to the model *ISS Against Rec.* to capture shareholder support when voting independently of ISS. Finally, in our last analysis, we control for observable characteristics of FLEAs to explore how shareholders view residual features of these grants in the context of voting.

4 Results

Our three main goals in this paper are to explore (1) the characteristics of FLEAs, (2) the factors that influence their adoption, and (3) how stakeholders perceive the award. We discuss the findings for each of these goals in the three subsections that follow.

4.1 Characteristics of FLEAs

Our data collection results in 273 unique FLEAs granted to CEOs. We also identify 816 observations that are covered by a FLEA based on the number of years a current or previous award was intended to be in place. These observations include the year the FLEA is granted. In table 2, panel A, we report the distribution of front-loaded and annual equity awards between 1993 and 2022. We observe an increase in the number of FLEAs over time. However, this is driven by changes in our sample, as annual awards also increase over time. Figure 1 shows the proportion of observations that grant a FLEA in a given year. Although this proportion fluctuates from year to year, there is no clear trend over time. We observe an increase in the proportion of observations covered by a FLEA (*FLEA in Place*). We interpret this finding with caution, given that our sample starts in 1993, and the proportion of *FLEA in Place* is likely higher for the initial years than shown in the figure. On average, FLEAs represent 1.1% of the observations, and observations covered by a FLEA represent 3.4%. In untabulated analyses, we find that 7.4% of the firms grant exactly one FLEA over the entire sample period, while 1.7% grant two or more. Moreover, 9.1% of the firms in our sample grant at least one FLEA. In short, we find that FLEAs are a meaningful form of compensation design used by businesses.

[Table 2 here]

[Figure 1 here]

In table 2, panel B, we report the distribution of FLEAs across Fama-French 48 industries. Among industries with at least 250 observations, we observe the highest ratio of FLEAs relative to annual equity awards in consumer goods (09) and entertainment (07). Steel works (19) and chemicals (14) have the lowest ratio of front-loaded to annual equity awards. In panel C, we examine the proportion of firms that grant any equity award to their CEOs in future years. Conditional on granting a FLEA in the current period, 56% of the firms provide an equity award in the following year. This proportion increases to 68% in year two, becoming roughly constant in year three at 78%. As a comparison, 95% of firms that grant an annual equity award provide another one in the following year. This percentage remains approximately stable over time. The fact that more than half the firms that grant FLEAs provide additional equity awards in other years does not necessarily mean they are breaking their commitment, as we include in our sample firms that use a hybrid approach, granting both front-loaded and annual equity awards.

In addition to identifying FLEAs, we also collect the number of years they are intended to cover, and the reasons for granting the award. Figure 2 shows the distribution of the years FLEAs are supposed to be in place. We observe that the number of years ranges between two and ten, with three years being the mode and four years being the median. We also examine the reasons disclosed by the companies for granting FLEAs. We manually classify the reasons into eight categories based on their similarities and show the distribution in appendix E. Firms typically disclose more than one reason for granting a FLEA to their CEO, with the average being 2.1 reasons for each award. The most common reasons for granting a FLEA are retaining the CEO, increasing incentive alignment, and achieving strategic goals. Of the 273 FLEAs, 17 contain no specific reason provided in the proxy statement.

[Figure 2 here]

We also compare the compensation of CEOs who are granted front-loaded and annual equity awards. Figure 3 shows the distribution of CEO equity and total compensation. We adjust compensation values for inflation to facilitate comparison and then take the natural logarithm. We observe that, compared to annual equity awards, the unconditional expected value of CEO compensation is

higher for FLEAs in the year of the grant. This is expected, given that FLEAs concentrate multiple years of equity grants in one. In untabulated analyses, we find that the median CEO total compensation in the year a FLEA is granted is roughly $18 million as of December 2023. This amount goes down to $7.1 million across the entire period the FLEA is in place. For firms that grant annual equity awards, the median CEO total compensation is $6.4 million adjusted for inflation.

[Figure 3 here]

We next examine whether firms overpay their CEOs by granting front-loaded, as opposed to annual equity awards. To perform this test, we estimate equation 1. Essentially, we regress CEO compensation on an indicator for a FLEA, in addition to several controls. Summary statistics for all variables used in the regressions are provided in panel A of table 3. We report the regression results in table 4. Panel A uses as main independent variable *FLEA Grant Year*, which is equal to one (zero) if a FLEA (an annual equity award) is granted in that year. With the exception of *Prop. Executives Dir.* and *Prop. Inst. Ownership*, all coefficients have the expected signs. More importantly, when examining only the first year of FLEAs, we find that CEO equity (total) compensation is 138% (101%) greater for firms that grant front-loaded instead of annual equity awards. Panel B repeats the analysis in panel A, replacing the main independent variable with *FLEA in Place*, which is equal to one if the year is covered by a current or previously granted FLEA, and zero if the firm grants an annual equity award. We do not observe that *FLEA in Place* has a statistically significant effect on CEO compensation. To sum up, although FLEAs provide greater compensation in the year of the grant, we do not find evidence that they result in excess compensation throughout the entire period they cover after controlling for the determinants of CEO pay.

[Table 3 here]

[Table 4 here]

4.2 Determinants of FLEAs

In this subsection, we empirically examine the factors that influence the adoption of FLEAs. These factors are based on predictions of our hypotheses, which we discuss in section 2. Summary statistics for all these factors are reported in panel B of table 3. We estimate equation 2 and report the results

in table 5. The dependent variable in all three models is *FLEA Grant Year*, which is equal to one (zero) if the CEO is granted a FLEA (an annual equity award). Regarding the independent variables, in addition to controls, model (1) includes proxies for the efficient contracting hypothesis, model (2) includes proxies for the rent extraction hypothesis, and model (3) includes all independent variables. We find that firms with greater growth potential are more likely to grant FLEAs to their CEOs in the following year. Specifically, we find that firms with high growth opportunities (low *Book-to-Market*), that face decreases in competition (lower *Prod. Market Fluidity*) and that announce a significant acquisition (*Acquisition Announc.*) adopt FLEAs more frequently. This is consistent with a decline in competition creating opportunities for the firm to increase its market share, and acquisitions resulting in synergies that can lead to further growth. We also find that FLEAs are more frequently adopted when the firm faces financial distress, as the coefficient of *Loss* is positive and significant. We further find that FLEAs are more likely when firms have an immediate need for incentives and retention, as captured by *New CEO*. We do not find evidence for stock price volatility (*Volatility*) being a significant FLEA driver. Overall, these results support the efficient contracting hypothesis that boards make use of FLEAs when firms have high growth potential, are in financial distress, and have an immediate need for incentives and retention.

[Table 5 here]

When examining the proxies for the rent extraction hypothesis, we fail to find support for opportunism, CEO power, and monitoring forces. We do, however, find evidence consistent with shareholder voting rights, as firms are more likely to avoid FLEAs when they have a single class of stocks with equal voting rights (i.e., the opposite of *Multi-Class Shares*) and when there is a say-on-pay proposal on the shareholder's meeting agenda (*Say-on-Pay on Agenda*). Regarding control variables, we document that younger and bigger firms make more frequent use of FLEAs. In summary, our results are not enough to claim that FLEAs are used to extract rent, and further investigation is needed. In the next subsection, we explore how stakeholders perceive FLEAs.

4.3 Perception of FLEAs by Stakeholders

In this subsection we explore the stock market reaction to FLEA announcements, the ISS recommendations for say-on-pay, and the subsequent shareholder voting behavior. For the stock market

reaction study, we collect filing dates of 8-K forms that contain the announcement of FLEAs, as described in subsection 3.1. We set three and five trading day windows centered around the Form 8-K filing dates and calculate cumulative abnormal returns (CARs) and buy-and-hold abnormal returns (BHARs) using four different models for expected returns (see subsection 3.2 for details). Results are reported in table 6. Panel A contains all 8-K forms we are able to identify as containing FLEA announcements. Mean CARs and BHARs range from 0.7% to 1.1%, depending on the event window and the expected return model used. All CARs and BHARs are statistically different from zero at a significance level of 10%, except for those estimated using Fama and French (1993) three-factor model. In panel B, as a robustness test, we remove all 8-K forms that potentially contain other material events and recalculate abnormal returns. Mean CARs and BHARs range from 0.7% to 1.3%, all being statistically significant at 10%, and most at 5%. On the whole, our findings of a positive and significant stock market reaction are consistent with FLEAs being an efficient contracting design, and inconsistent with FLEAs being a tool for rent extraction.

[Table 6 here]

Next, we explore how ISS views FLEAs when issuing recommendations for say-on-pay proposals by estimating equation 3. In short, we regress an indicator for a negative ISS recommendation (*ISS Against Rec.*) on an indicator for whether the CEO is granted a FLEA (*FLEA Grant Year*), in addition to other factors that influence ISS recommendations according to the literature. Summary statistics for all these variables are provided in panel C of table 3. We report our results in table 7. In model (1), we find that ISS is not supportive of FLEAs. Based on the average marginal effects (AME), ISS is 39% more likely to recommend against a say-on-pay proposal after the firm grants its CEO a FLEA. In model (2) we extend our analysis by controlling for *Ln(CEO Total Comp.)* and *Prop. Equity Comp.* with the intent of exploring whether ISS is critical of other residual features of a FLEA compensation design, such as payout complexity, vesting schedule, compensation complexity, tax implications, etc. We find that CEO total compensation is a significant driver of ISS negative recommendations for say-on-pay. More importantly, even after controlling for CEO pay, ISS is 6% more likely to recommend against a front-loaded than an annual equity award. These results provide evidence that not only ISS opposes FLEAs in general, but also has a particular concern with the sizable amount of compensation in the year of the grant.

[Table 7 here]

We turn to our last empirical analysis and examine how shareholders vote for say-on-pay proposals after a FLEA is granted. To perform this test, we estimate equation 4. Briefly, we regress shareholder voting support (*Prop. Votes For*) on an indicator for whether the CEO is granted a FLEA (*FLEA Grant Year*), in addition to the same control variables used in the ISS recommendation analysis. Summary statistics for all these variables are reported in panel D of table 3. The regression results are reported in table 8. In panel A, model (1) we find that shareholder voting support is reduced by 15% in the meeting that follows the grant of a FLEA. In model (2) we extend the analysis by controlling for ISS recommendations, and find that when ISS recommends against say-on-pay, voting support goes down by 31%. More importantly, the decrease in voting support driven by FLEAs is only 2%, which is consistent with ISS recommendations driving most of the results in model (1). In panel B, we extend the analysis of panel A by controlling for compensation characteristics (*Ln(CEO Total Comp.)* and *Prop. Equity Comp.*). In model (2), which also controls for ISS recommendations, we find that shareholder voting support goes up by 2% upon the grant of a FLEA. This is consistent with shareholders that vote independently of ISS endorsing the residual characteristics of FLEAs. Focusing on economically meaningful results, we find that the vast majority of negative votes for FLEAs are driven by shareholders following ISS recommendations. Our findings are in line with Iliev and Lowry (2015) and Malenko and Shen (2016), who document that ISS recommendations are influential.

[Table 8 here]

5 Conclusion

A fundamental question in the executive compensation literature is whether CEO pay is a result of efficient contracting or rent extraction. According to the efficient contracting hypothesis, boards design executive compensation with the goal of maximizing shareholder value. On the other hand, based on the rent extraction hypothesis, frictions such as managerial entrenchment can result in suboptimal contracts in which executives are overcompensated. Empirical studies have found evidence consistent with efficient contracting (Hall and Liebman 1998; Rajgopal, Taylor, and Venkatachalam

2012; Taylor 2013; Gipper 2021), as well as rent extraction (Core, Holthausen, and Larcker 1999; Bertrand and Mullainathan 2001; Heron and Lie 2007; Bebchuk, Grinstein, and Peyer 2010; Morse, Nanda, and Seru 2011; Ferri and Maber 2013; Abernethy, Kuang, and Qin 2015; Daines, McQueen, and Schonlau 2018). We contribute to this ongoing discussion by examining an underexplored compensation design: front-loaded equity awards (FLEAs). We define FLEAs as one-time equity grants intended as compensation for multiple years.

In short, our results are consistent with the efficient contracting hypothesis, which predicts that FLEAs would be more likely adopted when firms have high growth potential, face financial distress, and have an immediate need for incentives and retention. We also find that the stock market reacts positively to the announcement of FLEAs. In addition, we do not find that CEO compensation is excessive over the entire period that FLEAs are in place. However, we document that firms avoid FLEAs when shareholder voting rights are strong. Firms that decide to adopt FLEAs are more likely to receive a negative ISS recommendation and subsequent low shareholder voting support for say-on-pay. Overall, our results are consistent with Edmans, Gosling, and Jenter (2023), who find that most directors would sacrifice shareholder value to avoid CEO pay controversy.

Appendix A Examples of Commitments

Both FLEAs and annual equity awards can vest over multiple years. Therefore, we only classify an observation as a FLEA if the firm commits to provide no additional equity award while the FLEA is in place, except for annual awards. This allows us to capture a hybrid approach, in which the firm grants a FLEA on the top of an annual award. Below we provide examples of identified FLEAs. The text comes from the proxy statement, and the commitment is reported in italics.

Company name: **Champion Enterprises Inc.**
CEO name: **Walter R. Young**
Equity comp. as Dec. 2023: **$13,853,127**
Fiscal year end: **12/31/1995**
"As an inducement for the continued employment of the CEO over the next five years, the Board of Directors on the recommendation of the Compensation Committee approved a new five-year incentive compensation program for Mr. Young, effective August 31, 1995 (the 'CEO Incentive Compensation Program'). The Program, which was developed with the assistance of an independent consultant, involves a total of 800,000 shares of Common Stock and is conditioned upon Mr. Young remaining employed with the Company throughout the five-year period and depositing with the Company 250,000 shares of unencumbered Common Stock (the 'Deposit Shares') he presently owns. Mr. Young is not permitted to transfer the Deposit Shares until the respective stock awards vest or expire or his employment is terminated, although he retains full ownership and voting rights as to the Deposit Shares. *Mr. Young also is not eligible to receive other long-term performance incentives during this five-year period.*"

Company name: **Alphabet Inc.**
CEO name: **Sunder Pichai**
Equity comp. as Dec. 2023: **$225,346,570**
Fiscal year end: **12/31/2022**
"The Chief Executive Officer total compensation reflects Sundar's 2022 total compensation as shown in the Summary Compensation Table on page 53, including the triennial equity award that was granted to Sundar in December 2022. *Given that CEO equity awards are currently made on a triennial cadence, while our broad-based employee equity awards are typically made on an annual cadence*, the pay ratio can fluctuate significantly across years. For example, our 2020 pay ratio was 27:1; our 2021 pay ratio was 21:1; and our 2022 pay ratio is 808:1."

Company name: **Macy's Inc.**
CEO name: **Allen I. Questrom**
Equity comp. as Dec. 2023: **$7,376,224**
Fiscal year end: **01/31/1996**
"Effective February 2, 1995, the Company and Mr. Questrom entered into a new employment agreement which provides for Mr. Questrom to serve as Chairman of the Board and Chief Executive Officer of the Company for a term expiring on February 2, 1998. The agreement provides for a base salary of $1.25 million per year, and specifically includes Mr. Questrom as a participant in the Company's annual and long-term cash incentive plans described hereinafter. In addition, pursuant to the agreement, on February 2, 1995, Mr. Questrom was granted an option to purchase 450,000

shares of Common Stock at an exercise price of $19.00 per share. Such option vests in its entirety on February 2, 1998. *In light of the substantial option granted upon the commencement of the term of the agreement, Mr. Questrom is not expected to receive any further stock option awards during the term of the agreement.*"

Company name: **Methode Electronics Inc.**
CEO name: **Donald W. Duda**
Equity comp. as Dec. 2023: **$12,488,929**
Fiscal year end: **04/30/2021**
"In September 2020, after reviewing various design alternatives and market practices and considering the performance of our two prior five-year, long-term incentive programs, our Compensation Committee adopted a five-year, long-term incentive program (the '2021 LTI Program'). After careful consideration, the Compensation Committee determined that another five-year program was appropriate after reviewing our shareholders' strong say-on-pay support of the prior programs, the positive reviews of the participants in the prior programs, as well as the lengthy sales and product development cycles and significant upfront capital requirements for many of the Company's products. *The Compensation Committee intends for these stock awards to be the only equity-based awards made to our executive officers during the five-year program period ending on May 3, 2025.* This is consistent with our prior programs where no additional equity awards were made to the program participants during the five-year program terms."

Company name: **Intel**
CEO name: **Robert Holmes Swan**
Equity comp. as Dec. 2023: **$73,677,340**
Fiscal year end: **12/31/2019**
"We are presenting an alternative pay ratio that we believe facilitates a better understanding of our CEO's ongoing annual total compensation and better comparability. The pay ratio provided above is based on our CEO's 2019 annual total compensation, as reported in the 2019 Summary Compensation Table, which contains *special equity awards, including his interim CEO award, Cash Incentive-Related PSUs, and the Strategic Growth Equity Awards, which are not representative of Mr. Swan's intended annual equity grant value, but instead are non-recurring equity awards in connection with Mr. Swan's interim CEO service and appointment as Intel's permanent CEO.* The grant date fair value of these one-time equity awards as provided in the 2019 Summary Compensation Table was approximately $46,896,000. Mr. Swan's 2019 annual equity grant date fair value was $14,826,600. The supplemental pay ratio excludes the non-recurring special equity awards to our CEO, and includes only the $14,826,600 of his 2019 annual equity grant date value. For purposes of this ratio, our CEO's 2019 annual total compensation is $20,039,100 which when compared to the annual total compensation of our median compensated employee of $96,300, results in a pay ratio of 208:1."

Company name: **Match Group Inc.**
CEO name: **Barry Diller**
Equity comp. as Dec. 2023: **$136,021,720**
Fiscal year end: **12/31/2005**
"The Committee made this grant after taking into account a wide variety of factors, including: competitive pay and performance data among comparator groups of companies; the expiration schedule of Mr. Diller's existing long-term incentive package; the nature of Mr. Diller's expiring long-term incentive package; the significant incentive to create additional shareholder value inherent in the

premium option pricing component of the new package; the Committee's substantial desire to retain Mr. Diller's services for the long-term; and *the Committee's intention to provide Mr. Diller with no additional long-term incentive awards during the next five years.*"

Company name: **Tesla Inc.**
CEO name: **Elon R. Musk**
Equity comp. as Dec. 2023: **$104,355,620**
Fiscal year end: **12/31/2012**
"*This grant is intended to compensate Mr. Musk over its ten-year term* and will become vested as to all shares subject to it only if our market capitalization increases to $43.2 billion and all ten performance milestones are achieved during such ten year period. $1/10^{\text{th}}$ of the total number of shares subject to the option will become vested and exercisable each time: (i) our market capitalization increases by $4.0 billion above the initially measured market capitalization of $3.2 billion; and (ii) one of ten specified performance milestones relating to the development of our Model X and Gen III vehicles and our total production of vehicles is attained, subject to Mr. Musk's continued service to us at each such vesting event. If any shares have not vested by the end of the ten-year term of the option, they will be forfeited and Mr. Musk will not realize the value of such shares."

Appendix B Regular Expression

We use the regular expression below to identify FLEAs. To develop this regular expression, we initially read 41 proxy statements of firms that granted FLEAs, according to Friestedt and Nwankwo (2019) and Larcker and Tayan (2023b, 2023a). Then, we compile a "bag of words" based on a collection of keywords and terms associated with the observed commitment of not granting additional equity, except for annual grants. With this bag of words in hand, we construct a single regular expression capable of identifying 2,221 unique word sequences. We also report below a few examples of the different word sequences created by the regular expression.

Regular expression

```
(front[ -]load)|((multi(ple)?[ -]year(s)?|one[ -]time|sign[ -]on|
   upfront|initial|single|only|exclusive|special|significant) (long[ -]
   term |performance([ -]based)? |retention )?(award|grant|equity|
   compensation|pay|stock(s)?\b|restricted|option|incentive|RSU|PSU|PSO
   ))|(\b(no|additional|further|another) (long[ -]term |performance([
   -]based)? |retention )?(award|grant|equity|compensation|pay|stock(s)
   ?\b|restricted|option|incentive|RSU|PSU|PSO))|(not (((expect(ed)?|
   intend(ed)?) )?to (be )?)?(grant|award|compensate|pa(y|id)|receive|
   eligible|entitle))|((intend|expect)(s|ed)? ((to (compensate|cover|be
    (award|grant|paid)))|(as compensation)))|(milestone)|(tranche)
```

Examples of unique word sequences

"upfront grant," "multi-year retention award," "front-load," "special award," "one-time performance award," "sign-on grant," "significant PSO," "only long-term award," "exclusive long-term incentive," "initial RSU," "intended to compensate," "additional performance-based award," "not expected to be paid," "not intended to be award," "not to receive."

Appendix C Top 10 FLEAs Granted to CEOs

Company	CEO	Fiscal Year End	Equity Comp. ($)	Total Comp. ($)	Prop. Equity	Years
Alphabet Inc.	Sundar Pichai	Dec/31/2019	330,187,670	334,973,726	0.99	4
Expedia Group Inc.	Peter Maxwell Kern	Dec/31/2021	324,091,383	325,940,316	0.99	3
Coty Inc.	Sue Y. Nabi	Jun/30/2021	308,284,120	312,235,542	0.99	3
Axon Enterprise Inc.	Patrick W. Smith	Dec/31/2018	300,299,843	300,389,317	1.00	10
Paycom Software Inc.	Chad R. Richison	Dec/31/2020	246,792,121	248,637,687	0.99	5
Alphabet Inc.	Sundar Pichai	Dec/31/2022	225,346,575	233,560,445	0.96	3
RH	Gary G. Friedman	Jan/31/2021	204,447,467	209,630,142	0.98	4
Lucent Technologies Inc.	Richard A. McGinn	Sep/30/2000	202,414,634	204,659,107	0.99	5
Servicenow Inc.	William R. McDermott	Dec/31/2021	178,487,745	182,420,182	0.98	5
Regeneron Pharmaceuticals	Leonard S. Schleifer	Dec/31/2020	153,093,936	159,394,443	0.96	5

This table provides information on the top 10 FLEAs granted to CEOs based on equity awards as of December 2023. The table shows both equity and total compensation adjusted for inflation for a consistent time comparison. *Prop. Equity* is the ratio of equity to total compensation. In addition, *Years* is the length of time the FLEA is intended to cover, based on proxy statement disclosures.

Appendix D Variable Definitions

Variable Name	Definition	Data Source
Acquisition Announc.	Equals one if the firm announces a significant acquisition whose deal value exceeds 10% of the firm's market value of assets in the previous year, and zero otherwise. In case of multiple deals, their value is aggregated. Joint ventures, repurchase deals, self tender deals, and deals in which the acquiror is the same company as the target are ignored.	Compustat, Refinitiv
Bid-Ask Spread	The difference between ask and bid prices, scaled by their midpoint price.	CRSP
Blockholder	Equals one if the firm has at least one shareholder who hold more than 5% of ownership in the company, and otherwise zero.	Thomson Reuters
Book Leverage	Defined as the sum of short and long-term debt divided by total assets.	Compustat
Book-to-Market	Book value of common equity divided by its market value.	Compustat
CEO Chair	Equals one if the CEO is also the chairman of the board according to the CEO's title, and zero otherwise.	ExecuComp
CEO Founder	Equals one if the CEO is a founder of the firm according to the CEO's title, and zero otherwise.	ExecuComp
CEO Ownership	Proportion of common shares of the company, excluding options, owned by the CEO. If the value is missing, the number of common shares of the company, excluding options, owned by the CEO divided by total shares outstanding. If the value is still missing and the CEO is in his first year of tenure, we set it to zero.	Compustat, ExecuComp
FLEA Grant Year	Equals one if a front-loaded equity award is granted to the CEO, and zero if an annual equity award is granted. See subsection 3.1 for details on how we identified front-loaded and annual equity awards.	Bureau of Labor Statistics, ExecuComp, SEC's EDGAR
FLEA in Place	Equals one if the year is covered by a current or previously granted front-loaded equity award, according to the intended period of the grant, and zero if an annual equity award is granted. See subsection 3.1 for details on how we identified front-loaded and annual equity awards.	Bureau of Labor Statistics, ExecuComp, SEC's EDGAR

(Continued on next page)

Variable Name	Definition	Data Source
ISS Against Rec.	Equals to one if ISS recommends against a say-on-pay proposal.	ISS Voting Analytics
Ln(CEO Equity Comp.)	The natural logarithm of one plus the total value of restricted stock and option awards granted to the CEO, expressed in thousands of U.S. dollars. This measure is not adjusted for inflation, unless otherwise specified.	ExecuComp
Ln(CEO Tenure)	The natural logarithm of one plus the total number of years the CEO has been in office for the firm.	ExecuComp, Compustat
Ln(CEO Total Comp.)	The natural logarithm of one plus the CEO total compensation (*TDC1*), comprising of salaries, bonuses, total value of restricted stock and option awards, long-term incentive plans, changes in pension value, and all other forms of compensation, expressed in thousands of U.S. dollars. This measure is not adjusted for inflation, unless otherwise specified.	ExecuComp
Ln(Firm Age)	The natural logarithm of one plus the difference between the current year and the year the firm first appeared in Compustat.	Compustat
Ln(Mkt. Value Equity)	The natural logarithm of the firm's market value of equity in millions of U.S. dollars.	Compustat
Ln(Revenue)	The natural logarithm of total sales in millions of U.S. dollars.	Compustat
Ln(Total Assets)	The natural logarithm of the total value of assets in millions of U.S. dollars.	Compustat
Loss	Equals one if net income before extraordinary items is negative, and zero otherwise.	Compustat
Multi-Class Shares	Equals one if the firm has multiple classes of stock with different voting rights, and zero otherwise. We consider multiple classes when (1) there are multiple observations in CRSP under the same six-digit historical CUSIP for share codes 10, 11, 12, and 18, or (2) the total shares outstanding in Compustat are 1% greater than in CRSP (Gompers, Ishii, and Metrick 2010; Cadman and Carrizosa 2024).	Compustat, CRSP
New CEO	Equals one if a new CEO took office in that year based on Execucomp's date *BECAMECEO*, and zero otherwise.	Compustat, ExecuComp

(Continued on next page)

Variable Name	Definition	Data Source
Non-Compete Score (-)	The non-compete agreement enforceability score at the firm's headquarter state, as initially developed by Garmaise (2011) and extended by Ertimur et al. (2018). It ranges from zero (no enforcement) to 9 (maximum enforcement). We forward fill the years from 2014 through 2021. Historical headquarter states are obtained from Mingze Gao's website. We follow Cadman and Carrizosa (2024) and multiply the score by negative one.	Compustat, Ertimur et al. (2018), Mingze Gao's website
Prod. Market Fluidity	Product market fluidity, as developed by Hoberg, Phillips, and Prabhala (2014).	Hoberg and Phillips Data Library
Prop. Equity Comp.	The total value of restricted stock and option awards granted to the CEOs divided by the CEO total compensation (*TDC1*).	ExecuComp
Prop. Executives Dir.	The fraction of the Named Executive Officers serving on the board.	ExecuComp
Prop. Inst. Ownership	The total number of shares held by institutional investment managers required to file Form 13F divided by the firm's total shares outstanding.	Thomson Reuters
Prop. Votes For	The number of shareholder votes in support of say-on-pay divided by the sum of votes for and against.	ISS Voting Analytics
R&D to Assets	The ratio of research and development expenses to total assets.	Compustat
Revenue Growth	Current sales divided by the previous year's sales minus one.	Compustat
ROA	Net income before extraordinary items divided by total assets.	Compustat
Say-on-Pay on Agenda	Equals one if the shareholder's meeting that follows the fiscal year end has a say-on-pay proposal on the agenda, and zero otherwise.	ISS Voting Analytics
Stock Return (1-Year)	The one-year total shareholder return, including reinvestment of dividends. We require more than two thirds of non-missing monthly values.	CRSP
Stock Return (3-Year)	The three-year total shareholder return, including reinvestment of dividends. We require more than two thirds of non-missing monthly values.	CRSP
Volatility	The annualized standard deviation of the firm's monthly stock returns during the year. We require more than two thirds of non-missing monthly values.	CRSP

Appendix E Reasons Disclosed for Granting FLEAs

The table that follows summarizes the reasons disclosed by companies for granting FLEAs to their CEOs. We manually classify the reasons reported in the proxy statements into eight broad categories.

Disclosed Reason	FLEAs Granted	Prop. FLEAs
CEO Retention	123	0.45
Incentive Alignment	112	0.41
Strategic Goals	105	0.38
Shareholder Returns	94	0.34
Hiring and Promotion	50	0.18
Past Performance	42	0.15
Market Uncertainity	24	0.09
Increase Ownership	19	0.07
No Reason	17	0.06
All FLEAs	273	1.00

The column *FLEAs Granted* sums to more than the total number of FLEAs identified because a firm can disclose more than one reason. Similarly, the column *Prop. FLEAs* sums to more than one.

We collect reasons that are specific to the FLEA, and not general rationals for any equity award that are usually disclosed under the company's compensation philosophy. Below we explain what reasons are grouped in each category.

- **CEO Retention**: Reasons classified under this category focus on the competitive environment for executive talent, experience and knowledge. This includes retaining executives in a highly competitive labor market to maintain critical skills.
- **Incentive Alignment**: This category covers reasons that specifically indicate a goal to align interests of executives and shareholders'.
- **Strategic Goals**: Reasons under this category are related to achieving specific future long-term and strategic goals. This includes successfully driving company-wide transformation objectives, accomplishing sustainable profitable growth, executing strategic initiatives, and achieving synergies on mergers and acquisitions.
- **Shareholder Returns**: This classification captures reasons focused on enhancing the overall value of the firm for its shareholders. It includes objectives such as ensuring that the executive team is motivated to increase shareholder return, achieving sustained growth in stockholder value, and establishing a strong link between executive pay and stockholder return.
- **Hiring and Promotion**: It covers equity awards granted in connections with executive hiring, promotion, and transition. Specific justification includes attracting new talent, compensating for new responsibilities, securing top executive talent during critical transitions, making-up for lost equity in previous employer.
- **Past Performance**: This category is related to rewards to executives for their past contributions to the company compared to their pay. It includes correcting misalignment between pay

and performance, recognizing exceptional leadership, rewarding successful management of the company, acknowledging the role of executives in achieving significant milestones compared to peers.

- **Market Uncertainty**: It covers the challenges posed by market volatility and competitive pressures. Reasons include managing the company through challenging market conditions, addressing economic downturns, and navigating intense competition and opportunities for significant future growth. The emphasis is on rewarding and motivating executives to steer a company successfully through a challenging period.
- **Increase Ownership**: These reasons relate to awards that are granted when the CEO stock ownership is significantly lower than that of peers, when the CEO lacks a substantial ownership stake in the company, and when the board desires an immediate ownership interest upon the hiring of the CEO.
- **No Reason**: This category includes reasons that are not specific to FLEAs, but general to any equity award.

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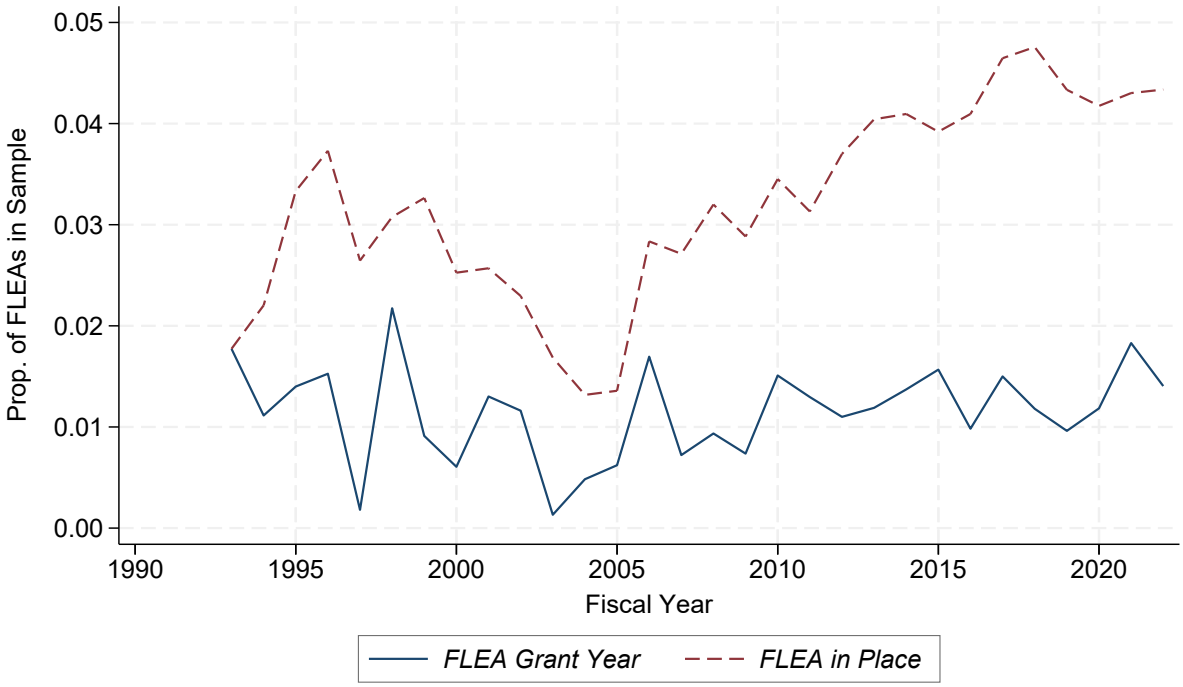
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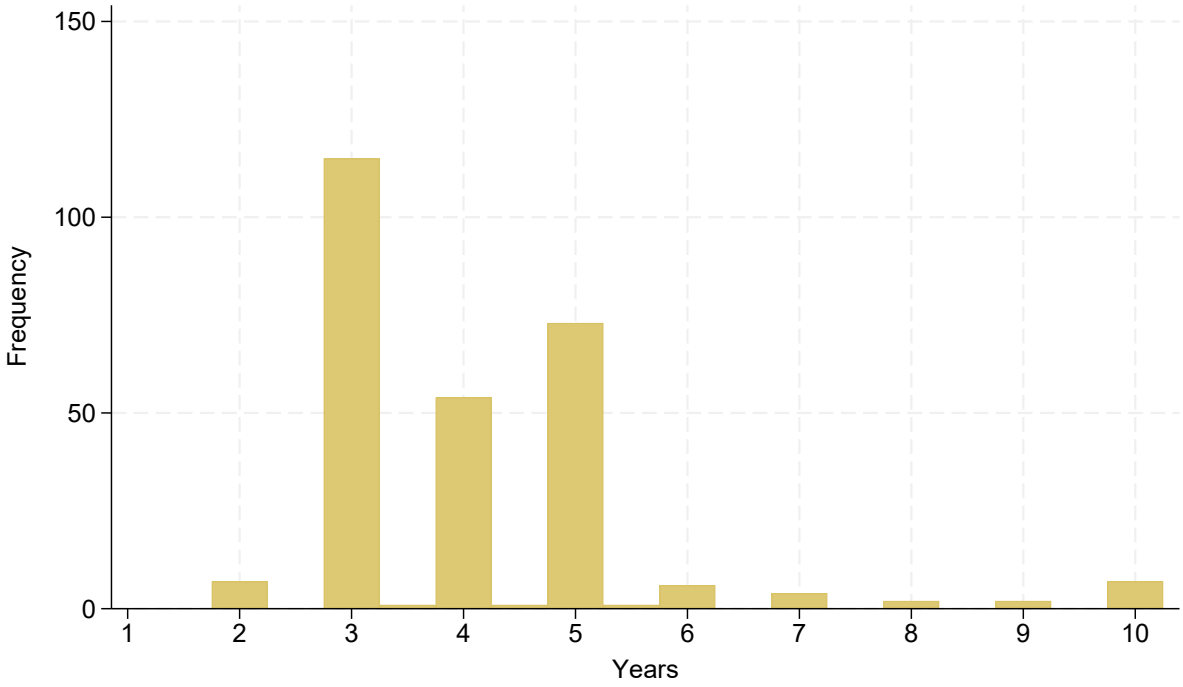
Figures

Figure 1: Distribution of FLEAs over Time



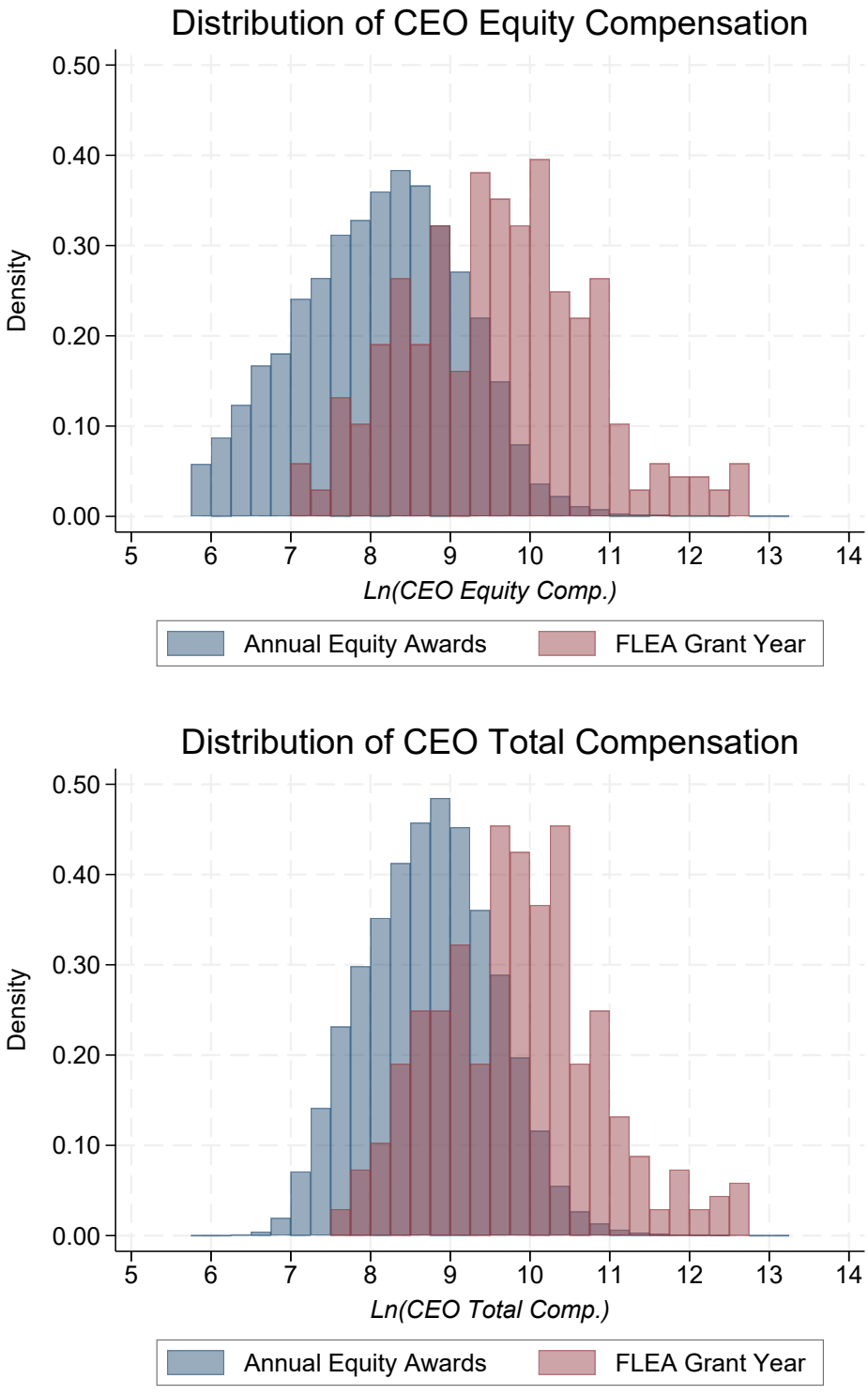
This figure presents the proportion of observations that are FLEAs in our sample from 1993 to 2022. The solid line represents the proportion of firms that grant a FLEA in a given year (*FLEA Grant Year*). The dashed line represents the proportion of observations covered by a current or previously granted FLEA in that year (*FLEA in Place*).

Figure 2: Histogram of Years a FLEA is Intended to Cover



The figure displays the frequency distribution of years FLEAs are intended to cover, as manually collected from proxy statements. We are able to collect the intended number of years for all 273 FLEAs we identify.

Figure 3: Distribution of CEO Compensation Based on Type of Equity Award



This figure presents the distribution of CEO compensation, comparing front-loaded to annual equity awards. The top panel shows the distribution of *Ln(CEO Equity Comp.)*, and the bottom *Ln(CEO Total Comp.)* These figures are in thousands of dollars and are adjusted for inflation as of December 2023 before taking the natural logarithm. All variables are defined in appendix D.

Tables

Table 1: Sample Selection

Panel A: First Step of Data Collection			
	FLEA Suspects	Annual Awards	Total Obs.
Execucomp with CEO data	3,413	55,197	58,610
Drop financial and utilities firms, and missing data	(1,041)	(17,193)	(18,234)
Merge with Compustat data	(268)	(2,762)	(3,030)
Merge with CRSP data	(145)	(1,716)	(1,861)
Merge with Thomson Reuters data	(1)	(6)	(7)
Merge with Hoberg and Philips data	(51)	(756)	(807)
Merge with historical headquarters data	(27)	(584)	(611)
Merge with Non-compete enforceability data	0	(8)	(8)
Merge with Fama-French 48 industry data	(25)	(290)	(315)
Merge with Refinitiv data	0	(2)	(2)
Sample Balance	1,855	31,880	33,735
Panel B: Second Step of Data Collection			
	FLEA Grant Year	Annual Awards	Total Obs.
Sample Balance	1,855	31,880	33,735
Drop observations without commitment	(1,582)	(1,895)	(3,477)
Drop non-first year observations covered by FLEAs	0	(529)	(529)
Drop equity awards below $333,333	0	(5,941)	(5,941)
Final Sample Balance	273	23,515	23,788

This table displays how we obtain our final sample of FLEAs and annual equity awards (control group). Panel A outlines the first step of our data collection process, in which we start by identifying suspect FLEAs based on significant year-over-year changes in CEO equity compensation. The panel also shows the degree to which additional data from secondary sources restrict our sample. Panel B shows the second step in our data collection process to identify the final sample of FLEAs and set up the control group used in our tests. For more details on our sample selection process, refer to the subsection 3.1.

Table 2: FLEA Characteristics

Panel A: Distribution of FLEAs over Time			
Fiscal Year	FLEA Grant Year	FLEA in Place	Annual Awards
1993	5	5	277
1994	5	10	444
1995	7	17	493
1996	8	20	516
1997	1	15	552
1998	14	20	630
1999	6	22	652
2000	4	17	656
2001	6	12	455
2002	8	16	681
2003	1	13	758
2004	4	11	824
2005	5	11	799
2006	13	22	754
2007	6	23	825
2008	8	28	847
2009	7	28	943
2010	15	35	979
2011	13	32	990
2012	11	38	989
2013	12	42	997
2014	14	43	1,007
2015	16	41	1,005
2016	10	43	1,007
2017	15	48	985
2018	11	46	921
2019	9	42	927
2020	11	40	918
2021	17	41	912
2022	11	35	772
Total	273	816	23,515

(Continued on next page)

Panel B: Distribution of FLEAs by Industry

FF48 Industry Code	FLEA Grant Year (%)	Annual Awards (%)
01 – Agriculture	0.00	0.25
02 – Food Products	2.20	2.58
03 – Candy & Soda	0.37	0.32
04 – Beer & Liquor	0.37	0.55
05 – Tobacco Products	0.00	0.28
06 – Recreation	0.73	0.58
07 – Entertainment	3.30	1.13
08 – Printing & Publishing	0.00	0.90
09 – Consumer Goods	6.23	1.99
10 – Apparel	4.40	1.55
11 – Healthcare	3.66	2.31
12 – Medical Equipment	4.40	3.70
13 – Pharmaceutical Products	4.76	5.84
14 – Chemicals	0.73	4.01
15 – Rubber & Plastic Products	1.10	0.63
16 – Textiles	0.00	0.34
17 – Construction Materials	2.93	2.74
18 – Construction	1.83	2.05
19 – Steel Works, etc.	0.37	2.09
20 – Fabricated Products	0.00	0.15
21 – Machinery	3.66	5.25
22 – Electrical Equipment	1.10	1.31
23 – Automobiles & Trucks	1.47	2.65
24 – Aircraft	0.73	1.11
25 – Shipbuilding, Railroad Equipment	0.00	0.31
26 – Defense	0.73	0.43
27 – Precious Metals	0.00	0.36
28 – Non-Metallic & Industrial Metal Mining	0.37	0.65
29 – Coal	0.00	0.31
30 – Petroleum & Natural Gas	2.56	6.20
33 – Personal Services	2.20	1.45
34 – Business Services	15.75	11.86
35 – Computers	2.20	3.87
36 – Electronic Equipment	8.79	7.65
37 – Measuring & Control Equipment	1.47	2.69
38 – Business Supplies	1.10	1.78
39 – Shipping Containers	0.73	0.71
40 – Transportation	3.30	3.63
41 – Wholesale	2.93	4.23
42 – Retail	11.36	6.91
43 – Restaurants, Hotels, Motels	2.20	2.62
Total	100.00	100.00

(Continued on next page)

Panel C: Prop. of Firms that Grant CEOs Additional Equity in Year $t+n$					
	$t+1$	$t+2$	$t+3$	$t+4$	$t+5$
	Prop./Obs.	Prop./Obs.	Prop./Obs.	Prop./Obs.	Prop./Obs.
FLEA Grant Year$_t$	0.562	0.677	0.777	0.769	0.784
	247	192	153	121	97
Annual Awards$_t$	0.952	0.934	0.930	0.924	0.915
	19,662	16,015	12,842	10,268	8,095

This table presents different characteristics of FLEAs. Panel A shows the distribution of front-loaded and annual equity awards over the period of 1993 to 2022. The column *FLEA Grant Year* shows the number of firms that granted a front-loaded equity award in that year. The column *FLEA in Place* shows the number of observations covered by a current or previously granted front-loaded equity award in that year. Panel B presents the distribution of front-loaded and annual awards across the Fama-French 48 industries. The percentages indicate the number of observations in that industry relative to all observations that are granted the specific equity award. Panel C presents the proportion of firms that grant additional equity awards to their CEOs in future years conditional on an initial front-loaded or annual equity award. Once a firm changes its CEO, it is removed from this analysis.

Table 3: Summary Statistics

Panel A: Variables for the Excess Compensation Analysis

	Mean	SD	P1	P25	Median	P75	P99	Obs.
Ln(CEO Equity Comp.)$_t$	7.703	1.296	5.176	6.958	7.824	8.553	10.088	24,324
Ln(CEO Total Comp.)$_t$	8.387	0.881	6.506	7.750	8.417	9.000	10.313	24,324
FLEA in Place$_t$	0.034	0.180	0.000	0.000	0.000	0.000	1.000	24,324
Ln(Revenue)$_{t-1}$	7.454	1.592	3.403	6.392	7.426	8.493	11.285	24,324
Stock Return (1-Year)$_{t-1}$	0.184	0.495	−0.710	−0.113	0.122	0.377	2.275	24,324
ROA$_{t-1}$	0.049	0.099	−0.398	0.021	0.056	0.096	0.289	24,324
Volatility$_{t-1}$	0.384	0.213	0.119	0.239	0.330	0.467	1.241	24,324
Book-to-Market$_{t-1}$	0.446	0.356	−0.288	0.223	0.374	0.590	1.854	24,324
New CEO	0.073	0.260	0.000	0.000	0.000	0.000	1.000	24,324
CEO Ownership$_{t-1}$	0.014	0.041	0.000	0.001	0.003	0.009	0.222	24,324
Non-Compete Score (−)$_{t-1}$	−3.892	2.256	−9.000	−5.000	−4.000	−3.000	0.000	24,324
CEO Chair	0.518	0.500	0.000	0.000	1.000	1.000	1.000	24,324
CEO Founder	0.038	0.191	0.000	0.000	0.000	0.000	1.000	24,324
Ln(CEO Tenure)	1.755	0.857	0.000	1.099	1.792	2.398	3.497	24,324
Prop. Executives Dir.$_{t-1}$	0.296	0.155	0.000	0.200	0.250	0.400	0.800	24,324
Prop. Inst. Ownership$_{t-1}$	0.645	0.339	0.000	0.510	0.766	0.903	1.000	24,324
Blockholder$_{t-1}$	0.763	0.425	0.000	1.000	1.000	1.000	1.000	24,324

Panel B: Variables for the Determinants Analysis

	Mean	SD	P1	P25	Median	P75	P99	Obs.
FLEA Grant Year$_t$	0.011	0.107	0.000	0.000	0.000	0.000	1.000	23,788
Book-to-Market$_{t-1}$	0.448	0.356	−0.266	0.224	0.376	0.592	1.862	23,788
Revenue Growth$_{t-1}$	0.112	0.260	−0.479	−0.004	0.075	0.180	1.358	23,788
Prod. Market Fluidity$_{t-1}$	5.844	3.087	1.234	3.549	5.196	7.477	15.591	23,788
Acquisition Announc.$_{t-1}$	0.070	0.256	0.000	0.000	0.000	0.000	1.000	23,788
Loss$_{t-1}$	0.165	0.371	0.000	0.000	0.000	0.000	1.000	23,788
ROA$_{t-1}$	0.049	0.100	−0.400	0.021	0.056	0.096	0.289	23,788
Book Leverage$_{t-1}$	0.237	0.188	0.000	0.083	0.222	0.347	0.823	23,788
New CEO	0.075	0.263	0.000	0.000	0.000	0.000	1.000	23,788
CEO Ownership$_{t-1}$	0.014	0.041	0.000	0.001	0.003	0.009	0.222	23,788
Non-Compete Score (−)$_{t-1}$	−3.889	2.253	−9.000	−5.000	−4.000	−3.000	0.000	23,788
Volatility$_{t-1}$	0.385	0.214	0.119	0.239	0.330	0.467	1.242	23,788
Bid-Ask Spread$_{t-1}$	0.005	0.009	0.000	0.000	0.001	0.004	0.046	23,788
CEO Chair	0.517	0.500	0.000	0.000	1.000	1.000	1.000	23,788
CEO Founder	0.037	0.189	0.000	0.000	0.000	0.000	1.000	23,788
Ln(CEO Tenure)	1.751	0.859	0.000	1.099	1.792	2.398	3.497	23,788
Prop. Executives Dir.$_{t-1}$	0.296	0.155	0.000	0.200	0.250	0.400	0.800	23,788
Prop. Inst. Ownership$_{t-1}$	0.644	0.339	0.000	0.506	0.765	0.902	1.000	23,788
Blockholder$_{t-1}$	0.762	0.426	0.000	1.000	1.000	1.000	1.000	23,788
Multi-Class Shares$_{t-1}$	0.091	0.288	0.000	0.000	0.000	0.000	1.000	23,788
Say-on-Pay on Agenda	0.476	0.499	0.000	0.000	0.000	1.000	1.000	23,788
Ln(Firm Age)	3.176	0.692	1.609	2.708	3.219	3.784	4.263	23,788
Ln(Total Assets)$_{t-1}$	7.554	1.558	4.231	6.453	7.474	8.577	11.367	23,788
R&D to Assets$_{t-1}$	0.037	0.063	0.000	0.000	0.006	0.048	0.337	23,788

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Panel C: Variables for the ISS Recommendation Analysis

	Mean	SD	P1	P25	Median	P75	P99	Obs.
ISS Against Rec.	0.099	0.299	0.000	0.000	0.000	0.000	1.000	9,534
FLEA Grant Year	0.012	0.107	0.000	0.000	0.000	0.000	1.000	9,534
Ln(CEO Total Comp.)	8.628	0.745	6.928	8.121	8.652	9.142	10.260	9,534
Prop. Equity Comp.	0.599	0.169	0.178	0.490	0.616	0.719	0.948	9,534
Stock Return (1-Year)	0.164	0.406	−0.632	−0.079	0.128	0.348	1.588	9,534
Stock Return (3-Year)	0.115	0.209	−0.400	−0.005	0.109	0.226	0.748	9,534
ROA	0.049	0.094	−0.322	0.019	0.054	0.092	0.287	9,534
Ln(Mkt. Value Equity)	8.069	1.563	4.789	6.949	7.930	9.109	11.886	9,534
Book-to-Market	0.433	0.381	−0.446	0.207	0.360	0.586	1.927	9,534
Book Leverage	0.258	0.198	0.000	0.107	0.241	0.371	0.880	9,534
Volatility	0.348	0.185	0.119	0.224	0.305	0.420	1.097	9,534
Prop. Inst. Ownership	0.779	0.269	0.000	0.733	0.868	0.949	1.000	9,534
Prop. Executives Dir.	0.292	0.141	0.100	0.200	0.250	0.400	0.750	9,534
CEO Chair	0.444	0.497	0.000	0.000	0.000	1.000	1.000	9,534

Panel D: Variables for the Shareholder Voting Analysis

	Mean	SD	P1	P25	Median	P75	P99	Obs.
Prop. Votes For	0.912	0.124	0.391	0.912	0.959	0.978	0.997	9,581
FLEA Grant Year	0.012	0.107	0.000	0.000	0.000	0.000	1.000	9,581
ISS Against Rec.	0.099	0.298	0.000	0.000	0.000	0.000	1.000	9,581
Ln(CEO Total Comp.)	8.630	0.745	6.929	8.125	8.654	9.143	10.260	9,581
Prop. Equity Comp.	0.598	0.169	0.178	0.490	0.615	0.718	0.948	9,581
Stock Return (1-Year)	0.164	0.405	−0.632	−0.078	0.128	0.348	1.588	9,581
Stock Return (3-Year)	0.116	0.209	−0.400	−0.004	0.109	0.227	0.752	9,581
ROA	0.049	0.094	−0.322	0.020	0.055	0.093	0.287	9,581
Ln(Mkt. Value Equity)	8.077	1.567	4.789	6.954	7.937	9.120	11.886	9,581
Book-to-Market	0.433	0.381	−0.446	0.206	0.360	0.585	1.927	9,581
Book Leverage	0.259	0.198	0.000	0.108	0.242	0.372	0.880	9,581
Volatility	0.348	0.185	0.119	0.224	0.304	0.419	1.097	9,581
Prop. Inst. Ownership	0.779	0.268	0.000	0.732	0.868	0.949	1.000	9,581
Prop. Executives Dir.	0.292	0.141	0.100	0.200	0.250	0.400	0.750	9,581
CEO Chair	0.443	0.497	0.000	0.000	0.000	1.000	1.000	9,581

This table reports descriptive statistics for the samples utilized in different analyses. In panels A, B, C, and D, the table shows summary statistics for variables used in, respectively, the excess compensation analysis, the determinants analysis, the ISS recommendation analysis, and the shareholder voting analysis. All variables are described in appendix D.

Table 4: Analysis of CEO Excess Compensation

Panel A: Main Independent Variable is *FLEA Grant Year*$_t$		
	Ln(CEO Equity Comp.)$_t$	*Ln(CEO Total Comp.)*$_t$
	(1)	(2)
	β/t-stat	β/t-stat
FLEA Grant Year$_t$	1.376***	1.006***
	(12.97)	(20.07)
Ln(Revenue)$_{t-1}$	0.420***	0.374***
	(110.04)	(134.17)
Stock Return (1-Year)$_{t-1}$	0.070***	0.106***
	(6.10)	(11.48)
ROA$_{t-1}$	−0.190***	−0.178***
	(−2.98)	(−4.12)
Volatility$_{t-1}$	0.319***	0.125***
	(8.86)	(5.11)
Book-to-Market$_{t-1}$	−0.386***	−0.243***
	(−22.25)	(−20.93)
New CEO	0.083***	0.007
	(3.35)	(0.39)
CEO Ownership$_{t-1}$	−1.421***	−0.814***
	(−8.46)	(−8.65)
Non-Compete Score (−)$_{t-1}$	0.030***	0.018***
	(12.73)	(11.16)
CEO Chair	0.026**	0.054***
	(2.43)	(6.96)
CEO Founder	0.074*	0.012
	(1.87)	(0.48)
Ln(CEO Tenure)	0.056***	0.066***
	(7.25)	(12.21)
Prop. Executives Dir.$_{t-1}$	−0.328***	−0.119***
	(−8.92)	(−4.87)
Prop. Inst. Ownership$_{t-1}$	0.320***	0.169***
	(10.65)	(8.14)
Blockholder$_{t-1}$	−0.189***	−0.109***
	(−8.19)	(−6.87)
Year Fixed Effects	Yes	Yes
FF48 Fixed Effects	Yes	Yes
Pseudo R^2	0.37	0.43
Observations	23,781	23,781

(Continued on next page)

Panel B: Main Independent Variable is *FLEA in Place*$_t$

	Ln(CEO Equity Comp.)$_t$	*Ln(CEO Total Comp.)*$_t$
	(1)	(2)
	β/t-stat	β/t-stat
FLEA in Place$_t$	−0.068	0.024
	(−1.03)	(0.60)
Ln(Revenue)$_{t-1}$	0.418***	0.373***
	(107.26)	(133.12)
Stock Return (1-Year)$_{t-1}$	0.075***	0.106***
	(6.01)	(11.10)
ROA_{t-1}	−0.212***	−0.178***
	(−3.25)	(−4.06)
Volatility$_{t-1}$	0.314***	0.123***
	(8.86)	(4.90)
Book-to-Market$_{t-1}$	−0.389***	−0.243***
	(−22.29)	(−20.61)
New CEO	0.111***	0.038*
	(4.30)	(1.91)
CEO Ownership$_{t-1}$	−1.434***	−0.855***
	(−7.48)	(−9.56)
Non-Compete Score (−)$_{t-1}$	0.028***	0.017***
	(12.07)	(10.40)
CEO Chair	0.031***	0.053***
	(2.84)	(6.69)
CEO Founder	0.048	0.002
	(1.24)	(0.10)
Ln(CEO Tenure)	0.053***	0.068***
	(6.74)	(12.35)
Prop. Executives Dir.$_{t-1}$	−0.318***	−0.122***
	(−8.55)	(−4.99)
Prop. Inst. Ownership$_{t-1}$	0.320***	0.167***
	(10.67)	(7.93)
Blockholder$_{t-1}$	−0.186***	−0.106***
	(−8.19)	(−6.62)
Year Fixed Effects	Yes	Yes
FF48 Fixed Effects	Yes	Yes
Pseudo R^2	0.34	0.42
Observations	24,324	24,324

The table shows the results of our analysis of CEO excess compensation by comparing firms that grant front-loaded with annual equity awards. In panel A, the main independent variable is *FLEA Grant Year*, which is an indicator equal to one (zero) if the firm grants a FLEA (an annual equity award) to its CEO in that year. Columns (1) and (2) report the estimates the dependent variables being *Ln(CEO Equity Comp.)* and *Ln(CEO Total Comp.)*, respectively. In panel B, we repeat our analysis of CEO excess compensation using *FLEA in Place* as the main independent variable, which is an indicator set to one if the year is covered by a current or previously granted front-loaded equity award, and zero if an annual equity award is granted. All variables are defined in appendix D. We estimate the models using median regressions. We use robust standard errors and present respective t-statistics in parenthesis. The symbols *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively, based on two-tailed tests.

Table 5: Analysis of the Determinants of FLEAs

	Dep. Var.: *FLEA Grant Year*$_t$					
	(1)		(2)		(3)	
	β/Z-stat	AME	β/Z-stat	AME	β/Z-stat	AME
Book-to-Market$_{t-1}$	−0.542**	−0.006			−0.600**	−0.007
	(−2.11)				(−2.39)	
Revenue Growth$_{t-1}$	0.081	0.001			0.090	0.001
	(0.31)				(0.34)	
Prod. Market Fluidity$_{t-1}$	−0.054**	−0.001			−0.057**	−0.001
	(−2.00)				(−2.07)	
Acquisition Announc.$_{t-1}$	0.474**	0.007			0.498**	0.007
	(2.15)				(2.24)	
Loss$_{t-1}$	0.414*	0.005			0.411*	0.005
	(1.85)				(1.83)	
ROA$_{t-1}$	−0.749	−0.009			−0.550	−0.006
	(−0.80)				(−0.58)	
Book Leverage$_{t-1}$	0.024	0.000			−0.041	−0.000
	(0.06)				(−0.11)	
New CEO	1.358***	0.026			1.629***	0.036
	(9.01)				(6.36)	
CEO Ownership$_{t-1}$	−1.103	−0.013			−3.071	−0.035
	(−0.74)				(−1.50)	
Non-Compete Score (−)$_{t-1}$	0.009	0.000			0.009	0.000
	(0.28)				(0.27)	
Volatility$_{t-1}$	0.426	0.005			0.412	0.005
	(1.12)				(1.09)	
Bid-Ask Spread$_{t-1}$			11.989	0.139	13.516	0.155
			(1.39)		(1.61)	
CEO Chair			0.175	0.002	0.138	0.002
			(1.21)		(0.93)	
CEO Founder			0.544*	0.008	0.356	0.005
			(1.86)		(1.17)	
Ln(CEO Tenure)			−0.440***	−0.005	0.118	0.001
			(−4.72)		(0.96)	
Prop. Executives Dir.$_{t-1}$			−0.439	−0.005	−0.556	−0.006
			(−1.05)		(−1.31)	
Prop. Inst. Ownership$_{t-1}$			−0.421	−0.005	−0.428	−0.005
			(−1.19)		(−1.19)	
Blockholder$_{t-1}$			0.233	0.003	0.230	0.003
			(0.86)		(0.84)	
Multi-Class Shares$_{t-1}$			0.432**	0.006	0.415**	0.006
			(2.25)		(2.13)	
Say-on-Pay on Agenda			−0.457**	−0.005	−0.420*	−0.005
			(−1.99)		(−1.79)	
Ln(Firm Age)	−0.248**	−0.003	−0.223**	−0.003	−0.257**	−0.003
	(−2.20)		(−2.08)		(−2.29)	
Ln(Total Assets)$_{t-1}$	0.091	0.001	0.078	0.001	0.111*	0.001
	(1.64)		(1.43)		(1.90)	
R&D to Assets$_{t-1}$	−1.905	−0.022	−0.494	−0.006	−1.852	−0.021
	(−1.19)		(−0.34)		(−1.17)	
Year Fixed Effects	Yes		Yes		Yes	
FF48 Fixed Effects	Yes		Yes		Yes	
Pseudo R^2	0.08		0.06		0.09	
Observations	23,104		23,104		23,104	

This table presents the results of our analysis of the factors that influence the likelihood a CEO is granted a FLEA. The dependent variable is *FLEA Grant Year*, which is an indicator equal to one (zero) if the CEO is granted a FLEA (an annual equity award). In model (1), we test the efficient contracting hypothesis by adding as independent variables to the model proxies for growth potential, financial distress, immediate need for incentives and retention, and volatility, in addition to controls. In model (2), we test the rent extraction hypothesis by adding proxies for asymmetric information, CEO power, monitoring forces, and shareholder voting rights. In model (3), we include all proxies. For ease of interpretation, we also report the average marginal effects (AME) for each model. All variables are defined in appendix D. We estimate the models using logit regressions. We use robust standard errors and present respective Z-statistics in parenthesis. The symbols *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively, based on two-tailed tests.

Table 6: Stock Market Reaction to FLEA Announcements

Panel A: Includes All 8-K Forms

	Market Adj.		CAPM		FF 3-Factor		Carhart 4-Factor	
Window	CAR/t-stat/Obs	BHAR/t-stat/Obs	CAR/t-stat/Obs	BHAR/t-stat/Obs	CAR/t-stat/Obs	BHAR/t-stat/Obs	CAR/t-stat/Obs	BHAR/t-stat/Obs
	0.736%*	0.733%*	0.704%*	0.705%*	0.653%	0.654%	0.760%*	0.756%*
$[-1,+1]$	(1.82)	(1.80)	(1.76)	(1.75)	(1.65)	(1.64)	(1.92)	(1.90)
	154	154	154	154	154	154	154	154
	1.065%**	1.094%**	1.112%**	1.131%**	0.997%**	1.013%**	1.086%**	1.091%**
$[-2,+2]$	(2.06)	(2.10)	(2.23)	(2.24)	(2.05)	(2.06)	(2.22)	(2.20)
	154	154	154	154	154	154	154	154

Panel B: Excludes Other Material Events

	Market Adj.		CAPM		FF 3-Factor		Carhart 4-Factor	
Window	CAR/t-stat/Obs	BHAR/t-stat/Obs	CAR/t-stat/Obs	BHAR/t-stat/Obs	CAR/t-stat/Obs	BHAR/t-stat/Obs	CAR/t-stat/Obs	BHAR/t-stat/Obs
	0.916%**	0.897%**	0.841%**	0.827%**	0.723%*	0.711%*	0.844%**	0.827%**
$[-1,+1]$	(2.24)	(2.17)	(2.07)	(2.01)	(1.77)	(1.73)	(2.10)	(2.04)
	118	118	118	118	118	118	118	118
	1.230%**	1.262%**	1.269%**	1.291%**	1.004%*	1.022%*	1.097%**	1.103%**
$[-2,+2]$	(2.22)	(2.26)	(2.36)	(2.37)	(1.90)	(1.90)	(2.08)	(2.05)
	118	118	118	118	118	118	118	118

This table presents estimates for the stock market reaction to the announcement of FLEAs. Panel A includes all announcements collected from 8-K forms, while panel B excludes other material events. Refer to subsection 3.1 for the steps we take to manually collect filing dates of 8-K forms, and how we identify other events that may contain material disclosures. In both panels we calculate cumulative abnormal returns (CARs) and buy-and-hold abnormal returns (BHARs) using three ($[-1,+1]$) and five ($[-2,+2]$) trading day windows center around the filing date of the Form 8-K that announces the FLEA. We estimate expected returns using a market-adjusted model based on CRSP value-weighted returns, Capital Asset Pricing Model (CAPM), Fama and French (1993) three-factor model and Carhart (1997) four-factor model. We use an estimation window of 210 trading days and a gap of 45 trading days with the event window, as in Fee, Li, and Peng (2023). We require at least two thirds of the returns in the estimation window to be non-missing. The symbols *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively, based on two-tailed tests.

Table 7: Analysis of ISS Negative Recommendations

	Dep. Var.: *ISS Against Rec.*			
	(1)		(2)	
	β/Z-stat	AME	β/Z-stat	AME
FLEA Grant Year	2.462***	0.388	0.668***	0.060
	(10.90)		(2.89)	
Ln(CEO Total Comp.)			2.111***	0.155
			(19.34)	
Prop. Equity Comp.			−0.010	−0.001
			(−0.04)	
Stock Return (1-Year)	−0.302**	−0.024	−0.204*	−0.015
	(−2.52)		(−1.71)	
Stock Return (3-Year)	−2.613***	−0.212	−2.609***	−0.191
	(−8.31)		(−8.47)	
ROA	−0.209	−0.017	0.221	0.016
	(−0.47)		(0.45)	
Ln(Mkt. Value Equity)	0.188***	0.015	−0.614***	−0.045
	(6.29)		(−12.40)	
Book-to-Market	0.086	0.007	−0.121	−0.009
	(0.84)		(−1.20)	
Book Leverage	0.215	0.017	−0.573**	−0.042
	(0.97)		(−2.29)	
Volatility	1.271***	0.103	0.484*	0.036
	(5.09)		(1.88)	
Prop. Inst. Ownership	−0.290**	−0.024	−0.476***	−0.035
	(−2.25)		(−3.61)	
Prop. Executives Dir.	1.032***	0.084	1.118***	0.082
	(3.95)		(3.89)	
CEO Chair	0.286***	0.023	0.170**	0.012
	(3.70)		(2.08)	
Year Fixed Effects	Yes		Yes	
FF48 Fixed Effects	Yes		Yes	
Pseudo R^2	0.11		0.20	
Observations	9,534		9,534	

The table reports the results of our analysis of how ISS views FLEAs when recommending a vote for say-on-pay proposals. The dependent variable in both models is *ISS Against Rec.*, which is equal to one if ISS issues a negative recommendation for say-on-pay, and zero otherwise. The main independent variable is *FLEA Grant Year*, which is an indicator variable equal to one (zero) if the firm grants its CEO a FLEA (annual equity award) in that year. In model (1), we control for several determinants of ISS recommendations. In model (2), we add observable characteristics of FLEAs, particularly *Ln(CEO Total Comp.)* and *Prop. Equity Comp.*, to explore how ISS perceives residual features of the award. For ease of interpretation, we also report the average marginal effects (AME) for each model. All variables are defined in appendix D. We estimate the models using logit regressions. We use robust standard errors and present respective Z-statistics in parenthesis. The symbols *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively, based on two-tailed tests.

Table 8: Analysis of Shareholder Voting Support

Panel A: No Compensation Controls				
	Dep. Var.: *Prop. Votes For*			
	(1)		(2)	
	β/Z-stat	AME	β/Z-stat	AME
FLEA Grant Year	−1.210***	−0.149	−0.202**	−0.015
	(−11.21)		(−2.23)	
ISS Against Rec.			−2.269***	−0.306
			(−81.65)	
Stock Return (1-Year)	0.107**	0.008	0.029	0.002
	(2.17)		(0.84)	
Stock Return (3-Year)	1.336***	0.105	0.503***	0.035
	(10.90)		(6.76)	
ROA	0.742***	0.058	0.760***	0.053
	(3.61)		(5.10)	
Ln(Mkt. Value Equity)	−0.136***	−0.011	−0.081***	−0.006
	(−10.65)		(−9.23)	
Book-to-Market	−0.170***	−0.013	−0.149***	−0.010
	(−3.62)		(−3.83)	
Book Leverage	0.009	0.001	0.115*	0.008
	(0.10)		(1.80)	
Volatility	−0.607***	−0.048	−0.160**	−0.011
	(−5.54)		(−2.02)	
Prop. Inst. Ownership	0.056	0.004	−0.063	−0.004
	(0.94)		(−1.40)	
Prop. Executives Dir.	−0.268**	−0.021	0.081	0.006
	(−2.25)		(1.01)	
CEO Chair	−0.170***	−0.014	−0.100***	−0.007
	(−5.22)		(−4.45)	
Year Fixed Effects	Yes		Yes	
FF48 Fixed Effects	Yes		Yes	
Pseudo R^2	0.03		0.14	
Observations	9,581		9,581	

(Continued on next page)

Panel B: Includes Compensation Controls

	Dep. Var.: *Prop. Votes For*			
	(1)		(2)	
	β/Z-stat	AME	β/Z-stat	AME
FLEA Grant Year	−0.085	−0.007	0.288***	0.018
	(−0.78)		(2.86)	
ISS Against Rec.			−2.102***	−0.269
			(−73.78)	
Ln(CEO Total Comp.)	−1.090***	−0.084	−0.496***	−0.035
	(−26.60)		(−16.89)	
Prop. Equity Comp.	0.006	0.000	0.039	0.003
	(0.06)		(0.50)	
Stock Return (1-Year)	0.066	0.005	0.013	0.001
	(1.44)		(0.39)	
Stock Return (3-Year)	1.253***	0.097	0.541***	0.038
	(11.41)		(7.57)	
ROA	0.494**	0.038	0.665***	0.047
	(2.45)		(4.59)	
Ln(Mkt. Value Equity)	0.292***	0.023	0.113***	0.008
	(15.24)		(8.34)	
Book-to-Market	−0.019	−0.001	−0.077**	−0.005
	(−0.44)		(−2.06)	
Book Leverage	0.443***	0.034	0.304***	0.021
	(4.81)		(4.61)	
Volatility	−0.161	−0.012	0.039	0.003
	(−1.50)		(0.49)	
Prop. Inst. Ownership	0.152***	0.012	−0.010	−0.001
	(2.75)		(−0.22)	
Prop. Executives Dir.	−0.314***	−0.024	0.036	0.003
	(−2.75)		(0.46)	
CEO Chair	−0.095***	−0.007	−0.067***	−0.005
	(−3.05)		(−2.98)	
Year Fixed Effects	Yes		Yes	
FF48 Fixed Effects	Yes		Yes	
Pseudo R^2	0.06		0.14	
Observations	9,581		9,581	

This table presents the results of our analysis of whether shareholders support FLEAs when voting for say-on-pay proposals. The dependent variable in panels A and B is *Prop. Votes For*, which is the number of votes in favor divided by the sum of votes for and against say-on-pay. The main independent variable is *FLEA Grant Year*, which is an indicator equal to one (zero) if the firm grants its CEO a FLEA (annual equity award) in that year. In panel A, model (1), we control for several determinants of shareholder voting support. In panel A, model (2), we add *ISS Against Rec.* to explore how shareholders that vote independently of ISS view FLEAs. Compared to panel A, panel B controls for observable characteristics of FLEAs, particularly *Ln(CEO Total Comp.)* and *Prop. Equity Comp.*, to examine how shareholders perceive residual features of the award. For ease of interpretation, we also report the average marginal effects (AME) for each model. All variables are defined in appendix D. We estimate the models using fractional logit regressions. We use robust standard errors and present respective Z-statistics in parenthesis. The symbols *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively, based on two-tailed tests.