MEMORANDUM

To: File No. 4-637

Date: November 12, 2014

From: Jenny Riegel
Division of Corporation Finance

Subject: Meeting on Rule Petition

On November 12, 2014, Ted Yu and Erica Williams from the Office of the Chair and Betsy Murphy, Felicia Kung, Sean Harrison and Jenny Riegel from the Division of Corporation Finance met with the following investors who expressed their support for the rule petition to require public companies to disclose to shareholders the use of corporate resources for political activities:

Arthur Lipson
Charles Rodgers
Christopher Findlater
Daniel Simon
H. Scott Wallace
Katherine Villers
Sandor Straus
Vin Ryan

Rule-Comments

From: Scott Wallace <[redacted]>
Sent: Thursday, November 27, 2014 10:56 AM
To: Kung, Felicia
Subject: Following up on our meeting
Attachments: CPA-Zicklin Index - 2014 - FINAL.PDF; Dr. Holmberg Cost Benefit Analysis 4-637.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

Felicia, thanks so much to you and your colleagues for meeting with us on the 12th to discuss the proposed rule on disclosure of corporate political contributions. I write to provide some information we promised during the meeting.

The number of corporations already voluntarily disclosing now stands at 128, according to the Center for Political Accountability. Attached is a study they conducted of disclosure practices at the 300 largest companies in the S&P 500, scoring companies on the degree of disclosure from 0 to 100. The top companies include CSX, Noble Energy, Capital One, UPS, Microsoft, Intel, Merck, Time Warner, Schlumberger and Morgan Stanley. The number is constantly growing. It is considered a "best practice" for companies like Qualcomm to disclose not only direct political contributions but indirect ones through trade associations like the US Chamber of Commerce. Some companies tell the trade associations that their contributions simply cannot be used for political activity.

Cost-benefit analysis: Your colleagues told us that the most significant obstacle to moving ahead with a disclosure rule was the manpower required to conduct a cost-benefit analysis, given the agency's other pending rule-making duties. I offered that our foundation could perhaps commission such an analysis if it would be helpful to the agency, and the response was that it would indeed be helpful. Upon inquiry with my staff, I learned that it has already been done, by Dr. Susan Holmberg, PhD in economics, Program Director at the Center for Popular Economics, concluding that "the benefits would vastly outweigh the costs" (see attached).

As I said, between foundation and family assets, I have fiduciary responsibility for several hundred million dollars of investments. Some information for which the SEC already mandates disclosure is quite useful to us in making investment decisions, such as executive compensation; we find it a good indicator of whether a company is in the habit of wasting money. Disclosure of political spending would be of similar value. In fact, the case for SEC action is far more compelling. In the case of executive compensation, we are talking about huge amounts of money paid to people who work for the corporation and are directly accountable to its board and management. But in the case of political contributions, huge amounts of money are given to people who do not work for the corporation and are accountable to nobody in it, with no explicit understanding of what the shareholders are getting in return. Indeed, any express quid pro quo would be a corrupt transaction, according to the Supreme Court. If disclosure of executive compensation is an appropriate subject for an SEC mandate, disclosure of political contributions is far moreso. If any of the one million-plus commenters has articulated a defensible explanation to the contrary, I would be most interested to hear it.

I hope these materials are helpful, and again, thanks so much for your consideration.

Scott

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The 2014 CPA-Zicklin Index of Corporate Political Disclosure and Accountability

How Leading Companies are Making Political Disclosure a Mainstream Practice

CENTER FOR POLITICAL ACCOUNTABILITY
the Carol and Lawrence Zicklin Center for Business Ethics Research
Wharton UNIVERSITY of PENNSYLVANIA

ABOUT THE CENTER FOR POLITICAL ACCOUNTABILITY

The Center for Political Accountability (CPA) is a non-profit, non-partisan organization working to bring transparency and accountability to corporate political spending. It was formed to address the secrecy that cloaks much of the political activity engaged in by companies and the risks this poses to shareholder value.

Collaborating with more than 20 shareholder advocates, CPA is the only group directly engaging companies to improve disclosure and oversight of their political spending. This includes soft money contributions and payments to trade associations and other tax-exempt organizations that are used for political purposes.

The Center aims to encourage responsible corporate political activity, protect shareholders, and strengthen the integrity of the political process. As a result of the efforts of the CPA and its partners, a growing number of leading public companies, including more than half of the S&P 100, have adopted political disclosure and oversight.

ABOUT THE ZICKLIN CENTER FOR BUSINESS ETHICS AT THE WHARTON SCHOOL OF THE UNIVERSITY OF PENNSYLVANIA

The Carol and Lawrence Zicklin Center for Business Ethics Research was established in 1997. The mission of the Center is to sponsor and disseminate leading-edge research on critical topics in business ethics. It provides students, educators, business leaders, and policy makers with research to meet the ethical, governance, and compliance challenges that arise in complex business transactions. The Zicklin Center supports research that examines those organizational incentives and disincentives that promote ethical business practices, along with the firm-level features, processes, and decision-making associated with failures of governance, compliance, and integrity.

Published September 24, 2014

NOTICES

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FOREWORD

By Charles Kolb

Elections in the United States are public goods; they are not private auctions. Because of this fact – and because of the central importance of elections to the functioning of our democracy – it is vital that the money entering political campaigns be subject to total transparency. We want our political parties and our elections to be competitive, and competition requires maximizing, not minimizing, public disclosure.

The Center for Political Accountability, founded in 2003, is now releasing its fourth annual CPA-Zicklin Index of Corporate Political Disclosure and Accountability. This Index measures the transparency policies and practices of 300 largest companies in the S&P 500.

Whether one is politically conservative or politically liberal (or a solid centrist), the Index should be a welcome contribution to the transparency and disclosure movement that is growing in the wake of the U.S. Supreme Court's 2010 *Citizens United* decision. A fundamental premise of *Citizens United* was the timely disclosure of expenditures so that both corporations and elected officials can be held accountable by corporate shareholders and American citizens. Liberals are properly concerned about the potential harm caused by secret political spending that undermines faith in our elected officials as well as the openness of our market economy. Likewise, conservatives should be concerned when individuals, corporations and labor unions seek to influence political decision-making with campaign cash in order to succeed, rather than prevail in the rough-and-tumble of market competition.

There is little doubt that *Citizens United* has unleashed a torrent of new spending in political campaigns across the country. That funding – regardless of its source – must be disclosed. Doing so will reduce cynicism, enhance trust, and help dispel the notion that our political leaders are for sale.

The 2014 Index offers solid evidence of a growing momentum among American corporations to disclose the details of their political spending. More companies are also requesting that their trade associations not use their dues and other payments to fund political activities. We are also seeing an increased level of corporate board oversight and voluntary disclosure when it comes to corporate political spending. These trends not only enhance disclosure; they also reflect a greater appreciation of the unnecessary harm and risks posed to a corporate brand that can come from focusing on political campaigns rather than on marketplace challenges.

I salute leading companies – especially Noble Energy and CSX Corporation – for their record high scores, and I salute all companies that have received top-tier ratings for doing the right thing voluntarily. As for those companies that support their trade associations but also ask that their payments not be used for political purposes, they should be recognized for taking such an important, courageous leadership position. Their actions will, no doubt, inspire other companies to do likewise.

As a board member of the Center for Political Accountability, I sincerely hope that the 2014 Index receives wide attention from the American public, our corporations and labor unions, and from the media.

Mr. Kolb was Deputy Assistant to the President for Domestic Policy, The White House, under President George H.W. Bush. He is former president of the Committee for Economic Development and former president of the French-American Foundation – United States. He is a former General Counsel of United Way of America.

ACKNOWLEDGMENTS

The Center for Political Accountability thanks the Carol and Lawrence Zicklin Center for Business Ethics Research (“Zicklin Center”) of The Wharton School of the University of Pennsylvania. CPA and the Zicklin Center first announced in 2007 a collaborative effort on corporate governance and corporate political accountability. CPA cosponsored with the Zicklin Center and Baruch College’s Robert Zicklin Center for Corporate Integrity a 2008 conference on “Money, Politics and the Corporate Risk.” In 2010, CPA, the Zicklin Center, and the UCLA School of Law cosponsored a conference on “Citizens United and the Changing Political Role of the Corporation.” In 2013, CPA, the Wharton School’s Zicklin Center, New York University’s Stern School of Business, Columbia Law School and Baruch College’s Zicklin School of Business cosponsored a roundtable on integrating the teaching of corporate political accountability into the curricula of U.S. business schools.

CPA is grateful to **Lawrence Zicklin**, whose wise counsel and generosity made the CPA-Zicklin Index possible; Professor **William S. Laufer** of The Wharton School and director of its Zicklin Center who first proposed the Index to CPA in July 2009; and **Peter Kinder**, former president of KLD Research & Analytics Inc., who helped develop the original list of indicators used in compiling the Index and worked closely with CPA in testing and finalizing the indicators.

CPA thanks its advisory committee, created to develop an objective system for scoring companies’ policies and practices on political disclosure and accountability. The committee reviewed the report before publication.

Advisory committee members included: **Julie Fox Gorte**, Ph.D., Senior Vice President for Sustainable Investing, Pax World Management Corp.; **Peter Kinder**, former president of KLD Research & Analytics Inc.; **Lloyd Kurtz**, Chief Investment Officer, senior portfolio manager, Nelson Capital Management; **William S. Laufer**, Professor of Legal Studies and Business Ethics, Sociology, and Criminology, and Director, The Carol and Lawrence Zicklin Center for Business Ethics Research; **John MacDonald**, Associate Professor of Criminology and Sociology and Chair, Department of Criminology, University of Pennsylvania; and **Blaine Townsend**, partner and senior portfolio manager, Nelson Capital Management.

CPA thanks the 104 companies that responded directly to the Center when informed of their preliminary CPA-Zicklin Index 2014 scores. These companies provided review and comments and asked questions for clarification.

CPA is grateful to the **Sustainable Investments Institute (Si2)**, which collected company data for the Index. Si2 did not have a role in scoring and ranking the companies.

This report was written by Bruce Freed, CPA president; Karl Sandstrom, CPA counsel and Senior Counsel with Perkins Coie; Sol Kwon, CPA associate director; and Peter Hardin, CPA writer and editor. Ms. Kwon also oversaw the data collection and analysis.

2014 Top Five Companies

*__Mylan Inc.__, another company in the top 5 rankings, did not provide its logo.

Executive Summary

"Noble Energy is committed to conducting its business with integrity and transparency and applies this commitment to its stakeholder interactions and public disclosures."

With these words, Arnold Johnson explained to the Center for Political Accountability (CPA) why Noble Energy, Inc., where he is the Senior Vice President of Corporate Affairs, General Counsel and Secretary, has adopted the policies and practices that resulted in the company's Number One rating for corporate political disclosure and accountability this year.

Noble Energy, Inc. and CSX Corp. both received a record high overall score of 97.1 points out of a possible 100 in the 2014 CPA-Zicklin Index of Corporate Political Disclosure and Accountability. In 2014, its fourth year, the annual Index has been expanded to measure the transparency policies and practices of the top 300 companies in the S&P 500. The Index is produced by the Center for Political Accountability in conjunction with the Zicklin Center for Business Ethics Research of The Wharton School at the University of Pennsylvania.

Noble Energy and CSX rank in the forefront of scores of large public U.S. companies providing hope for shining sunlight on political spending in America at a time when political transparency has become devalued. In recent years, established political disclosure systems have collapsed. In this year's hard-fought midterm election that could see the first $100 million U.S. Senate race in history,[1] anonymous "dark money" funding of political campaigns threatens to shatter records.[2] Public cynicism about government has, according to a veteran political journalist, gone into "overdrive."[3]

Although surging secret spending has fueled public suspicion and even allegations of political scandal, many of the nation's leading public companies have announced opposition to the practice. By standing up for sunlight and adopting public disclosure policies, they are laying the foundation for a new route to political disclosure.

They also are moving forward despite intense pressure and resistance from some of the nation's most powerful trade associations. Last fall, U.S. Chamber of Commerce President and CEO Tom Donohue, Business Roundtable President John Engler and National Association of Manufacturers President and CEO Jay Timmons wrote a letter to officials at member companies assailing "The Campaign to Quiet American Business."[4] A subsequent Wall Street Journal editorial echoed the trade associations' themes.[5]

Against this backdrop, the 2014 CPA-Zicklin Index provides a comprehensive portrait of how the largest U.S. public companies – the top 300 companies in the S&P 500– are navigating political spending. It looks at the companies' policies and practices for disclosure, for decision-making and managing the risks associated with their political spending.

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1 Cillizza, Chris. "The Kentucky Race is on Track to be the Most Expensive Senate Contest Ever." *The Washington Post*, July 17, 2014. <http://www.washingtonpost.com/blogs/the-fix/wp/2014/07/17/the-kentucky-race-is-on-track-to-be-the-most-expensive-senate-contest-ever/>
2 Kennedy, Liz and McElwee, Sean. "The SEC Should Shine a Light on Dark Political Donations from Corporations." *The Week*, July 24, 2014. <http://theweek.com/article/index/265193/the-sec-should-shine-a-light-on-dark-political-donations-from-corporations>
3 Edsall, Thomas. "The Value of Political Corruption." *The New York Times,* Aug. 5, 2014. <http://www.nytimes.com/2014/08/06/opinion/thomas-edsall-the-value-of-political-corruption.html>
4 Levinthal, Dave. "Business Groups Assail Political Transparency." *The Center for Public Integrity*, Oct. 25, 2013. <http://www.publicintegrity.org/2013/10/25/13597/business-groups-assail-political-transparency>
5 "Good News in the Proxy Wars." *The Wall Street Journal*, May 25, 2014. <http://online.wsj.com/news/articles/SB10001424052702303980004579576281696502364>

In historic terms, data from the 2014 Index reflect an embrace of political disclosure by scores of companies, a development that could not have been imagined when the Center for Political Accountability was founded in 2003. Companies have responded to a growing shareholder demand for transparency and accountability and have recognized sound business practices in a political landscape transformed by new rules and by escalating spending.

In narrower terms, data from the 2014 Index indicate that more of the largest publicly held U.S. companies have increased their transparency and accountability since a year earlier, despite an outcry and pressure from trade association defenders and beneficiaries of secret political spending.

At the same time, significant room for improvement remains. Sixty-five companies had disclosure and accountability scores of 10 points or less out of a possible 100, and 20 of them had scores of zero. Data from the 2014 Index reveal the following findings:

- **Between 2013 and 2014, many leading American companies have expanded political spending disclosure and accountability. With this sustained national shifting toward more comprehensive disclosure, more leading companies are establishing political disclosure as a mainstream corporate practice.**

  A total of 191 companies were studied by the Index in both 2013 and 2014.[6] Of these, 102 companies, or 53 percent, improved their overall scores for political disclosure and accountability in 2014. These overall scores increased by a 12.5-point average, from 47.1 to 59.6.

  For all 191 companies examined in both 2013 and 2014 – including those that improved their scores and those that did not - the average score for political disclosure and accountability rose from 51 to 56.4 points.

  Companies showing the greatest improvement were Applied Materials, Inc., improving from an overall score from 7.1 to 72.9; BlackRock, Inc., raising its total score from zero to 65.7; and Schlumberger Ltd., receiving a score of 95.7, up from 38.6.

- **Voluntary disclosure is making inroads among even those public companies that have not been engaged by shareholders to disclose.**

  Of all 299 companies reviewed in the 2014 Index,[7] 99 have reached agreements with shareholders to disclose political spending while 139 have never been engaged on the issue through a shareholder resolution. In this latter group:

  - Thirty-four companies disclose full or partial information on their direct expenditures (candidates, parties, committees, national 527 groups, and independent expenditures) or say they do not make such expenditures.
  - Nineteen disclose full or partial information on their direct expenditures and payments to 501(c)(4) groups, or say they do not make such payments.
  - Thirteen disclose full or partial information on their direct expenditures as well as payments to 501(c)(4) groups and trade associations.

[6] A total of 195 companies were included in the 2013 Index. In 2014, Coach, Dell, Heinz, and Newmont Mining were excluded from the Index due to each company's fall in market shares. This resulted in the overlap of 191 companies between the two years.
[7] As in the past, Philip Morris International Inc. was excluded from this study as the company does not operate in the United States.

- **Among the top 300 companies in the S&P 500, 20 received top-five rankings for political disclosure and accountability.**
  Two companies tied for a first-place ranking with a score of 97.1 points, the highest in the four-year history of the CPA-Zicklin Index. They were Noble Energy, Inc. and CSX Corp.

  Other top five companies included Becton, Dickinson & Co.; Capital One Financial Corp.; Exelon Corp.; Qualcomm, Inc.; United Parcel Service Inc.; AFLAC Inc.; Biogen Idec Inc.; Edison International; Microsoft Corporation; Morgan Stanley; PG&E Corp. (Holding Company); Gilead Sciences, Inc.; Intel Corp.; Mylan Inc.; Norfolk Southern Corp.; Hershey Company (The); Merck & Co., Inc.; and Time Warner Inc.

- **Increasing corporate acceptance of political disclosure and accountability spans industrial sectors. The top-ranked corporate sectors for political disclosure and accountability in 2014 are Utilities, Health Care, and Materials.**

- **Sixty-one percent of companies in the top echelons of the S&P 500 are now disclosing political spending made directly to candidates, parties and committees.**

  A total of 133 out of the 299 companies (44 percent) disclosed some information on their direct contributions to candidates, parties and committees, while 50 companies (17 percent) said it is their policy not to make such contributions directly.

- **Almost half of companies in the top echelons of the S&P 500 have opened up about payments made to trade associations.**

  Of the 299 companies, 127 (43 percent) disclosed some information on their payments to trade associations while 18 (6 percent) said they asked trade associations not to use their payments for election-related purposes.

The 2014 CPA-Zicklin Index reflects concrete progress in the direction of corporate political disclosure and accountability, with more leading American companies establishing political disclosure as a mainstream corporate practice. It also reflects gaps that continue to shroud many corporate spenders in secrecy in an era of surging hidden political spending.

INTRODUCTION

This year, the CPA-Zicklin Index of Corporate Political Disclosure and Accountability reviews the political transparency and oversight practices and policies of the top 300 companies in the S&P 500. It has been expanded from studying the top 200 companies in 2012 and 2013, and the top 100 in its first year of publication, 2011.

The Index shows how the largest publicly held U.S. companies are addressing political activity in a high-spending era marked by an unprecedented flood of secret spending, known as dark money. This year's Index depicts:

- The ways that companies manage, oversee and disclose political spending;
- The specific spending restrictions that many companies have adopted; and
- The policies and practices that leave room for the greatest improvement.

The Index gives investors a tool to evaluate whether their companies' policies and practices require disclosure or meaningful accountability. It helps companies assess whether they are following best practices for disclosure and accountability, and the extent to which they are demonstrating a commitment to these principles.

The Index measures only a company's policies as publicly disclosed on its website. It does not make any judgments about a company's political spending. It does not guarantee accuracy of information that companies have presented.

PROTECTING SHAREHOLDERS, CORPORATIONS, AND DEMOCRACY

The Index measures corporate disclosure and accountability around political spending with corporate funds. Since the Center for Political Accountability began operating in 2003, it has helped advance these issues to company agendas. Today, of 231 companies engaged by CPA's investor partners since 2003, 128 – or 55.4 percent – have adopted political disclosure and accountability policies using the model proposed by the Center.

CPA's model builds on longstanding principles of transparency. Almost a century ago, Louis Brandeis, who would later become a U.S. Supreme Court justice, wrote, "Sunlight is said to be the best of disinfectants." More recently, the Supreme Court recognized in *Citizens United* and elsewhere[8] the importance of disclosure to both shareholders and democracy.

Another vote for disclosure came this summer in a survey of more than 1,500 financial analysts, the professionals who advise investors. Sixty percent said companies should be required to disclose their political contributions, according to the CFA Institute survey.[9] "What comes through loud and clear is that investors are concerned that CEOs not use corporate assets as a slush fund for their personal politics," Kurt Schacht, a CFA Institute managing director, told a Wall Street Journal columnist.[10]

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[8] *Doe v. Reed* is a 2010 United States Supreme Court case holding that the disclosure of signatures on a referendum does not violate the first amendment of the United States Constitution.

[9] "Political Contribution Disclosure Survey Results." *CFA Institute*, Aug. 2014. <http://cfainstitute.org/Survey/political_contribution_survey_final.pdf>

[10] Kennedy, Liz and McElwee, Sean. "The SEC Should Shine a Light on Dark Political Donations from Corporations." *The Week*, July 24, 2014. <http://theweek.com/article/index/265193/the-sec-should-shine-a-light-on-dark-political-donations-from-corporations>

SECRET POLITICAL DOLLARS CONTINUE TO SURGE AFTER '*CITIZENS UNITED*'

Secret political spending is continuing to explode.

With $50 million in dark money spent in the 2014 federal election cycle by late August,[11] the total represents more than seven times the anonymous sums spent at a corresponding point in the 2010 midterm elections, in the year that *Citizens United* was issued; and dark money spending in 2014 could match or surpass the record sums from the 2012 presidential election. Dark money refers to political funding that cannot be tracked back to its first source.[12]

In *Citizens United*, the Supreme Court made corporate accountability and transparency even more essential for investors that wish to assess the kinds of risk associated with their companies' political spending. The decision left in place a prohibition on corporations contributing directly to federal candidates and political parties. At the same time, it allows companies to spend unlimited sums in their own names or contribute to trade associations and other nonprofit groups that engage in political spending. The corporate political spending cannot be coordinated with a candidate or political party.

Citizens United permitted American corporations to decide for themselves how, and to what extent, they would devote their treasury funds to influence elections at the federal level. It opened the door to unlimited corporate spending on elections. It also spurred the growth of super PACs and politically active nonprofit groups; the former are required to disclose their donors, the latter are not.

These anonymous-donor groups are called 501(c)(4)s for the section of federal tax law that permits them to participate in political activity. They are multiplying in number. In the last fiscal year, 2,253 groups sought the special tax status, up from 1,735 in 2010.[13] Trade associations, which can use corporate dollars for political purposes, also are not required to disclose their donors or members.

As these conduits have expanded, big political donors have become emboldened.[14] In addition, these and other developments have generated more pressure on corporations to spend to influence elections.[15]

A HEIGHTENED NEED FOR CORPORATE DISCLOSURE AND ACCOUNTABILITY

At a time when our established political disclosure systems have collapsed, dark money has become increasingly integral to federal and state elections. News headlines bring allegations of scandal and accounts of a campaign finance regime increasingly dependent on secret spending:

- In Wisconsin, prosecutors have charted entire rivers of dark money channeled through nonprofits to influence the state's recall elections. Investigators found correspondence about the shadowy nonprofits' appeal; an aide to then-Milwaukee County Executive Scott Walker, who now is Wisconsin's governor, wrote to Walker about promoting the advantages of giving to a

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[11] Center for Responsive Politics, OpenSecrets.org, article by Robert Maguire, Dark Money Hits $50 Million, Most Still to Come <https://www.opensecrets.org/news/2014/08/dark-money-hits-50-million-most-still-to-come>

[12] Bowie, Blair, and Lioz, Adam. "Election Spending 2012: Post-Election Analysis of the Federal Election Commission Data." *Demos*. Accessed Sept. 11, 2014. <http://www.demos.org/publication/election-spending-2012-post-election-analysis-federal-election-commission-data>

[13] "2013 IRS Data Book." Accessed Sept. 11, 2014. <http://www.irs.gov/pub/irs-soi/13databk.pdf>

[14] Barker, Kim. "How Nonprofits Spend Millions on Elections and Call it Public Welfare." *ProPublica*. Aug. 24, 2012. <http://www.propublica.org/article/how-nonprofits-spend-millions-on-elections-and-call-it-public-welfare>

[15] *After Citizens United: Improving Accountability in Political Finance*. Committee for Economic Development. Sept. 26, 2011. <http://ced.org/pdf/After-Citizens-United.pdf>

501(c)(4) called the Wisconsin Club for Growth,[16] "Stress that donations to WiCFG are not disclosed and can accept corporate donations without limits." The aide added, "Let them know that you can accept corporate contributions and it is not reported." The aide's talking points suggested that Walker request money for "your 501c4."[17]

- In Utah's GOP primary, out-of-state payday lenders secretly financed a new nonprofit group to support their preferred candidate for attorney general, apparently with his participation. Attorney General John Swallow resigned from office after less than a year and was arrested on multiple charges in July 2014.[18] According to investigators and campaign finance experts, Swallow and his campaign "exploited a web of vaguely named nonprofit organizations in several states to mask hundreds of thousands of dollars in campaign contributions from payday lenders," the New York Times reported.[19]

- In the 13 most competitive U.S. House of Representative district elections, dark money groups accounted for $4.6 million, or 86 percent, of all independent expenditures through the second quarter of 2014, according to a study by the Brennan Center for Justice.[20] "The great majority of dark money we identified came from just two groups: the U.S. Chamber of Commerce, supporting Republicans, and House Majority PAC, supporting Democrats," the Brennan Center said.

Surging hidden spending and the proliferation of secret conduits for political money have made the Center for Political Accountability's campaign for political disclosure and board oversight more critical than ever. In this climate, more companies are disclosing, for the following reasons that CPA noted in a recent op-ed published by US News & World Report:[21]

> *They understand the perils of secret political money. The risks include damage to a company's reputation; the potential for politicians to shake down a company; and the chance that a company will lose control over an "outsourced" payment that ends up supporting political activity in conflict with the company's values or business objectives. Corporations also understand that secret political spending threatens market openness, a prerequisite for a dynamic, growing economy.*
>
> *These companies are rejecting the advice of Washington insiders who contend transparency is anti-business. Many of the companies also are adopting accountability through board oversight of political spending. By showing how disclosure and accountability can work, these corporations are providing a functioning model for the*

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16 Nagourney, Adam and Barbaro, Michael. "Emails Show Bigger Fund-Raising Role for Wisconsin Leader." *The New York Times*, Aug. 22, 2014. <http://www.nytimes.com/2014/08/23/us/politics/emails-show-bigger-fund-raising-role-for-gov-scott-walker-of-wisconsin.html>

17 Hohmann, James. "The Scott Walker Documents: 6 Must-Read Passages." *Politico*, Aug. 23, 2014. <http://www.politico.com/story/2014/08/the-walker-documents-6-must-read-passages-110290_Page2.html>

18 Healy, Jack. "Two Former Attorneys General in Utah Are Charged With Corruption." *The New York Times*, July 15, 2014. <http://www.nytimes.com/2014/07/16/us/politics/two-former-attorneys-general-in-utah-are-charged-with-corruption.html>

19 Confessore, Nicholas. "A Campaign Inquiry in Utah Is the Watchdogs' Worst Case." *The New York Times*, March 18, 2014. <http://www.nytimes.com/2014/03/18/us/politics/a-campaign-inquiry-in-utah-is-the-watchdogs-worst-case.html>

20 "Dark Money Groups Dominate Independent Spending in House Toss-Up Races." *The Brennan Center*, July 30, 2014. <http://www.brennancenter.org/press-release/new-analysis-dark-money-groups-dominate-independent-spending-house-toss-races>

21 Freed, Bruce and Sandstrom, Karl. "A Surprising Solution to America's Dark Money Problem: Corporations May Hold the Key to Cleaning up Political Spending." *U.S. News and World Report*, July 18, 2014. <http://www.usnews.com/opinion/articles/2014/07/18/corporate-america-may-have-the-answer-for-dark-money-transparency>

kind of governance mechanism that the Supreme Court has suggested as an antidote to political corruption.

The 2014 CPA-Zicklin Index of Corporate Political Disclosure and Accountability details how many leading public companies are standing up for sunlight and adopting public disclosure policies. These companies are effectively laying a foundation for a new route to political disclosure and accountability.

DISCLAIMER

Research for the 2014 Index was based primarily on qualitative information, measuring distinctive characteristics, properties, and attributes reflected in each company's website.

The Index measures only a company's policies as publicly disclosed on a company's website. It does not make any judgments about a company's political spending. It does not guarantee accuracy of information that companies have presented.

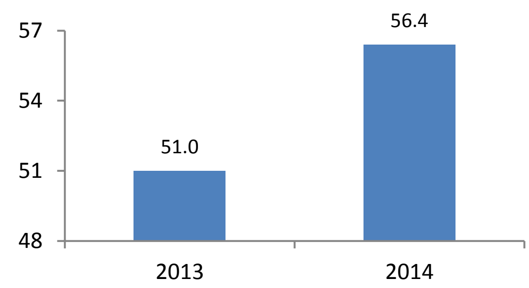
CPA consulted with its Scoring Advisory Committee in order to be as consistent, fair, and accurate as possible. While CPA does not intend to make significant changes to the indicators or their interpretations in 2015, other than noted above, it reserves the right to do so. In that case, companies will be alerted in advance.

I. Comparison of Companies from 2013 to 2014

Since 2013, many leading American companies have expanded the scope of their political spending disclosure and accountability, thereby creating more pressure on other companies to follow suit and more incentives for them to do so.

While the 2014 Index studied the top 300 companies in the S&P 500, 191 of them were studied for the second year in a row. The average final score of these companies improved from 51.0 to 56.4.

Figure 1: Improvement in Overall Average Score, 2013-2014



A total of 102 companies (53 percent) improved their overall scores for political disclosure and accountability; their average score improved by 12.5 points, from 47.1 in 2013 to 59.6 in 2014.

When examined by specific criteria:

- 76 companies (40 percent) raised their scores for the category of adopting or disclosing policy;
- 73 companies (38 percent) improved their scores for board oversight of political spending; and
- 56 companies (29 percent) boosted their scores for the disclosure of spending.

COMPANIES WITH MOST IMPROVED SCORES

The following three companies received the most improved scores in 2014:

Applied Material, Inc.'s total score improved from 7.1 in 2013 to 72.9 in 2014. The company set forth a new policy statement on political spending this year and produced an itemized report of contributions to candidates, parties, committees, national 527 groups and ballot measures. It also disclosed partial information on payments to trade associations and other tax-exempt groups, including 501(c)(4) organizations.

BlackRock, Inc.'s score soared from zero in 2013 to 65.7 in 2014. The company unveiled a detailed political spending policy. The policy said BlackRock does not give to candidates, parties, and committees, national 527 groups including super PACs, or ballot measure committees. BlackRock discloses a partial list of trade association memberships, but it does not disclose its payments to 501(c)(4) groups, if any.

Schlumberger Ltd. boosted its overall score from 39 in 2013 to 95.7 in 2014. Schlumberger has clarified its political spending policy to indicate that it does not make any expenditure to influence elections, and it restricts its payments to trade associations so they shall not be used for the purpose of influencing elections.

II. OVERALL 2014 RESULTS

The Center for Political Accountability began engaging corporations on political spending in 2003, asking them to voluntarily disclose and oversee political spending. Few, if any, companies disclosed their political spending then. In 2014, the fourth annual CPA-Zicklin Index reflects a continuing embrace by a growing number of leading American companies of expanded political disclosure and accountability.

For all 299 companies studied in the expanded 2014 Index, the average total score was 47.5.

With continued improvements in disclosure and accountability categories for the re-examined companies, and with expansion of the number of companies studied in the 2014 Index, the number of companies occupying the top five rankings increased in 2014:

- The number of companies making political expenditures and receiving an overall score of 90 or higher, and therefore in the top five rankings, increased from 16 in 2013 to 20 in 2014; and
- The average score for these companies increased from 91 in 2013 to 93 in 2014.

CORPORATE LEADERS IN DISCLOSURE AND ACCOUNTABILITY

The following 20 companies placed in the top five rankings (first through fifth) for disclosure and accountability in the 2014 CPA-Zicklin Index:

Rank	Company Name	Score	Notes
1	CSX Corp.	97.1	Record highest score
1	Noble Energy, Inc.	97.1	Record highest score
2	Becton, Dickinson and Co.	94.3	New to Top 5
2	Capital One Financial Corp.	94.3	New to Top 5
2	Exelon Corp.	94.3	
2	Qualcomm, Inc.	94.3	
2	United Parcel Service Inc.	94.3	
3	AFLAC Inc.	92.9	
3	Biogen Idec Inc.	92.9	
3	Edison International	92.9	New to Index ; New to Top 5
3	Microsoft Corporation	92.9	
3	Morgan Stanley	92.9	New to Top 5
3	PG&E Corp. (Holding Co.)	92.9	
4	Gilead Sciences, Inc.	91.4	
4	Intel Corp	91.4	
4	Mylan Inc.	91.4	New to Index ; New to Top 5
4	Norfolk Southern Corp.	91.4	New to Top 5
5	Hershey Company (The)	90.0	New to Index ; New to Top 5
5	Merck & Co., Inc.	90.0	
5	Time Warner Inc.	90.0	

A full list of companies and their scores is provided in Appendix D (page 28), and the qualitative responses are also available on the Center's website in an electronic file.[22] The Center divided the 299 companies into five tiers based on their scores.

[22] See CPA's website <http://www.politicalaccountability.net>

ASSESSING DISCLOSURE OF CORPORATE POLITICAL SPENDING

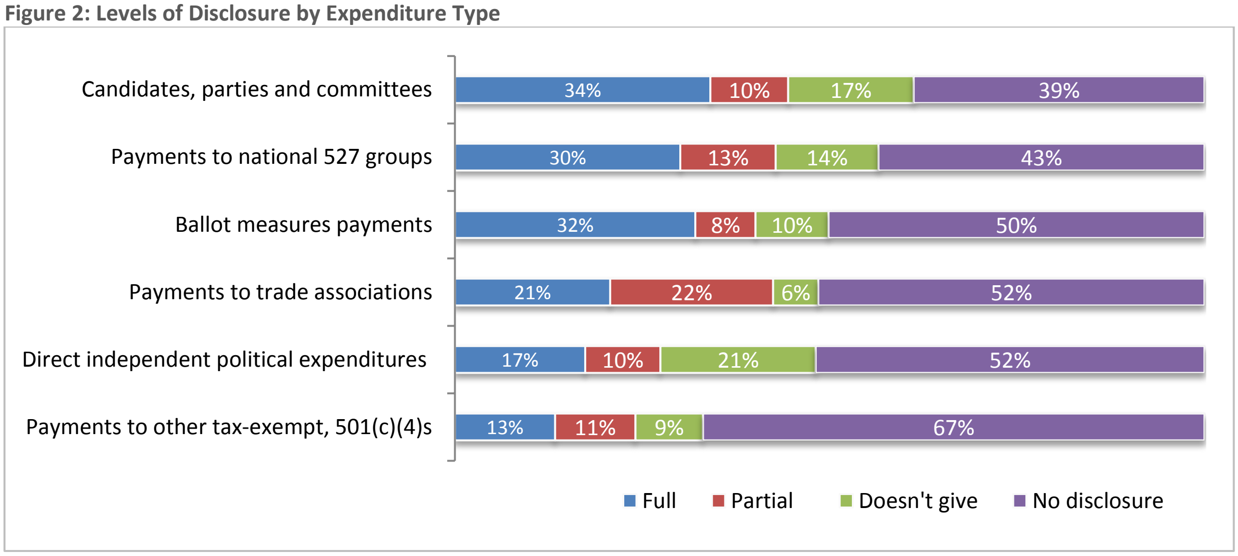
Why is political disclosure so important? Disclosure of corporate political spending gives shareholders the facts they need to judge whether corporate spending is in their best interest. It identifies possible sources of risk. It also helps ensure that board oversight is meaningful and effective.

The Supreme Court strongly endorsed disclosure in *Citizens United*. "With the advent of the Internet, prompt disclosure of expenditures can provide shareholders and citizens with the information needed to hold corporations and elected officials accountable for their positions and supporters," the court wrote.

It added, "Shareholders can determine whether their corporation's political speech advances the corporation's interests in making profits, and citizens can see whether elected officials are 'in the pocket' of so-called moneyed interests."[23]

There are reports of a deluge of secret spending, often called dark money, this year. An increasing number of companies at the top of the S&P 500 are nonetheless bringing sunlight by disclosing their political spending.

Figure 2: Levels of Disclosure by Expenditure Type



State Candidates, Parties & Committees: In 2014, a total of 133 out of the 299 companies (44 percent) disclosed some information about their contributions to candidates, parties and committees. A total of 50 companies, or 17 percent, said it is their policy not to make such contributions directly.

National 527 groups: A total of 128 companies (almost 43 percent) disclosed some information about their contributions to entities organized as 527 groups under the Internal Revenue Service codes, including national governors associations and super PACS. A total of 41 companies, or 14 percent, said it is their policy not to give to such organizations.

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[23] *Citizens United v. Federal Election Commission*, Jan. 21, 2010. <http://www.supremecourt.gov/opinions/09pdf/08-205.pdf>

Trade Associations: 127 companies (43 percent) disclosed some information about their payments to trade associations in 2014. A total of 18 companies, or 6 percent, said they instruct trade associations not to use these payments on election-related activities.

Box 1. Best Practice Examples - Disclosing payments to trade associations:
Companies that have demonstrated best practice examples provide clear language about what they are disclosing and make timely reports. These companies disclose the non-deductible portions (used for political or lobbying activities) of their payments, including dues and special assessments, to trade associations in a given year. Many companies use a threshold amount (e.g. $25,000 a year) to reduce the burden of reporting and focus on the politically active trade associations for transparency.

QUALCOMM

Political Contributions and Expenditures Policy: *The Company shall post to its website and update at least twice annually all payments of dues and special assessments made through its Government Affairs department to US-based trade associations receiving annually $25,000 or more in total payments. The Company will disclose the portion of those dues and special assessments that were used for activities that are not deductible under Chapter 162(e) of the Internal Revenue Code, if such information is available after making reasonable efforts to obtain the information from the associations. The Company shall disclose if any trade association payment made through its Government Affairs department was designated by the Company, or solicited by the trade association, to be used for Political Expenditures.*

biogen idec

Political Contributions Policy: *Click here for a listing of the trade organizations to which we pay more than $25,000 per year in membership dues or other payments. On an annual basis, we will also make available via this website the dollar amount of our dues or payments allocated by the listed trade associations that have been identified as non-deductible expenditures under Section 162(e)(1) of the Internal Revenue Code.*

Ballot measures: In 2014, 120 companies (40 percent) disclosed some information about their payments to intervene in ballot measures, while 29 companies, or 10 percent, said their policy is not to engage in such activities.

Independent expenditures: A total of 82 companies (27 percent) disclosed some information about their independent expenditures. A total of 62 companies, or 21 percent, said it is their policy not to make such expenditures.

"Social welfare" or 501 (c)(4) organizations: In 2014, 72 companies (24 percent) disclosed some information about their payments to politically active and tax-exempt social welfare organizations, called 501(c)(4) groups for their classification under Internal Revenue Service codes, while 27 companies (9 percent) said their policy is not to give to these groups.

Box 2. Distinguishing 501(c)(4) organizations that engage in political activities:

Internal Revenue Code section 501(c)(4) exempts certain civic groups and not-for-profit organizations whose primary purpose is to promote social welfare from federal income tax obligations. Even though such groups have always existed in varying forms, the U.S. Supreme Court's decision in *Citizens United* gave rise to a new wave of 501(c)(4) groups that actively engage in election-related activities. Many of them make independent expenditures to advocate for a position in the elections, and some even raise secret funds for their sister super PACs.

In order to determine which 501(c)(4) groups to disclose, companies can look at an organization's activities and see if it engages in any political activities as defined by the Internal Revenue Service. Using current regulatory definitions, including the IRS's definition of political intervention, political spending comprises:

- any direct or indirect contributions or expenditures on behalf of a candidate for public office or referenda,
- any payments made to trade associations or tax-exempt entities used for intervening in a political campaign, and
- any direct or indirect political expenditure that must be reported to the Federal Election Commission, Internal Revenue Service or state disclosure agency.

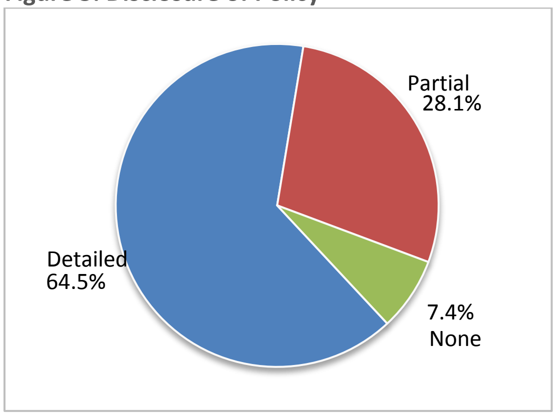
See CPA's political spending guidance document:
http://www.politicalaccountability.net/index.php?ht=a/GetDocumentAction/i/2862

ASSESSING POLICIES ON POLITICAL SPENDING AND RESTRICTIONS

Why is political spending policy so important? By setting out objective criteria for political spending, a company provides a context for decision-making. An articulated policy provides a means for evaluating benefits and risks of political spending; measuring whether such spending is consistent, and is aligned with a company's overall goals and values; determining a rationale for the expenditure; and judging whether the spending achieves its goals.

The CPA-Zicklin Index reflects a wide range of policies posted by the top 300 companies in the S&P 500 on political spending. Most of these companies are at least moving toward an articulated policy. Some of the posted policies are comprehensive and robust. Some are incomplete and weak. Here is a summary of the policies:

Figure 3: Disclosure of Policy



Publicly Available Policies: In 2014, 193 out of the 299 companies (64 percent) provided full political spending policies on their websites, while an additional 84 companies (28 percent) gave brief policy statements that left room for ambiguity.

Parameters of Giving: In 2014, 143 companies (48 percent) fully described to which political entities [i.e., candidates, political parties, 527 groups, ballot measures, trade associations, 501(c)(4) organizations, etc.] they would or would not give money, while an additional 73 companies (24 percent) provided some information on giving.

Decision-Making Criteria: 118 (40 percent) provided detailed information on the public policy priorities that become the basis of political spending decisions in 2014, while 48 companies (16 percent) provided more vague language on why they give.

RESTRICTIONS ON POLITICAL SPENDING

Data from the 2014 CPA-Zicklin Index reflect that many companies have placed restrictions on their political spending. This represents a major change since 2004, when few imposed such restrictions or had clear policies to that effect:

No Political Spending: Seven companies do not spend from their corporate treasuries to influence elections, and they ask trade associations not to use their payments for political purposes:

Accenture	Nielsen N.V.
IBM Corp.	Praxair
Colgate-Palmolive	Schlumberger Ltd.
Goldman Sachs	

PAC Spending Only: Ten companies have a policy that they will not engage in any political spending from corporate funds and their only political expenditures will come from employee-funded Political Action Committees (PACs), while they may or may not restrict payments to trade associations:

Air Products & Chemicals, Inc.	Hershey Company (The)
Aon Plc.	Illinois Tool Works, Inc.
BB&T Corp.	Nielsen N.V.
Fiserv, Inc.	Praxair, Inc.
Goldman Sachs Group, Inc.	Sherwin-Williams Co.

PAC Spending Primarily: 27 companies said most of their political spending was made through an employee-funded Political Action Committee (PAC).

Boston Properties, Inc.	Mead Johnson Nutrition Co
Consolidated Edison, Inc.	Morgan Stanley
Costco Wholesale Corporation	Northeast Utilities
Cummins, Inc.	PACCAR Inc.
Delphi Automotive Plc	Procter & Gamble Co.
Discover Financial Services	Stryker Corp.
Eaton Corp. plc	SunTrust Banks, Inc.
Ford Motor Co. (DE)	Texas Instruments Inc.
Hess Corp	The Gap, Inc.
Intuitive Surgical Inc.	United Parcel Service Inc.
Invesco Ltd.	Valero Energy Corp.
JPMorgan Chase & Co.	Vertex Pharmaceuticals, Inc.
Zimmer Holdings, Inc.	Lowe's Companies Inc.

No PAC, Little to No Spending: Eight companies did not have an employee-funded Political Action Committee (PAC) and spent little to no political money overall:

Accenture plc	Kinder Morgan Inc.
Chipotle Mexican Grill, Inc.	National Oilwell Varco Inc.
Colgate-Palmolive Co.	The TJX Companies, Inc.
IBM Corp.	Schlumberger Ltd.
Kimberly-Clark Corp.	

Some Restrictions on Spending: 87 companies (29 percent) placed some type of restriction on their direct political spending, as reflected in the chart below:

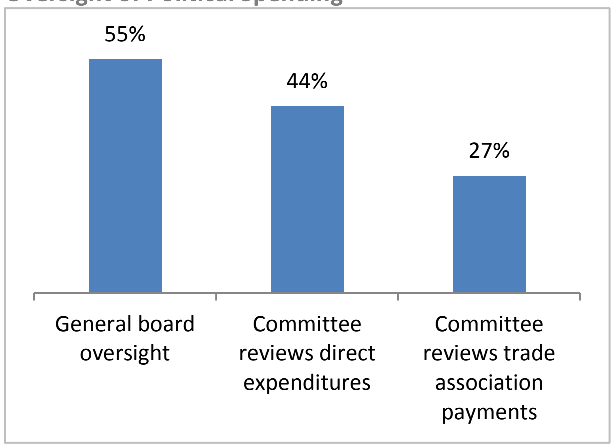
Type of Political Spending	Number of Companies That Restrict
Direct independent expenditures	62
Candidates, parties, and committees	50
527 groups	41
Ballot measures	29
(501)(c)(4) groups	27
Trade associations	18

ASSESSING BOARD OVERSIGHT OF POLITICAL SPENDING

Why is board oversight so important? Board oversight of corporate political spending assures internal accountability to shareholders and to other stakeholders. It is becoming a corporate governance standard.

Data from the 2014 CPA-Zicklin Index indicate that a majority of companies in the top echelons of the S&P 500 have some level of board oversight of their political contributions and expenditures:

Figure 4: Percentage of Companies and Director Oversight of Political Spending



Board Oversight: More than half, or 164 companies, (55 percent), said their boards of directors regularly oversee corporate political spending.

Board Committee Reviews Policy: 109 companies (37 percent) said that a board committee reviews company policy on political spending.

Board Committee Reviews Expenditures: 131 companies (44 percent) said that a board committee reviews company political expenditures.

Board Committee Reviews Trade Association Payments: 82 companies (27 percent) indicated that a board committee reviews company payments to trade groups.

Dedicated Public Space for Disclosure: Two-thirds, or 197 out of the 299 companies (66 percent) offer dedicated webpage or similar space on their corporate websites to address corporate political spending and disclosure.

COMPARISON OF COMPANY PERFORMANCE BY INDEX EXPERIENCE

Thirteen companies that are new to the Index provide a detailed policy on corporate political spending and disclose full information on direct political spending (contributions to candidates, parties, committees, national 527 groups, and ballot measure committees; as well as independent expenditures). These companies disclose partial to full information on indirect spending through trade associations and 501(c)(4) groups.

AbbVie Inc.	Kraft Foods Group Inc.
Boston Scientific Corp.	Mylan Inc.
Discover Financial Services	Nielsen N.V.
Edison International	Phillips 66
Hartford Financial Services Group Inc.	Sherwin-Williams Co.
Hershey Company (The)	St. Jude Medical, Inc.
Kinder Morgan Inc.	

The following chart summarizes performance by past Index experience:

	Repeat Companies*	New Companies
Total # of companies	191	108
Average Market Cap**	$70.2B	$22.2B
Average Index Final Score	56.4	31.7
Average Index Disclosure Score	49.3	26.9
Average Index Policy Score	78.3	50.5
Average Index Oversight Score	51.3	24.6
Number of Companies with Final Score Over 50	122	34

*Repeat Companies - refers to the companies included in the 2013 CPA-Zicklin Index, which were the largest 200 of the S&P 500 companies by market share at the end of 2012.
**At the end of calendar 2013.

COMPARISON OF PERFORMANCE BY SECTORS

When all companies in the 2014 Index were compared by industrial sector, the top-ranked sectors for political disclosure and accountability were Utilities, Health Care, Materials, Energy, and Industrials.

Sector*	Average Score (100%)	Number of Cos. in Sector	Top Performance Company (Score)
Utilities	57.7	15	Exelon (94.3)
Health Care	56.6	41	Becton, Dickinson and Co. (94.3)
Materials	56.1	14	Freeport-McMoRan Copper & Gold (87.1)
Energy	51.3	27	Noble Energy, Inc. (97.1)
Industrials	50.6	34	CSX Corp. (97.1)
Consumer Staples	49.5	27	The Hershey Co. (90.0)
Telecommunication Services	47.6	3	Verizon Communications (70.0)
Information Technology	44.0	38	Qualcomm (94.3)
Financials	42.0	58	Capital One Financial Corp. (94.3)
Consumer Discretionary	36.6	42	Time Warner (90.0)

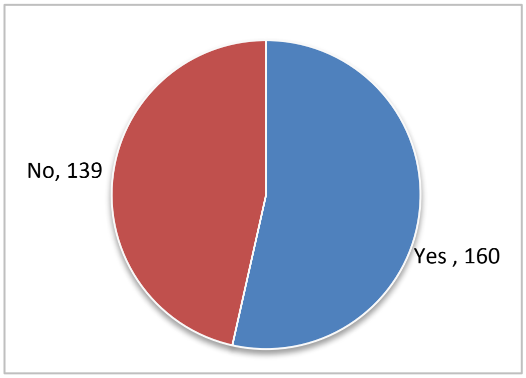
* CPA used the General Industry Classification Standard (GICS), developed by MSCI and Standard and Poor's, which consists of 10 sectors, 24 industry groups, 68 industries and 154 sub-industries. See http://www.msci.com/products/indices/sector/gics

III: Voluntary Disclosure and Shareholder Engagement

Today, 128 leading American companies have used the political disclosure and accountability model proposed by CPA and its shareholder partners. Other companies have recognized the value of these practices and have adopted them without shareholder engagement, or without an agreement with shareholder groups. Many follow the Center's model or have used the Index indicators as a template.

The data contained in the 2014 Index reveal a significant number of publicly held companies voluntarily turning to transparency and accountability practices for their political spending without shareholder engagement or shareholder agreements:

Figure 5: Number of Companies with History of Shareholder Resolution on Political Disclosure



Engaged by Shareholders: Of the 299 companies studied in the 2014 Index, 160 companies (54 percent) have been formally engaged by shareholders with a resolution on the issue of corporate political spending disclosure and accountability. Ninety-nine of these companies have reached agreements with shareholders that they would disclose their direct and indirect political spending.

A total of 139 companies in the 2014 Index have not received a shareholder resolution on the issue.

Disclosure by Companies with No Shareholder Agreement: Of the 200 companies without a shareholder agreement:

- 49 companies disclose full or partial information on their direct expenditures (candidates, parties, committees, ballot measures, national 527 groups, and independent expenditures) or say they do not make such expenditures.
- 30 companies disclose full or partial information on direct expenditures and payments to 501(c)(4) groups or say they do not make such expenditures.
- 17 companies disclose full or partial information on direct expenditures and 501(c)(4) payments, or say they do not engage in such spending, and disclose full or partial information on trade association payments or say they restrict such funds.

Disclosure by Companies with No History of Shareholder Engagement: Among the 139 companies that have never been formally engaged by a shareholder on the issue:

- 34 companies disclose full or partial information on their direct expenditures (candidates, parties, committees, ballot measures, national 527 groups, and independent expenditures) or say they do not make such expenditures.
- 19 companies disclose full or partial information on their direct expenditures and payments to 501(c)(4) groups or say they do not make such expenditures.
- 13 companies disclose full or partial information on direct expenditures and 501(c)(4) payments, or say they do not make such spending, and disclose full or partial information on trade association payments or say they restrict such funds. They are:

AbbVie Inc.	Freeport-McMoran Copper & Gold
Accenture plc	Kellogg Co
Applied Materials	Nielsen N.V.
Becton, Dickinson and Co.	PG&E Corp.
Discover Financial Services	Phillips 66
Ecolab, Inc.	Ventas, Inc.
Edison International	

- Six companies fully disclose all of their direct and indirect political spending, including trade association payments:

Accenture plc*	Freeport-McMoRan Copper & Gold Inc.
Becton, Dickinson and Co.	Nielsen N.V.*
Edison International	PG&E Corp. (Holding Co.)

*These companies say that they do not make any direct or indirect campaign spending and restrict payments to trade associations from being used for such purposes.

APPENDIX A. METHODOLOGY

In late 2003, the Center for Political Accountability launched an initiative to persuade companies to adopt board oversight and disclosure of political spending. Today, the CPA-Zicklin Index provides a scorecard. It measures how corporations have changed their policies and practices over time; and it portrays how companies are positioning themselves for the future.

SCOPE OF RESEARCH

Scoring in the Index is based on publicly available information from each company's website, collected by researchers at Sustainable Investments Institute (Si2) under supervision of CPA staff.

For the purposes of this study, corporate political spending was defined as expenditures from corporate treasury funds, direct and indirect, used to sway votes on political candidates and ballot issues. See the Glossary at the end of this report for further explanation.

The study reviewed corporate political spending practices of the top 300 companies, as measured by market capitalization at the end of 2013, in the S&P 500. One company in the top 300 of the S&P 500, Philip Morris International, was excluded from the study as it does not have operations in the United States. This resulted in the total of 299 companies in the 2014 Index.

SAFEGUARDING OBJECTIVITY

To develop an objective system for scoring companies, CPA established an advisory committee. (The members are listed in "Acknowledgments.")

To determine company scores, CPA conducted an objective review of information available from company web sites. In some instances, the follow-up discussions with companies about their preliminary scores also contributed to this objective review.

CPA has worked in its research process to maintain openness and transparency. In April 2014, CPA sent letters to the top 299 companies in the S&P 500 informing them of the project, and provided a copy of the indicators to be used in rating companies.

One hundred and four of the companies, or 34 percent of the companies in the Index, replied with questions and comments. All information included in this report reflects publicly available data, as reviewed by CPA during its research period or at the time of this report.

CHANGES TO DATA INTERPRETATION AND SCORING

In continuing revisions to achieve consistency and fairness in company ratings, CPA announced the following changes in 2013 in its interpretation and scoring of several indicators. The changes were implemented this year.

- Indicators 1, 2, 3, 4, 5 and 7 – Companies that report only a single, lump-sum amount for the disclosure indicators were not given any credit for the disclosure. In previous years, the companies were given a "Partial" credit in such cases. This change is due to the fact that the indicators ask for an itemized list of spending in each category, including amounts and recipients, and a single number for a category or overall does not offer enough specificity to be deemed transparent.

- Indicators 4 &5 – Trade associations and 501(c)(4) disclosure: In previous years, when companies said no trade associations or (c)(4)s reported back to them the non-deductible portion of their payments, these companies were classified as giving "Partial" responses. This year, such companies were classified as giving "No" responses. This is because all companies getting full credit for these indicators are making specific information available, to varying degrees, and CPA strives to reward transparency in a fair and balanced manner to all companies included in the Index.

ASSIGNING NUMERICAL SCORES TO RESPONSES

The "Scoring Key" on page 29 of this report lists the 2014 indicators and the maximum points given for each.

Numerical scores were assigned following a simple arithmetic system described below.

- A response of "No" to an indicator resulted in a score of zero;
- A response of "Yes" or "Not Applicable (NA)" was given the maximum score; and
- A response of "Partial" was given half of the maximum score.

Indicators that are highlighted in the table include those that are considered "key performance indicators" (KPIs), which are scored more heavily than the rest.

APPENDIX B: GLOSSARY

Ballot measure committee: A group formed to support or oppose the qualification or passage of a ballot initiative or referendum.

Direct political spending: Contributions to state legislative, judicial and local candidates; political parties and political committees (including those supporting or opposing ballot initiatives); and contributions to other political entities organized and operating under 26 U.S.C. Sec. 527 of the Internal Revenue Code, such as the Democratic and Republican Governors Associations, or so-called "Super PACs."

Direct spending can also include independent expenditures, which may not be coordinated with any candidate or political committee.

Electioneering communication: A radio or television broadcast that refers to a federal candidate in the 30 days preceding a primary or 60 days preceding a general election (2 U.S.C. § 434(f)(3)).

Independent expenditure: A public communication that expressly advocates the election or defeat of a candidate and is not coordinated with a candidate or political party.

Indirect political spending: Payments to trade associations and other tax-exempt organizations used for political purposes. Under the federal tax code, civic leagues and social welfare organizations (501(c)(4) organizations) and business leagues and trade associations (501(c)(6)organizations) may engage in political campaign activity, so long as the political activity does not comprise the group's primary activity.

Indirect political spending can include independent expenditures, when corporate payments to trade associations or 501(c)(4)s are in turn spent to purchase ads supporting or opposing candidates, or the trade associations or 501(c)(4)s pass these corporate payments to other organizations.

A company may not be aware that a portion of its dues or other payments is used for political activity.

Political activity/political spending: Any direct or indirect contributions or expenditures on behalf of or in opposition to a candidate for public office or referenda; any payments made to trade associations or tax-exempt entities used for influencing a political campaign; and any direct or indirect political expenditure that must be reported to the Federal Election Commission, Internal Revenue Service, or state disclosure agency.

APPENDIX C: SCORING KEY

A qualitative response of "Yes" or "Not Applicable" to an indicator is given the maximum score.
A qualitative response of "Partial" is given half of the maximum score.
A qualitative response of "No" is given a score of 0.

	#	Indicator	Max Score
Disclosure	1	Does the company publicly disclose corporate contributions to political candidates, parties and committees, including recipient names and amounts given?	4
	2	Does the company publicly disclose payments to 527 groups, such as governors associations and super PACs, including recipient names and amounts given?	4
	3	Does the company publicly disclose independent political expenditures made in direct support of or opposition to a campaign, including recipient names and amounts given?	4
	4	Does the company publicly disclose payments to trade associations that the recipient organization may use for political purposes?	6
	5	Does the company publicly disclose payments to other tax-exempt organizations, such as 501(c)(4)s, that the recipient may use for political purposes?	6
	6	Does the company publicly disclose a list of the amounts and recipients of payments made by trade associations or other tax exempt organizations of which the company is either a member or donor?	2
	7	Does the company publicly disclose payments made to influence the outcome of ballot measures, including recipient names and amounts given?	4
	8	Does the company publicly disclose the company's senior managers (by position/title of the individuals involved) who have final authority over the company's political spending decisions?	2
	9	Does the company publicly disclose an archive of each political expenditure report, including all direct and indirect contributions, for each year since the company began disclosing the information (or at least for the past five years)?	4
Policy	10	Does the company disclose a detailed policy governing its political expenditures from corporate funds?	6
	11	Does the company have a publicly available policy permitting political contributions only through voluntary employee-funded PAC contributions?	Yes/ No
	12	Does the company have a publicly available policy stating that all of its contributions will promote the interests of the company and will be made without regard for the private political preferences of executives?	2
	13	Does the company publicly describe the types of entities considered to be proper recipients of the company's political spending?	2
	14	Does the company publicly describe its public policy positions that become the basis for its spending decisions with corporate funds?	2
	15	Does the company have a public policy requiring senior managers to oversee and have final authority over all of the company's political spending?	2
	16	Does the company have a publicly available policy that the board of directors regularly oversees the company's corporate political activity?	2
Oversight	17	Does the company have a specified board committee that reviews the company's policy on political expenditures?	2
	18	Does the company have a specified board committee that reviews the company's political expenditures made with corporate funds?	2
	19	Does the company have a specified board committee that reviews the company's payments to trade associations and other tax-exempt organizations that may be used for political purposes?	2
	20	Does the company have a specified board committee that approves political expenditures from corporate funds?	2
	21	Does the company have a specified board committee, composed entirely of outside directors, that oversees its political activity?	2
	22	Does the company post on its website a detailed report of its political spending with corporate funds semiannually?	4
	23	Does the company make available a dedicated political disclosure web page found through search or accessible within three mouse-clicks from homepage?	2
	24	Does the company disclose an internal process for or an affirmative statement on ensuring compliance with its political spending policy?	2
		TOTAL MAXIMUM RAW SCORE	70

APPENDIX D: SCORED RANKING OF ALL COMPANIES

	Company Name	Score (100%)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	Raw Total
1	CSX Corp.	97.1	4	4	4	6	6	0	4	2	4	6	N	2	2	2	2	2	2	2	2	2	2	4	2	2	68
1	Noble Energy, Inc.	97.1	4	4	4	6	6	0	4	2	4	6	N	2	2	2	2	2	2	2	2	2	2	4	2	2	68
2	Becton, Dickinson and Co.	94.3	4	4	4	6	6	2	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	2	2	2	66
2	Capital One Financial Corp.	94.3	4	4	4	6	6	0	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	66
2	Exelon Corp.	94.3	4	4	4	6	6	0	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	66
2	Qualcomm, Inc.	94.3	4	4	4	6	6	0	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	66
2	United Parcel Service Inc.	94.3	4	4	4	6	6	0	4	2	4	6	P	2	2	0	2	2	2	2	2	2	2	4	2	2	66
3	AFLAC Inc.	92.9	4	4	4	6	6	0	4	2	4	6	N	1	2	2	2	2	2	2	2	0	2	4	2	2	65
3	Biogen Idec Inc.	92.9	4	4	4	6	6	0	4	2	4	6	N	1	2	2	2	2	2	2	2	0	2	4	2	2	65
3	Edison International	92.9	4	4	4	6	6	0	4	2	4	6	N	2	2	2	2	2	2	2	2	1	2	4	2	0	65
3	Microsoft Corporation	92.9	4	2	4	6	6	1	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	65
3	Morgan Stanley	92.9	4	4	4	6	3	2	4	1	4	6	P	2	2	2	1	2	2	2	2	2	2	4	2	2	65
3	PG&E Corp. (Holding Co.)	92.9	4	4	4	6	6	0	4	2	4	6	N	2	2	1	2	2	2	2	2	2	2	4	2	0	65
4	Gilead Sciences, Inc.	91.4	4	4	2	6	6	0	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	64
4	Intel Corp.	91.4	4	4	4	6	6	0	4	2	2	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	64
4	Mylan Inc.	91.4	4	4	4	6	6	0	4	2	4	6	N	1	2	1	2	2	2	2	2	0	2	4	2	2	64
4	Norfolk Southern Corp.	91.4	4	4	4	6	6	0	4	2	4	6	N	2	2	2	2	2	1	2	2	1	2	4	2	0	64
5	Hershey Company (The)	90.0	4	4	4	6	6	1	4	2	4	6	Y	2	2	0	2	2	0	2	0	2	2	4	2	2	63
5	Merck & Co., Inc.	90.0	4	4	4	6	3	0	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	63
5	Time Warner Inc.	90.0	4	4	4	6	6	0	4	2	4	6	N	1	2	0	2	2	2	2	2	0	2	4	2	2	63
First Tier	AbbVie Inc.	88.6	4	4	4	3	6	0	4	2	4	6	N	2	2	2	2	2	2	1	2	0	2	4	2	2	62
	JPMorgan Chase & Co.	88.6	4	4	4	6	6	2	4	2	4	6	P	1	2	1	2	2	2	2	2	0	2	2	2	0	62
	Prudential Financial, Inc.	88.6	4	2	4	6	6	0	4	2	4	6	N	2	2	2	2	2	2	2	1	2	2	2	2	1	62
	Yum! Brands, Inc.	88.6	4	4	4	6	6	0	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	2	2	0	62
	Altria Group Inc.	87.1	4	4	4	6	6	0	4	2	2	6	N	2	2	2	2	2	2	2	2	0	2	2	2	1	61
	American Express Co.	87.1	4	4	4	6	3	0	4	2	4	6	N	2	2	2	2	2	1	2	1	0	2	4	2	2	61
	ConocoPhillips	87.1	4	4	4	3	6	0	4	2	2	6	N	2	2	1	2	2	2	2	1	2	2	4	2	2	61
	Fifth Third Bancorp (Cincinnati, OH)	87.1	4	4	4	6	6	0	4	2	4	6	N	1	2	0	2	2	2	2	2	0	2	4	2	0	61
	Freeport-McMoRan Copper & Gold Inc.	87.1	4	4	4	6	6	0	4	1	4	6	N	2	2	2	2	2	2	2	2	0	2	2	2	0	61
	General Mills, Inc.	87.1	4	4	4	3	6	1	4	2	4	6	N	2	2	2	2	2	2	2	2	1	2	2	2	0	61
	Sempra Energy	87.1	4	4	2	6	3	0	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	61
	Baxter International Inc.	85.7	4	4	4	6	6	0	4	1	4	6	N	2	2	2	1	2	2	2	2	0	2	2	2	0	60
	Phillips 66	85.7	4	4	4	3	6	0	4	2	4	6	N	1	2	1	2	2	2	2	1	2	2	2	2	2	60
	Texas Instruments Inc.	85.7	4	4	4	3	3	0	4	2	4	6	P	2	2	2	2	2	2	2	2	0	2	4	2	2	60
	United Technologies Corp.	85.7	4	2	4	6	6	0	4	2	2	6	N	2	2	2	2	2	2	2	2	0	2	2	2	2	60
	Ecolab, Inc.	84.3	4	4	4	3	6	0	4	2	4	6	N	2	2	2	2	2	2	2	0	0	2	4	2	0	59
	Air Products & Chemicals, Inc.	82.9	4	4	4	0	6	0	4	2	4	6	Y	2	2	2	2	2	2	2	0	2	2	4	2	0	58
	Bristol-Myers Squibb Co.	82.9	4	4	2	6	0	0	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	58
	CF Industries Holdings Inc.	82.9	4	4	0	6	6	0	4	2	4	6	N	1	2	0	2	2	1	2	2	0	2	4	2	2	58

	Company Name	Score (100%)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	Raw Total
First Tier	State Street Corp.	82.9	4	4	0	6	6	2	4	2	4	6	N	2	2	2	2	2	0	0	2	0	0	4	2	2	58
	U.S. Bancorp (DE)	82.9	4	4	0	6	6	0	4	2	4	6	N	1	2	1	2	2	2	2	2	0	2	4	2	0	58
	Boeing Co. (The)	81.4	4	4	4	6	6	2	4	2	2	6	N	1	2	2	2	2	0	0	2	0	0	4	2	0	57
	Dow Chemical Co.	81.4	4	4	4	6	3	0	4	2	2	6	N	2	2	2	2	2	2	2	2	0	0	2	2	2	57
	eBay Inc.	81.4	4	4	4	6	0	0	4	2	4	6	N	2	2	2	2	2	2	2	1	0	2	4	2	0	57
	Pfizer Inc.	81.4	4	4	4	3	0	0	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	57
	Target Corp.	81.4	2	2	2	6	6	2	2	1	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	0	57
	Wells Fargo & Co.	81.4	4	4	2	6	6	2	2	2	2	6	N	1	2	2	2	2	2	2	2	0	2	2	2	0	57
	Costco Wholesale Corporation	80.0	4	4	4	6	0	2	0	1	4	6	P	2	2	2	2	2	1	2	2	2	2	2	2	2	56
	CVS Caremark Corporation	80.0	4	0	4	6	0	0	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	56
	Dominion Resources Inc.	80.0	4	4	4	6	3	0	0	2	4	6	N	2	2	1	2	2	2	2	2	0	2	4	2	0	56
	Honeywell International, Inc.	80.0	4	4	4	0	6	0	4	2	2	6	N	2	2	2	2	2	2	2	2	0	2	2	2	2	56
	Illinois Tool Works, Inc.	80.0	4	4	4	0	6	0	4	2	2	6	Y	2	2	2	2	2	0	2	0	2	2	4	2	2	56
Second Tier	Anadarko Petroleum Corp.	78.6	4	4	4	0	6	0	4	2	2	6	N	2	2	2	2	2	2	2	2	0	2	2	2	1	55
	Boston Scientific Corp.	78.6	4	4	4	6	6	0	4	2	0	6	N	0	2	2	2	2	1	2	2	0	2	2	2	0	55
	Eli Lilly & Co.	78.6	4	4	4	3	0	0	4	2	2	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	55
	General Electric Co.	78.6	4	4	4	3	0	0	4	2	2	6	N	2	2	2	2	2	2	2	2	0	2	4	2	2	55
	Humana Inc.	78.6	4	4	4	6	3	0	4	2	4	6	N	2	2	2	2	2	0	0	0	0	0	4	2	2	55
	Lockheed Martin Corp.	78.6	4	4	4	3	0	0	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	2	2	2	55
	MetLife Inc.	78.6	4	4	4	6	3	0	4	1	4	6	N	1	2	0	2	2	2	2	2	0	2	2	2	0	55
	Johnson & Johnson	77.1	4	4	4	3	0	0	4	1	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	0	54
	Kellogg Co.	77.1	4	4	4	3	3	1	2	2	2	6	N	2	2	1	2	2	2	2	2	0	2	2	2	2	54
	Monsanto Co.	77.1	4	0	4	3	3	0	4	2	4	6	N	2	2	2	2	2	1	2	1	0	2	4	2	2	54
	Reynolds American Inc.	77.1	4	4	0	6	3	0	4	2	4	6	N	2	2	2	2	2	1	2	2	0	2	2	2	0	54
	The TJX Companies, Inc.	77.1	4	4	4	0	6	0	4	2	2	6	N	2	2	2	2	2	2	1	1	0	2	2	2	2	54
	WellPoint Inc.	77.1	4	4	0	6	0	0	4	2	4	6	N	2	2	2	2	2	2	2	2	0	2	2	2	2	54
	Abbott Laboratories	75.7	4	4	4	3	0	0	4	2	4	6	N	2	2	2	2	2	2	0	2	0	2	4	2	0	53
	Aetna Inc.[24]	75.7	4	4	2	6	0	0	2	2	4	6	N	2	1	2	2	2	2	2	2	0	2	2	2	2	53
	Amgen Inc.	75.7	4	4	4	6	0	0	4	1	2	6	N	1	2	2	0	2	2	2	1	0	2	4	2	2	53
	Bank of New York Mellon Corp	75.7	4	4	4	0	6	0	4	2	4	6	N	1	2	2	2	2	1	2	1	0	2	2	2	0	53
	BB&T Corp.	75.7	4	4	4	0	6	0	4	2	2	6	Y	2	2	2	2	2	1	2	2	2	2	0	2	0	53
	Discover Financial Services	75.7	4	4	4	3	6	0	4	2	2	6	P	2	2	2	2	2	0	2	0	2	2	0	2	0	53
	Hartford Financial Services Group Inc.	75.7	4	4	4	6	3	2	4	2	0	6	N	0	2	0	2	2	1	2	2	0	2	4	1	0	53

[24] In June 2012, Aetna inadvertently disclosed in its filings to the National Association of Insurance Commissioners that it gave $4.05 million in donations to the U.S. Chamber of Commerce and $3 million to the American Action Network, a politically active 501(c)(4) group. Aetna disclosed its payment to the U.S. Chamber as having been used for “voter education initiatives” in its disclosure report for 2011; the company continues to not disclose its payments to 501(c)(4) groups. Some critics of Aetna noted that the phrase “educational activities” is often used as a euphemism for issue ads. See CNNMoney article, “Oops! Aetna discloses political donations,” published on June 15, 2013, and Bloomberg Business News, “NY state urges Aetna to reveal political spending,” published December 20, 2012.

	Company Name	Score (100%)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	Raw Total
Second Tier	Starbucks Corp.	75.7	4	4	0	3	6	0	4	2	4	6	N	1	2	1	2	2	2	2	1	0	2	2	1	2	53
	Visa Inc.	75.7	4	4	4	0	0	0	4	1	4	6	N	2	2	2	2	2	2	2	2	2	2	2	2	2	53
	Celgene Corp.	74.3	4	4	4	3	0	0	4	2	2	6	N	1	2	2	2	2	1	2	1	0	2	4	2	2	52
	Cummins, Inc.	74.3	4	4	4	6	6	0	4	1	4	6	P	1	2	1	1	1	1	1	0	0	1	2	2	0	52
	EMC Corp. (MA)	74.3	0	4	0	6	6	0	0	2	4	6	N	2	2	2	2	2	2	2	2	0	2	4	2	0	52
	Procter & Gamble Co.	74.3	4	4	4	6	0	1	4	2	2	6	P	1	2	2	2	2	2	1	1	0	2	2	2	0	52
	Travelers Companies Inc. (The)	74.3	4	4	4	3	6	0	0	2	2	6	N	1	2	2	2	2	2	2	2	0	2	2	2	0	52
	Aon Plc	72.9	4	2	4	0	6	0	4	2	2	6	Y	2	2	2	2	2	1	2	0	2	2	2	2	0	51
	Applied Materials, Inc.	72.9	4	4	4	3	3	0	4	1	4	6	N	2	2	2	2	1	1	1	1	0	2	2	2	0	51
	Pioneer Natural Resources Co.	72.9	4	4	0	6	3	0	4	2	4	6	N	0	2	1	2	2	1	2	2	0	2	2	2	0	51
	Lowe's Companies Inc.	71.4	4	4	4	3	6	0	2	2	0	6	P	2	2	1	2	2	2	2	0	0	2	2	2	0	50
	Broadcom Corp.	70.0	4	4	4	3	0	0	4	2	0	6	N	2	2	2	2	2	2	2	2	0	2	2	2	0	49
	National Oilwell Varco Inc.	70.0	4	4	4	0	6	0	4	2	2	6	NA	2	2	2	2	2	1	2	0	0	2	0	2	0	49
	Northrop Grumman Corp.	70.0	4	4	4	6	0	0	0	2	0	6	N	0	2	2	2	2	2	2	1	2	2	2	2	2	49
	Verizon Communications Inc.	70.0	4	4	4	0	0	0	4	2	4	6	N	2	1	2	2	2	2	2	0	0	2	4	2	0	49
	Allergan, Inc.	68.6	4	4	4	3	0	0	4	1	2	6	N	1	2	2	1	2	2	2	0	0	2	4	2	0	48
	AmerisourceBergen Corp.	68.6	0	4	4	6	6	0	0	2	0	6	N	1	2	2	2	2	1	2	2	0	2	2	2	0	48
	Cigna Corp.	68.6	4	4	0	6	0	0	4	2	0	6	N	1	1	2	2	2	2	2	2	0	2	2	2	2	48
	Comcast Corp.	68.6	0	2	4	0	6	0	0	2	4	6	N	2	2	2	2	2	2	2	2	0	2	2	2	2	48
	Kinder Morgan Inc.	68.6	4	4	4	0	6	0	4	2	0	6	NA	2	2	2	2	2	1	2	0	1	2	0	2	0	48
	McDonald's Corp.	68.6	4	4	4	0	0	0	4	2	2	6	N	1	2	0	2	2	2	2	0	1	2	4	2	2	48
	Sherwin-Williams Co.	68.6	4	4	4	0	6	0	4	2	2	3	Y	2	2	2	2	2	1	2	0	2	2	0	2	0	48
	Southern Company (The)	68.6	4	4	4	3	3	0	4	2	4	3	N	1	2	2	2	2	0	0	0	0	0	4	2	2	48
	UnitedHealth Group Inc.	68.6	4	4	0	0	0	0	4	2	2	6	N	2	2	2	2	2	2	2	2	2	0	4	2	2	48
	Danaher Corp.	67.1	4	4	4	0	6	0	4	2	2	6	N	1	2	1	2	1	1	1	0	1	1	2	2	0	47
	MasterCard Inc.	67.1	4	4	2	0	0	0	4	2	2	6	N	2	2	1	2	2	2	2	1	0	2	4	2	1	47
	Medtronic, Inc.	67.1	4	2	0	6	3	0	0	2	4	6	N	1	1	1	2	2	1	2	2	0	2	4	2	0	47
	Bank of America Corp.	65.7	4	2	4	6	0	2	0	2	0	6	N	2	2	0	2	2	2	2	2	0	2	0	2	2	46
	BlackRock, Inc.	65.7	4	4	4	3	0	0	4	2	0	6	N	1	2	2	2	2	1	2	1	2	2	0	2	0	46
	Coca-Cola Co (The)	65.7	4	4	0	3	0	0	0	2	0	6	N	2	2	2	2	2	2	2	2	1	2	4	2	2	46
	Disney (Walt) Co. (The)	65.7	4	4	4	0	0	0	4	2	4	6	N	1	2	2	2	2	1	2	0	0	2	2	2	0	46
	Williams Cos Inc. (The)	65.7	4	4	0	6	0	0	2	1	0	6	N	2	2	2	2	2	2	2	2	0	2	2	2	1	46
Third Tier	Chipotle Mexican Grill Inc.	64.3	4	0	4	0	6	0	4	2	2	6	NA	2	2	2	2	2	0	2	0	1	2	0	2	0	45
	Kraft Foods Group Inc.	64.3	4	4	4	3	0	0	4	0	4	6	N	0	2	1	0	2	2	2	1	0	2	2	2	0	45
	3M Co.	62.9	4	4	0	6	0	0	4	2	0	6	N	1	1	2	2	2	1	2	1	0	2	2	2	0	44
	AT&T Inc.	62.9	4	4	0	0	0	0	4	2	0	6	N	2	1	2	2	2	1	2	2	2	2	4	2	0	44
	Chubb Corp.	62.9	4	2	4	6	0	0	4	2	2	6	N	2	2	2	2	2	0	0	0	0	0	2	2	0	44
	Citigroup Inc.	62.9	4	4	2	0	0	0	4	2	2	6	N	1	2	1	2	2	2	2	2	0	2	2	2	0	44
	Invesco Ltd.	62.9	4	4	2	0	0	0	4	2	2	6	P	2	2	2	2	2	0	2	0	2	2	0	2	2	44
	Occidental Petroleum Corp.	62.9	4	4	0	3	6	0	4	1	4	6	N	1	2	1	2	2	0	0	0	0	0	2	2	0	44

	Company Name	Score (100%)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	Raw Total
Third Tier	Pentair Ltd.	62.9	4	4	0	3	3	0	4	1	0	6	N	1	2	1	2	2	1	2	2	0	2	2	2	0	44
	PepsiCo Inc.	62.9	4	4	2	3	0	0	0	2	2	6	N	2	2	2	2	2	2	2	1	0	2	2	2	0	44
	Deere & Co.	61.4	4	4	4	6	3	0	4	2	0	6	N	2	2	0	2	0	0	0	0	0	0	2	2	0	43
	American International Group Inc.	60.0	4	4	4	0	3	0	4	2	4	3	N	1	0	0	1	2	2	2	0	0	2	4	0	0	42
	Caterpillar Inc.	60.0	4	4	0	3	0	0	0	2	4	6	N	1	1	2	2	2	2	2	1	0	2	2	2	0	42
	General Motors Co.	60.0	2	4	0	6	3	0	0	2	0	6	N	1	2	1	2	2	2	2	1	0	2	2	2	0	42
	Intuit Inc.	60.0	4	2	0	0	0	0	4	2	2	6	N	2	1	1	2	2	2	2	2	0	2	4	2	0	42
	Southwestern Energy Company	60.0	4	2	0	6	0	0	4	2	4	6	N	1	1	2	2	2	0	0	0	0	0	2	2	2	42
	St. Jude Medical, Inc.	60.0	4	4	4	6	0	0	4	2	0	6	N	2	2	2	2	0	0	0	0	0	0	2	2	0	42
	American Electric Power Company, Inc.	58.6	4	2	0	6	3	0	0	2	0	6	N	1	2	1	2	2	1	2	1	0	2	2	2	0	41
	Apple Inc.	58.6	4	4	2	3	0	0	4	2	2	6	N	1	1	2	2	2	0	0	0	0	0	4	2	0	41
	Chevron Corporation	58.6	4	4	0	3	0	0	4	2	0	6	N	1	1	1	2	2	2	2	1	0	2	2	2	0	41
	International Paper Co.	58.6	4	2	0	3	3	0	2	2	2	6	N	1	1	2	2	2	2	1	0	0	2	2	2	0	41
	The Gap, Inc.	58.6	0	4	4	3	0	0	0	2	0	6	P	2	2	2	2	2	1	2	2	0	2	2	2	1	41
	Yahoo! Inc.	58.6	4	0	4	3	3	0	4	2	4	6	N	2	2	0	2	2	0	0	0	0	0	2	1	0	41
	Zimmer Holdings, Inc.	58.6	4	4	2	3	0	0	4	0	2	3	P	2	1	2	2	2	0	2	0	2	2	2	2	0	41
	Automatic Data Processing Inc.	57.1	4	0	4	6	0	2	0	1	2	6	N	1	1	1	1	2	2	2	0	0	2	2	1	0	40
	Du Pont (E.I.) de Nemours & Co.	57.1	2	2	4	3	0	0	2	1	0	6	N	1	2	1	2	2	2	2	2	0	2	2	2	0	40
	Estee Lauder Cos., Inc. (The)	57.1	0	4	2	3	6	0	4	2	0	6	N	2	2	1	2	2	0	0	0	0	0	2	2	0	40
	Hess Corp.	57.1	2	2	2	3	0	0	2	1	2	6	P	2	1	2	1	2	1	2	0	1	2	2	2	2	40
	Marriott International, Inc.	57.1	4	4	0	6	0	0	4	1	0	6	N	1	2	0	2	2	0	0	0	0	0	4	2	2	40
	Weyerhaeuser Co.	57.1	4	0	4	0	0	0	4	2	2	6	N	2	1	2	2	2	1	2	0	0	2	2	2	0	40
	Hewlett-Packard Co.	55.7	2	2	0	3	0	0	2	2	0	6	N	1	2	2	2	2	2	2	1	2	2	2	2	0	39
	Kroger Co.	55.7	2	2	2	3	0	0	2	2	2	6	N	0	2	1	2	2	1	2	2	0	2	2	2	0	39
	Cisco Systems, Inc.	54.3	4	2	4	3	3	0	2	2	0	6	N	1	2	2	2	1	0	0	0	0	0	2	2	0	38
	Eaton Corp plc	54.3	4	0	2	3	0	0	2	2	0	6	P	1	2	0	2	2	2	2	2	0	2	2	2	0	38
	Express Scripts Holding Co.	54.3	4	4	0	0	0	0	4	2	2	6	N	0	1	2	2	2	1	2	0	0	2	2	2	0	38
	Harley-Davidson Inc.	54.3	4	4	0	6	0	0	4	0	4	6	N	1	2	0	1	2	0	0	0	0	0	2	2	0	38
	Zoetis Inc.	54.3	4	4	4	6	6	2	4	0	4	0	N	0	0	0	0	0	0	0	0	0	0	4	0	0	38
	Home Depot Inc.	52.9	4	4	0	0	0	0	4	1	0	6	N	2	1	0	2	2	2	2	0	1	2	2	2	0	37
	Mondelez International Inc.	52.9	2	0	4	3	0	0	0	1	0	6	N	1	2	1	2	2	2	2	1	0	2	2	2	2	37
	Twenty-First Century Fox Inc.	52.9	4	4	4	0	0	0	4	2	2	6	N	2	2	1	2	0	0	0	0	0	0	2	2	0	37
	NIKE, Inc.	51.4	2	0	0	0	0	0	2	2	2	6	N	2	2	1	2	2	2	2	1	0	2	2	2	2	36
	Xcel Energy, Inc.	51.4	2	2	0	3	0	0	0	2	2	6	N	1	2	0	2	2	2	2	2	0	2	2	2	0	36
	Boston Properties, Inc.	50.0	2	2	2	3	0	0	2	2	0	6	P	2	2	2	2	2	1	1	0	0	2	0	2	0	35
	Facebook, Inc.	50.0	4	2	0	3	3	0	4	2	2	6	N	2	1	2	2	0	0	0	0	0	0	2	0	0	35
	Union Pacific Corp.	50.0	0	0	0	6	0	0	0	2	2	6	N	2	0	1	2	2	2	2	2	0	2	0	2	2	35
	Cardinal Health, Inc.	48.6	2	2	4	0	0	0	0	2	0	6	N	2	2	1	2	2	2	2	1	0	2	0	2	0	34
	Grainger (W.W.) Inc.	48.6	2	2	2	0	0	0	2	2	2	6	N	2	2	1	2	1	0	2	0	2	2	0	2	0	34
	Time Warner Cable Inc.	48.6	0	2	4	0	0	0	0	2	0	6	N	2	2	2	2	2	2	2	0	0	2	0	2	2	34

	Company Name	Score (100%)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	Raw Total
Fourth Tier	Ameriprise Financial Inc.	47.1	4	0	2	0	0	0	0	2	2	6	N	1	2	0	2	2	2	2	0	0	2	2	2	0	33
	Google Inc.	45.7	2	0	0	3	3	0	2	2	2	6	N	2	2	2	2	0	0	0	0	0	0	2	2	0	32
	Marathon Oil Corp.	45.7	0	0	0	0	0	0	2	2	0	6	N	1	2	2	2	2	2	2	1	0	2	2	2	2	32
	Halliburton Company	44.3	4	2	2	3	0	0	2	1	0	6	N	1	1	1	2	2	0	0	0	0	0	2	2	0	31
	Lorillard, Inc.	44.3	0	0	0	0	0	0	0	2	0	6	N	2	2	2	2	2	1	2	2	0	2	4	2	0	31
	Amazon.com Inc.	42.9	4	4	2	0	0	0	4	1	2	3	N	0	1	0	1	1	0	1	1	0	1	2	2	0	30
	Exxon Mobil Corp.	42.9	4	4	0	0	0	0	0	1	2	6	N	0	1	2	1	2	1	1	0	0	1	2	2	0	30
	L Brands, Inc.	42.9	2	2	0	6	0	0	2	2	0	6	N	1	2	1	2	0	0	0	0	0	0	2	2	0	30
	Motorola Solutions Inc.	42.9	0	0	4	3	0	0	0	1	0	6	N	2	2	1	2	2	0	2	0	0	0	2	2	1	30
	Valero Energy Corp.	42.9	2	4	0	0	0	0	0	2	2	6	P	1	1	2	2	1	1	0	0	0	1	2	2	1	30
	Chesapeake Energy Corp.	41.4	0	0	0	3	0	0	0	2	0	6	N	1	0	1	2	2	2	2	2	0	2	2	2	0	29
	Allstate Corp.	40.0	0	0	0	3	3	0	0	2	0	6	N	2	2	2	2	2	0	0	0	0	0	0	2	2	28
	DaVita HealthCare Partners Inc.	40.0	0	0	0	3	0	0	0	1	0	6	N	1	1	2	1	2	2	2	1	2	2	0	2	0	28
	Equity Residential	40.0	0	0	0	3	0	0	0	2	0	6	N	2	2	0	2	2	1	2	2	0	2	0	2	0	28
	FedEx Corp.	40.0	4	0	2	0	0	0	4	2	0	6	N	1	2	1	2	2	0	0	0	0	0	0	2	0	28
	Raytheon Co.	40.0	2	4	0	0	0	0	0	1	0	6	N	1	1	1	0	2	2	2	0	0	2	2	2	0	28
	Adobe Systems, Inc.	38.6	2	4	0	0	0	0	2	2	0	6	N	1	2	1	2	1	0	0	0	0	0	2	2	0	27
	Marathon Petroleum Corp.	38.6	0	0	0	3	0	0	0	1	0	6	N	1	2	2	2	2	1	2	1	0	2	0	2	0	27
	Progressive Corp. (OH)	38.6	0	0	0	0	0	0	0	1	0	6	N	2	2	1	1	2	2	2	2	0	2	0	2	2	27
	Ford Motor Co. (DE)	37.1	4	4	2	0	0	0	0	1	0	6	P	1	2	2	2	0	0	0	0	0	0	0	2	0	26
	Oracle Corp.	37.1	2	2	2	0	0	0	2	1	0	3	N	0	1	2	1	1	1	2	0	0	2	0	2	2	26
	PPL Corp.	37.1	4	0	4	3	0	0	0	1	0	6	N	1	2	2	1	0	0	0	0	0	0	0	2	0	26
	Delphi Automotive Plc	35.7	4	4	4	0	6	0	0	1	0	3	P	1	1	0	0	0	0	0	0	0	0	0	1	0	25
	McKesson Corp.	35.7	0	2	0	3	0	0	0	2	0	6	N	1	2	2	2	2	0	0	0	0	0	0	2	1	25
	Ventas, Inc.	35.7	2	2	2	3	3	0	2	2	0	3	N	0	1	1	2	0	0	1	0	0	0	0	1	0	25
	Consolidated Edison, Inc.	34.3	2	2	4	0	0	0	4	1	0	3	P	1	1	0	2	0	0	1	0	1	0	0	2	0	24
	EQT Corp.	34.3	0	2	0	0	0	0	0	2	0	6	N	0	2	2	2	2	1	2	2	0	0	0	1	0	24
	Kimberly-Clark Corp.	34.3	4	4	4	0	0	0	0	0	0	6	P	1	2	2	0	0	0	0	0	0	0	0	1	0	24
	Walgreen Co.	34.3	0	0	0	0	0	0	0	2	0	6	N	1	1	2	2	2	2	2	0	0	2	0	2	0	24
	Public Service Enterprise Group Inc.	32.9	0	0	0	0	0	0	0	2	0	6	N	1	1	1	2	2	1	2	1	0	2	0	2	0	23
	Spectra Energy Corp.	32.9	0	0	0	3	0	0	0	2	0	6	N	1	1	2	2	2	0	0	0	0	0	0	2	2	23
	Stryker Corp.	32.9	4	2	2	3	0	0	0	1	0	3	P	1	1	1	1	1	0	1	0	1	0	0	1	0	23
	SunTrust Banks, Inc.	32.9	4	4	4	0	3	0	0	0	0	3	P	1	2	0	0	0	0	0	0	0	0	0	2	0	23
	Waste Management, Inc. (DE)	32.9	0	0	0	3	0	0	0	2	0	6	N	2	1	2	2	1	0	0	0	0	0	0	2	2	23
	Archer Daniels Midland Co.	31.4	0	0	0	0	0	0	0	2	0	6	N	0	1	1	2	2	2	2	0	0	2	0	2	0	22
	Duke Energy Corp.	31.4	0	0	0	0	0	0	0	2	0	6	N	0	1	0	2	2	2	1	1	0	2	0	2	1	22
	FirstEnergy Corp.	31.4	0	0	0	0	0	0	0	1	0	6	N	0	1	0	2	2	2	2	2	0	2	0	2	0	22
	Apache Corp.	30.0	2	2	0	3	0	0	0	0	0	6	N	1	1	2	0	2	0	0	0	0	0	0	2	0	21
	Delta Air Lines, Inc. (DE)	28.6	0	0	0	0	0	0	0	2	0	6	N	0	1	0	2	2	1	2	0	0	2	0	2	0	20
	EOG Resources, Inc.	28.6	0	0	0	0	0	0	0	2	0	3	N	0	1	0	2	2	2	2	2	0	2	0	2	0	20
	Johnson Controls Inc.	28.6	0	2	0	0	0	0	0	2	0	6	N	2	2	2	2	0	0	0	0	0	0	0	2	0	20

	Company Name	Score (100%)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	Raw Total
	NextEra Energy Inc.	28.6	0	0	0	0	0	0	0	2	0	6	N	2	2	2	2	0	0	0	0	0	0	0	2	2	20
	McGraw Hill Financial, Inc.	27.1	0	0	0	0	0	0	0	2	0	6	N	2	2	2	2	0	0	0	0	0	0	0	2	1	19
	Sysco Corp.	27.1	0	0	0	3	0	0	0	2	0	6	N	1	1	2	2	0	0	0	0	0	0	0	2	0	19
Bottom Tier	Covidien Plc	24.3	0	0	0	0	0	0	0	1	0	3	N	0	1	2	1	2	1	2	1	0	2	0	1	0	17
	General Dynamics Corp.	24.3	0	0	0	0	0	0	0	2	0	6	N	1	2	0	2	2	0	0	0	0	0	0	2	0	17
	Prologis Inc.	24.3	2	0	4	0	0	0	0	2	0	3	N	1	1	0	2	0	2	0	0	0	0	0	0	0	17
	Wynn Resorts Ltd.	22.9	0	0	0	0	0	0	0	2	0	3	N	0	2	0	2	2	2	1	0	0	2	0	0	0	16
	Brown-Forman Corp.	21.4	0	0	0	0	0	0	0	2	0	6	N	0	1	2	2	0	0	0	0	0	0	0	2	0	15
	Marsh & McLennan Companies Inc.	21.4	0	0	4	0	0	0	0	2	0	3	N	0	1	2	2	0	0	0	0	0	0	0	1	0	15
	Southwest Airlines Co	20.0	0	2	0	6	0	0	0	0	0	3	N	0	0	1	0	0	0	0	0	0	0	0	2	0	14
	TE Connectivity Ltd.	20.0	0	0	0	0	0	0	0	1	0	6	N	1	1	2	1	0	0	0	0	0	0	0	2	0	14
	Tyson Foods, Inc.	20.0	4	0	0	3	0	0	0	0	0	3	N	0	0	2	0	0	0	0	0	0	0	0	2	0	14
	Carnival Corp.	18.6	0	0	0	3	0	0	0	2	0	3	N	0	1	2	2	0	0	0	0	0	0	0	0	0	13
	Northeast Utilities	18.6	4	0	2	0	0	0	4	0	0	3	P	0	0	0	0	0	0	0	0	0	0	0	0	0	13
	Vertex Pharmaceuticals, Inc.	18.6	2	2	2	0	0	0	0	1	0	3	P	0	2	0	1	0	0	0	0	0	0	0	0	0	13
	Emerson Electric Co.	17.1	0	0	0	0	0	0	0	1	0	3	N	0	0	0	1	2	1	2	0	0	2	0	0	0	12
	Regions Financial Corp.	17.1	2	0	0	0	0	0	4	0	0	3	N	0	1	0	0	0	0	0	0	0	0	0	2	0	12
	Viacom Inc.	17.1	2	0	2	0	0	0	0	2	0	3	N	0	1	0	2	0	0	0	0	0	0	0	0	0	12
	Wal-Mart Stores, Inc.	15.7	0	0	0	0	0	0	0	1	0	3	N	0	1	0	1	2	1	0	0	0	2	0	0	0	11
	Agilent Technologies, Inc.	14.3	2	0	0	0	0	0	0	2	0	3	N	0	1	0	2	0	0	0	0	0	0	0	0	0	10
	Alliance Data Systems Corp.	14.3	0	0	0	0	0	0	0	2	0	3	N	0	1	0	2	0	0	0	0	0	0	0	2	0	10
	Cerner Corp.	12.9	0	0	0	0	0	0	0	0	0	3	N	0	0	0	0	2	1	1	0	0	2	0	0	0	9
	Crown Castle International Corp.	12.9	0	0	0	0	0	0	0	2	0	3	N	0	1	1	2	0	0	0	0	0	0	0	0	0	9
	Host Hotels & Resorts Inc.	12.9	0	0	0	0	0	0	0	2	0	3	N	1	1	0	2	0	0	0	0	0	0	0	0	0	9
	Macy's, Inc.	12.9	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	2	9
	Mosaic Co (The)	12.9	0	0	0	0	0	0	0	1	0	3	N	0	1	2	2	0	0	0	0	0	0	0	0	0	9
	Northern Trust Corp.	12.9	0	0	0	0	0	0	0	0	0	3	N	1	1	2	0	0	0	0	0	0	0	0	2	0	9
	O'Reilly Automotive, Inc.	12.9	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	2	0	9
	Baker Hughes Inc.	11.4	4	0	0	0	0	0	0	0	0	3	N	0	1	0	0	0	0	0	0	0	0	0	0	0	8
	CBS Corp.	11.4	0	0	0	0	0	0	0	2	0	3	N	0	1	0	2	0	0	0	0	0	0	0	0	0	8
	Cognizant Technology Solutions Corp.	11.4	0	0	0	0	0	0	0	0	0	3	N	0	1	0	2	0	0	0	0	0	0	0	2	0	8
	Micron Technology Inc.	11.4	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	1	0	8
	PPG Industries, Inc.	11.4	0	0	0	0	0	0	0	1	0	3	N	0	1	2	1	0	0	0	0	0	0	0	0	0	8
	Range Resources Corp.	11.4	0	0	0	0	0	0	0	2	0	3	N	0	1	0	0	0	0	0	0	0	0	0	2	0	8
	Alexion Pharmaceuticals Inc.	10.0	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	7
	AutoZone, Inc.	10.0	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	7
	CenturyLink, Inc.	10.0	0	0	0	0	0	0	0	0	0	3	N	0	0	2	0	0	0	0	0	0	0	0	0	2	7
	CME Group Inc.	10.0	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	7
	Devon Energy Corp.	10.0	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	7
	DIRECTV	10.0	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	7

	Company Name	Score (100%)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	Raw Total
Bottom Tier	General Growth Properties Inc.	10.0	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	7
	HCP, Inc.	10.0	0	0	0	0	0	0	0	0	0	3	N	0	1	0	0	2	0	0	0	1	0	0	0	0	7
	Precision Castparts Corp.	10.0	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	7
	SanDisk Corp.	10.0	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	7
	Seagate Technology Plc	10.0	2	0	0	0	0	0	0	0	0	3	N	0	1	0	0	1	0	0	0	0	0	0	0	0	7
	Starwood Hotels & Resorts Worldwide Inc.	10.0	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	7
	Thermo Fisher Scientific Inc.	10.0	0	0	0	0	0	0	0	1	0	3	N	0	1	2	0	0	0	0	0	0	0	0	0	0	7
	Transocean Ltd.	10.0	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	7
	Whole Foods Market, Inc.	10.0	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	7
	Xilinx, Inc.	10.0	0	0	0	0	0	0	0	2	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	7
	ACE, Ltd.	8.6	0	0	0	0	0	0	0	1	0	3	N	0	1	0	1	0	0	0	0	0	0	0	0	0	6
	Actavis plc	8.6	0	0	0	0	0	0	0	1	0	3	N	0	1	0	1	0	0	0	0	0	0	0	0	0	6
	Health Care REIT Inc.	8.6	2	0	0	0	0	0	0	0	0	3	N	0	1	0	0	0	0	0	0	0	0	0	0	0	6
	Parker Hannifin Corp.	8.6	2	0	0	0	0	0	0	0	0	3	N	0	1	0	0	0	0	0	0	0	0	0	0	0	6
	Priceline.com, Inc.	8.6	0	0	0	0	0	0	0	1	0	3	N	1	0	0	1	0	0	0	0	0	0	0	0	0	6
	Public Storage	8.6	0	0	0	0	0	0	0	1	0	3	N	0	1	0	1	0	0	0	0	0	0	0	0	0	6
	Rockwell Automation, Inc.	8.6	2	0	0	0	0	0	0	0	0	3	N	0	1	0	0	0	0	0	0	0	0	0	0	0	6
	Tyco International Ltd. (Switzerland)	8.6	0	0	0	0	0	0	0	1	0	3	N	0	0	0	2	0	0	0	0	0	0	0	0	0	6
	AvalonBay Communities, Inc.	7.1	0	0	0	0	0	0	0	0	0	3	N	0	1	0	1	0	0	0	0	0	0	0	0	0	5
	Bed, Bath & Beyond, Inc.	7.1	0	0	0	0	0	0	0	0	0	3	N	0	0	0	0	2	0	0	0	0	0	0	0	0	5
	Corning, Inc.	7.1	0	0	0	0	0	0	0	1	0	3	N	0	0	0	1	0	0	0	0	0	0	0	0	0	5
	Dollar General Corp.	7.1	0	0	0	0	0	0	0	1	0	3	N	0	0	0	1	0	0	0	0	0	0	0	0	0	5
	Franklin Resources, Inc.	7.1	0	0	0	0	0	0	0	1	0	3	N	0	0	0	1	0	0	0	0	0	0	0	0	0	5
	Ingersoll-Rand Plc	7.1	0	0	0	0	0	0	0	1	0	3	N	0	0	0	1	0	0	0	0	0	0	0	0	0	5
	LyondellBasell Industries NV	7.1	0	0	0	0	0	0	0	1	0	3	N	0	0	0	1	0	0	0	0	0	0	0	0	0	5
	Moody's Corp.	7.1	0	0	0	0	0	0	0	1	0	3	N	0	0	0	1	0	0	0	0	0	0	0	0	0	5
	American Tower Corp.	5.7	0	0	0	0	0	0	0	0	0	3	N	0	1	0	0	0	0	0	0	0	0	0	0	0	4
	Constellation Brands Inc.	5.7	0	0	0	0	0	0	0	0	0	3	N	0	1	0	0	0	0	0	0	0	0	0	0	0	4
	Fiserv, Inc.	5.7	0	0	0	0	0	0	0	0	0	3	Y	0	0	0	0	1	0	0	0	0	0	0	0	0	4
	Mead Johnson Nutrition Co.	5.7	0	0	0	0	0	0	0	0	0	3	P	0	0	0	1	0	0	0	0	0	0	0	0	0	4
	Fidelity National Information Services	4.3	0	0	0	0	0	0	0	0	0	3	N	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	Michael Kors Holdings Ltd.	4.3	0	0	0	0	0	0	0	0	0	3	N	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	Nucor Corp.	4.3	0	0	0	0	0	0	0	0	0	3	N	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	Omnicom Group, Inc.	4.3	0	0	0	0	0	0	0	0	0	3	N	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	Paychex Inc.	4.3	0	0	0	0	0	0	0	0	0	3	N	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	PNC Financial Services Group (The)	4.3	0	0	0	0	0	0	0	0	0	3	N	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	Regeneron Pharmaceuticals, Inc.	4.3	0	0	0	0	0	0	0	0	0	3	N	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	VF Corp.	4.3	0	0	0	0	0	0	0	0	0	3	N	0	0	0	0	0	0	0	0	0	0	0	0	0	3
	Western Digital Corp.	1.4	0	0	0	0	0	0	0	0	0	0	N	0	0	1	0	0	0	0	0	0	0	0	0	0	1
	Amphenol Corp.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0

	Company Name	Score (100%)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	Raw Total
Bottom Tier	Analog Devices, Inc.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Berkshire Hathaway Inc.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Discovery Communications, Inc.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Fastenal Co.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Forest Laboratories, Inc.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	IntercontinentalExchange Group Inc.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Intuitive Surgical Inc.	0.0	0	0	0	0	0	0	0	0	0	0	P	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Keurig Green Mountain Inc.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Loews Corp.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	M & T Bank Corp.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Netflix Inc.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	PACCAR Inc.	0.0	0	0	0	0	0	0	0	0	0	0	P	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Ralph Lauren Corp.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Ross Stores, Inc.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Salesforce.Com Inc.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Schwab (Charles) Corp.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Simon Property Group, Inc.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	T Rowe Price Group Inc.	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Vornado Realty Trust	0.0	0	0	0	0	0	0	0	0	0	0	N	0	0	0	0	0	0	0	0	0	0	0	0	0	0

APPENDIX E: SCORES OF COMPANIES THAT DO NOT SPEND*

Company Name	Score (100%)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	Raw Total
Accenture plc	100.0	4	4	4	6	6	2	4	2	4	6	NA	2	2	2	2	2	2	2	2	2	2	4	2	2	70
International Business Machines Corp.	98.6	4	4	4	6	6	2	4	2	4	6	NA	2	2	2	2	2	1	2	2	2	2	4	2	2	69
Schlumberger Ltd.	95.7	4	4	4	6	6	2	4	2	2	6	NA	2	2	2	2	2	1	2	2	2	2	4	2	2	67
Nielsen N.V.	95.7	4	4	4	6	6	2	4	2	4	6	Y	2	2	2	2	2	0	2	2	2	2	4	2	1	67
Praxair, Inc.	95.7	4	4	4	6	3	2	4	2	4	6	Y	2	2	2	2	2	2	2	2	2	2	4	2	2	67
Goldman Sachs Group, Inc.	94.3	4	4	4	6	3	2	4	2	4	6	Y	2	2	2	2	2	1	2	2	2	2	4	2	2	66
Colgate-Palmolive Co.	75.7	4	4	4	6	6	2	2	1	2	6	NA	1	1	2	1	1	1	1	2	1	1	2	2	0	53

*These companies do not make any direct or indirect expenditure to intervene in elections and require their trade associations not to use their payments for such purposes. See page 19 for more.

11/2/2011

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A Cost-Benefit Analysis of Corporate Political Spending Disclosure

By Susan R. Holmberg, Ph.D.

I. Executive Summary

This report provides a cost-benefit analysis of a potential rule promulgated by the SEC that would require public corporations to disclose corporate political spending. Using existing evidence on both the dynamics of corporate political spending and the costs and benefits of SEC mandatory disclosure in general as well as employing agency theory, an economic framework that highlights the asymmetric interests and knowledge between corporate managers and shareholders, I conclude that the range of potential benefits of corporate political spending disclosure—to shareholders and the market—vastly outweigh the possible costs of compliance to public corporations.

II. Introduction

This paper is an economic analysis of the costs and benefits of SEC File No. 4-637, a Securities and Exchange Commission petition to require public companies to disclose to shareholders the use of corporate resources for political activities. This report will do the following: 1) describe the various forms of corporate political spending; 2) define and support the use of agency theory as the economic framework best suited to identify the costs and benefits of the proposed corporate political spending disclosure rule; 3) map agency theory onto corporate political spending and illustrate the ways in which such activity generates monitoring costs; 4) highlight the main tenets of the debate on the costs and benefits of SEC mandatory disclosure in general; and 5) use the existing evidence from the above discussions to identify and compare the costs and benefits of political spending disclosure. I then conclude that the range of economic benefits of this disclosure rule would greatly outweigh the nominal costs imposed on corporations for compliance.

III. Corporate Political Activity

Prior to the Supreme Court's *Citizens United v. Federal Election Commission* decision in 2010, corporate political activity (CPA) had included the following tactics: direct lobbying of lawmakers; donating soft-money to political parties, which was legal until 2002's Bipartisan Campaign Reform Act (BCRA a.k.a McCain-Feingold); spending through affiliated corporate political action committees (PACs a.k.a. Separate Segregated Funds or SSFs); and grassroots lobbying to encourage the public to engage on a particular issue (Hillman et al. 2004).

Citizens United v. FEC added another tool into the corporate political chest: the ability to spend corporate treasury funds on two types of political ads: 1) independent expenditures which expressly advocate for the election or defeat of a candidate and 2) electioneering communications as defined by BCRA, which are colloquially known as broadcast "sham issue ads."

Before *Citizens United*, corporations had been barred from making these expenditures in federal elections, but after *Citizens United* they were freed to spend an unlimited amount on both categories of political ads. *Citizens United* also changed the law in 22 states that had similar corporate expenditure bans. Because of pre-existing disclosure loopholes, companies can hide this new political spending from the investing public (Torres-Spelliscy 2011 and Aprill 2011).[1]

Why do corporations engage in political spending activity? Is CPA effective? Which parties does it benefit and what are the broader impacts? The following sections present the basic structure of the principal-agency framework and draws from existing

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[1] Corporations often combine CPA tactics. For example, Ansolabehere et al. (2004) finds that 86% of all contributions come from firms who have both lobbyists and political action committees. Schuler et al. (2002) show evidence that firms tend to mix contributions and lobbying (contributions are what purchase the lobbying access).

research evidence to unpack some of CPA's properties and its impacts on corporate players.

IV. Agency Theory

Agency theory is an extremely well-developed economic framework for understanding the complex dynamics of corporate governance in general. It predicts conflicts of interest between managers (agents) and shareholders (principals) based on the fact that a) their goals are not perfectly aligned and b) problems of asymmetric information exist between them (see Jensen and Meckling 1976, Fama 1980, and Eisenhardt 1989).[2] In regards to the former, rather than maximizing corporate profits, manager-agents seek to maximize an objective utility function that would include salary and benefits as well as qualitative factors like power and prestige, all subject to a given profit constraint. In terms of the latter, asymmetric information—a kind of market failure—arises when the agent has more information or expertise than the principal. These two factors, combined with the fact that, in some situations, managers are more insulated from risk, constitute a problem called moral hazard. Furthermore, because of the moral hazard problems inherent in a situation with conflicting objectives, asymmetric information, and insulation from risk, principal-shareholders must be able to monitor the actions of firms' agent-managers, which imposes direct costs (hiring an external auditor) and/or indirect costs (shareholders' opportunity costs) (Eisenhardt 1989 and Johnson and Greening 1999).

The literature supporting the moral hazard problems that arise out of the principal-agent framework is convincing. Bebchuk and Fried (2004) link weaker shareholder rights with higher CEO pay and Yermack (2006) finds a negative relationship between perquisites of major company CEOs and average shareholder returns. According to Coates (2010), "observable corporate governance provisions consistently predict the degree to which faithless managers divert shareholder wealth for their own ends, destroy corporate wealth, and reduce public welfare" (2). Coffee (1984) states that managers "have strong incentives to withhold adverse information and to undertake preemptive buyouts of their own firm, which are facilitated by withholding positive information"

[2] Controlling shareholders, who have the ability to divert corporate resources, are also sometimes characterized as agents (Ferrell 2007-2008).

(752). Of course, in light of cases like the Enron Corporation accounting scandal, one does not have to delve deeply into academic research to comprehend the moral hazard problems prevalent in corporate governance. The following section highlights some of the ways CPA conforms to the principal-agent scenario, which thereby produces serious moral hazard problems for companies who engage in political spending and for their investors.

V. CPA Agency Problems

The economic literature suggests that there are two primary reasons why corporations engage in CPA. One ready explanation is they do it to maximize profit for the company. As a "political investment" (Hadani 2011), corporations are expecting a "return," particularly in the following forms: reduced trade barriers, earmarks, government contracts, reduced or easier regulatory inspections, favorable rate regulation, and lower tax rates (Coates 2010).

There is a tremendous amount of literature that evaluates whether CPA actually achieves the aforementioned firm-level outcomes, and the results are not consistent. For example, Cooper et al. (2010), Bonardi et al. (2006), and Dean et al. (1998) all find evidence of a positive impact of CPA on firm-level outcomes while Aggarwal et al. (2011), Coates (2010), Ansolabehere et al. (2004), Igan et al (2009), Milyo (1999), and Banker et al. (1997) have all found negative outcomes. These conflicting results suggest that CPA creates uncertainty and risk for shareholders that are well-beyond what typically accompanies economic investment activities.

The second explanation, which is gaining ground in the economics literature, is that corporate managers spend in politics for their own self-aggrandizement, at the expense of the company. In the CPA context, there is considerable potential for personal advantages to corporate executives, particularly prestige, a future political career, and star power (Hart 2004) or to help political allies (Aggarwal et al. 2011).

To complicate matters, in CPA settings, asymmetric information between managers and shareholders is ubiquitous. Corporate executives know precisely how much money is being spent on politics while neither CPA's process nor strategic outcomes is at all transparent to shareholders or the investing public (Fisch 2006 and

Butler and Ribstein 1995). Unlike economic production, the market does not signal the "production" of CPA. In other words, if a closed-door meeting between a corporate lobbyist and a policymaker goes badly, that failure will not be broadcast nor will it be reflected in the company's stock price. This lack of transparency makes it extraordinarily difficult, maybe impossible, for millions of dispersed shareholders to monitor—and hold accountable—the actions of managers who might not have the skills to be effective at achieving their strategic goals (Hart 2004) or are motivated by their personal gain, at the expense of shareholders.

All three of these factors—the considerable ambiguity about CPA outcomes, the potential personal rewards to managers of political spending, and the lack of transparency (asymmetric information) in both CPA processes and goals—renders CPA a moral hazard situation that is extremely risky for shareholders.[3]

The recent body of evidence strongly supports this conclusion. For example, Coates (2010) finds that when shareholder rights are weak and, thus, there is little transparency, corporations engage in more CPA. Hadani (2011) also found that when there is no monitoring, firms were more likely to engage in political spending. Aggarwal et al. (2011) report that worse corporate governance is correlated with larger donation sums and that a lack of transparency allows for CPA to serve as a form of private benefits for corporate managers. A recent study by Schepers and Gardberg (2011) also found that, on average, the corporations that spend the most tend to disclose less than companies with more moderate CPA.

Furthermore, shareholders are well aware of, and concerned with, the agency problems of CPA. Hadani (2011) finds that institutional investors (large ones in particular) tend to oppose CPA and also cites a Mason-Dixon shareholder poll that 85% of respondents felt that a lack of CPA monitoring had allowed for management to act in ways that were in conflict with shareholder preferences.

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[3] A theoretical argument against the moral hazard problems of CPA is the "Wall Street Rule," which states that if the shareholder is in conflict with corporate management, it is more efficient (less costly) to sell corporate shares than demand behavioral change (Joo 2001). However, there are two factors that invalidate the Wall Street Rule: 1) institutional investor or controlling investors are not able to easily sell all their shares (Han et al. 1999) and 2) the transparency that the Rule presumes does not, in fact, exist in the CPA context.

VI. The Costs and Benefits of SEC Mandatory Disclosure Regulation

In order to effectively highlight the potential costs and benefits of the SEC File No. 4-637 petition to develop rules to require public companies to disclose to shareholders the use of corporate resources for political activities, it is useful to discuss some of the economic research and debates on the costs and benefits of SEC mandated corporate disclosure in general.

The economic impacts of SEC disclosure regulation are intensely debated in the literature. Arguments against mandatory disclosure claim that requiring corporate disclosure is unnecessary, as the market will compel firms to disclose information (Grossman and Hart 1980 and Easterbrook and Fischel 1984). However, that conclusion is based on perfect symmetry of interests and information between managers and shareholders, which, as is well-established in the economics literature, is a fairly weak assumption.

Researchers also argue that mandatory disclosure rules impose competitive costs, i.e. they would be forced to share proprietary information with their competitors (Ferrell 2007-2008). Finally, there is evidence that disclosure rules can sometimes be costlier for smaller companies (Bushee and Leuz 2005).

Arguments supporting mandatory disclosure include several factors that would foster market efficiency. For example, it would lower the cost of capital (Ferrell 2007-2008); in terms of principal-agent problems, mandatory disclosure can also compel managers to focus more narrowly on the maximization of shareholder value (rather than their own utility maximization) (Greenstone et al. 2005); and firms previously filing with the SEC experience positive stock returns and permanent increases in liquidity, suggesting positive externalities from disclosure regulation (Bushee and Leuz 2005).

VII. The Costs and Benefits of Corporate Political Spending Disclosure

How do these economic arguments apply to SEC disclosure in the CPA context? In terms of costs, there are a few commonly identified categories to consider.

First, compliance costs of CPA disclosure should be nominal. Lobbying and other political contributions are not tax deductible as regular business expenses for tax reporting purposes under Internal Revenue Code § 162(e). Thus, in order for a politically active company to file accurate IRS returns it must already keep track of their CPA. The new rule envisioned by SEC File No. 4-637 would merely make this internal accounting of CPA available for the investing public. So long as the reporting categories chosen by the SEC in the new disclosure rule mirror the categories that the IRS lists as non-deductible political expenditures under § 162(e), the cost of compliance may be as little as the hours it would require an employee to copy and paste data from an internal file into a public one. Furthermore if the new SEC rule adds to an existing reporting requirement such as filings currently made by companies on Form 10-K or Form 10-Q, then there would be minimal additional production or mailing costs for reporting companies. Rather, companies would merely add a few lines of text to disclosures that they are already legally required to give to their investors.

The second issue is the aforementioned problem of firm size. Bushee and Leuz (2005) document that disclosure requirements result in higher costs for smaller companies. This can be explained by lower production costs of information for bigger companies, i.e. economies of scale (Jensen and Meckling 1976). However, considering that the accounting process for CPA disclosure to the SEC would be as simple as making internal accounting records public, there is no reason to expect that smaller companies would bear a larger burden from a disclosure requirement than larger companies. In other words, neither type of firm is expected to experience a noticeable increase in accounting costs.

The third issue to consider is the potential competitive costs to corporations, which should not be problematic. Companies already often match competitors' political contributions and CPA tends to concentrate by industry (Grier et al. 1994), which suggests that corporate political spending is not proprietary information that could potentially be threatened by mandatory disclosure.[4]

[4] One might wonder how competitors could discover information about CPA when shareholders cannot. One possible channel is through politicians, who both know whether a given corporation has spent money supporting or lobbying them and have an incentive to use that information strategically to extract support from that corporations' competitors. Another possible channel is politically active trade groups, whose representatives have information about corporate contributions to the groups as well as political spending more broadly.

The expected benefits of mandatory disclosure of corporate political spending would be substantial. Disclosure would help to mitigate the moral hazard problems inherent in CPA by diminishing the monitoring costs for shareholders, allowing them to make more informed investment decisions. It would also create incentives for managers to focus on the kinds of CPA that would maximize shareholder wealth rather than their own self-interest. Finally, it would offer the same kinds of positive externalities that corporations, which already share required information, enjoy from mandatory disclosure. All of these impacts would have significant benefits for market competition and economic efficiency.

In summary, it is indisputable that an SEC rule requiring companies to disclose their corporate political spending would result in only a nominal set of compliance costs to corporations engaged in political activities while creating a wide range of benefits to the economy, particularly by: generating positive externalities for corporations that are already in compliance; offsetting the large monitoring costs from a lack of transparency in corporate political spending borne by existing shareholders; providing potential investors with key information with which to make rational investment decisions; and creating incentives for self-interested corporate managers to more effectively maximize shareholder wealth.

VIII. Conclusion

This report draws from robust economic methodology and the existing body of empirical research evidence to highlight the relative costs and benefits derived from a mandatory disclosure of corporate political spending.

Corporate political spending includes a range of tactics—direct lobbying of lawmakers, soft-money, PAC activity, and grassroots lobbying. Since the Supreme Court's *Citizens United v. Federal Election Commission* decision in 2010, corporations have also had the ability to spend corporate treasury funds on two kinds of political ads: 1) those advocating for election or defeat of a candidate and 2) "sham issue ads."

Deciphering the CPA context using agency theory demonstrates that CPA generates significant moral hazard problems. Agency self-interest, asymmetric information (i.e. lack of transparency), and ambiguous evidence on the strategic impacts of CPA result in moral hazard problems that render CPA extraordinarily risky for shareholders and the investing public.

When I consider, based on the evidence in the economic literature, what the impacts of a potential SEC rule requiring CPA disclosure would be, I conclude that the benefits would vastly outweigh the costs. By observing current patterns of CPA, I predict that compliance costs to corporations would be nominal. For example, the accounting costs would be marginal as CPA is already recorded for tax purposes; small and large companies alike would face minimal compliance costs; and CPA is not proprietary information and, thus, no competitive costs are expected.

Furthermore, the benefits of CPA disclosure would be substantial. This rule would help to correct the market failures that currently exist in CPA by creating incentives for managers to focus less on their personal gains and more on maximizing shareholder wealth; by providing shareholders with key information with which to make rational investment decisions; and generating positive externalities for corporations that already disclose their CPA to shareholders. In other words, requiring corporations to disclose their political donations would substantially improve the efficiency of capital markets, which is why I urge the SEC to promulgate a rule requiring corporate political disclosure for publicly traded companies.

/s/Susan Holmberg, PhD

Susan R. Holmberg holds a PhD in Economics from the University of Massachusetts, Amherst. She is the Program Director at the Center for Popular Economics, an organization that teaches economics literacy to the general public. Her economic research focuses primarily on international development and trade issues.

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