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Lifting the Lid: CEO bonuses to surge as profits, stocks rise

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By Daniel Sorid

SAN FRANCISCO (Reuters) - Soaring bonuses arising from healthy profit and stock gains mean CEOs of most major U.S. companies will have a bundle to take to the bank this year despite cuts in their stock options grants triggered by criticism of "fat cat" compensation.

Indeed, an analysis of chief executive pay at companies that recently reported their financial year results showed that the median, or mid-point bonus, rose 45 percent.

"Most industries have been performing better than they have been, and some of that is reflected in the stock price," said Paul Hodgson, a compensation analyst at The Corporate Library, a corporate governance research group.

"That's why I'm saying there's not going to be much of a cutback in annual compensation, because that's going to reflect year-on-year improvements in company performance."

While most U.S. companies have yet to report how much they paid executives last year, there are indications that there has been moderation in some parts of their compensation packages.

Grants of options are widely expected to be sharply cut, and the best paid executives are expected to see their basic salaries grow only slightly, if at all.

Lavish compensation that came unhitched from company performance or was based on unsustainable gains in stock prices became one of the dominant themes of the collapse in the stock market bubble that formed in the late 1990s. It often served as a red flag for accounting trickery or other scandal fodder.

Perhaps the most egregious example was telecommunications provider WorldCom. According to a detailed report by Richard Breeden, corporate monitor for the former high flyer, the "lavish" compensation of ex-CEO Bernie Ebbers and former Chief Financial Officer Scott Sullivan was "far beyond any rational calculation of value added" by those senior executives.

But the new mantra -- "pay for performance" -- means that when stock prices and earnings are climbing, and revenue has started growing again, bonuses can look pretty rich. After all, 2003 earnings for companies in the Standard & Poor's 500 are expected to grow around 18 percent, according to Reuters Research, and the Standard & Poor's 500 index is at its highest level in nearly two years.

The median bonus of the CEOs of 95 large U.S. companies that have already reported fiscal 2003 pay, rose to $710,000 from $490,000 in the previous year. The companies concerned all finished their fiscal years between January and September.

For those with smaller bonuses, in the bottom 25 percent of the survey, the gains have been even more impressive. Those CEOs on average got more than triple the money they received in fiscal 2002, according to the Equilar analysis.

The median salary for all the CEO pay disclosures surveyed rose a more muted 9.1 percent to $609,300, and salaries in the top 25 percent rose only around 1 percent, it said.

The median option award, meanwhile, declined 35 percent. Such a drop has been widely predicted by corporate governance analysts, given a growing expectation that companies will soon have to begin counting options grants as an expense, and an increasing number are already doing that voluntarily.

"Salaries never go down anyway and annual bonuses, being that they're supposed to be based on annual performance, we may well see another increase in those," said Hodgson.

Peter Chingos, head of the compensation practice at Mercer Human Resources Consulting, said options accounting rules are weighing heavily on the decision of compensation committees, the subset of corporate boards that vote on executive pay.

As such, Chingos said, companies are clearly moving toward other types of non-cash, long-term awards, such as restricted stock grants, which are already counted as a corporate cost.

"As for equity compensation, I think you are going to see the aggregate amounts coming down about 10 percent," Chingos said. "Stock options are going to come down 30, 40, 50 percent, but the value of that would be reconstituted in other forms of equity compensation -- restricted stock and performance shares.

Even if the initial value of options grants decline, most executives likely benefited handsomely from the sharp rises in share prices that many companies recorded. Options are generally valued at the time they are granted; their true value can be much higher if stock prices rise.

(Additional reporting by Brendan Intindola in New York)

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