

SBC's Whitacre Mocks Shareholders on Pay, Stock: Graef Crystal

Feb. 19 (Bloomberg) -- Anyone who thinks Ed Whitacre, chief executive of SBC Communications Inc., paid too much for AT&T Wireless Services Inc. should take a look at his compensation.

It will show that Whitacre simply lost sight of the value of a dollar, as he and his board compensation committee have assiduously cast their collective gaze away from any performance statistics.

Cingular Wireless LLC, whose parents are SBC and Atlanta-based BellSouth Corp., announced Tuesday that it had agreed to buy AT&T Wireless for \$41 billion. That's \$15 a share, or 27 percent more than Redmond, Washington-based AT&T Wireless's closing stock price Friday. San Antonio-based SBC owns 60 percent of Cingular, while BellSouth owns 40 percent. Among other things, the acquisition is not expected to add to SBC's earnings per share until 2007.

At this point in time, it would be the rare SBC shareholder who would give his automatic approval to any decision made by Whitacre.

The Numbers

For proof, take a look at these numbers:

-- For the three years ended Dec. 31, 2003, SBC delivered to its shareholders a cumulative return of negative 39 percent. The comparable figures for major competitors Verizon Communications Inc. and BellSouth were, respectively, negative 22 percent and negative 25 percent. The return during the period of the Standard & Poor's 500 Index was negative 12 percent.

-- For the year ended last Dec. 31, SBC delivered a return of 2 percent. That compares with returns of negative 6 percent, positive 13 percent and positive 29 percent for, respectively, Verizon, BellSouth and the S&P 500 Index.

-- For the year ended last Dec. 31, SBC's revenue decreased 5 percent from the preceding year, while its operating earnings dropped 25 percent. In contrast, net sales for Verizon and BellSouth were little changed. Verizon's operating income rose 12 percent, while that of BellSouth rose 4 percent.

-- Small wonder that the 33 analysts following SBC's stock have weighed in with three "buys," 18 "holds" and 12 "sells."

Pay Comparisons

Now let's look at some pay comparisons:

-- For the three years ended last Dec. 31, Whitacre's cumulative pay was a stunning \$114.5 million. That compares with Verizon Chief Executive Ivan Seidenberg's \$76.9 million and BellSouth's Duane Ackerman's \$40.6 million. (Total pay includes base salary; annual bonus; my estimate of the present value of stock option grants, measured at the date of grant using the Black-Scholes option pricing model; the value of free shares granted; payouts under other long-term incentive plans; and miscellaneous compensation. Pay data were furnished by Equilar Inc., an independent provider of executive compensation information.)

-- For all that extra money, Whitacre, as already noted, delivered the worst three-year total return of

the three companies, as well as the worst net sales and operating earnings performance.

-- On top of that, SBC wasn't even the largest of the three companies. Its cumulative three-year net sales were \$130 billion. That compares with \$203 billion for Verizon and \$69 billion for BellSouth.

2003 Pay

And now we come to 2003's pay for Whitacre. So far, SBC is the only one of the three companies to have released its pay statistics for the year just ended. (SBC's disclosures came in the form of a preliminary proxy statement filed on Feb. 13. If Verizon and BellSouth file their proxy statements in the same months they did in 2003, we can expect pay information on Verizon around the middle of March and on BellSouth around the end of February.)

For his dismal performance in 2003, Whitacre received:

- Essentially the same salary -- \$2.1 million -- as he earned in 2002.
- A bonus of \$5.7 million, up from \$4 million in 2002.
- A payout under another long-term incentive plan of \$2.4 million, up from \$1.8 million in 2002.
- A satisfying award of free shares worth \$7.2 million, up from nothing in 2002, 2001 and 2000.
- Three option grants with a total estimated present value of \$5.5 million versus much higher figures of \$14.1 million in 2002 and \$44.9 million in 2001.
- Miscellaneous compensation worth \$2.1 million, up from \$716,000 for 2002.

Free Shares

All of that totals \$25 million, not a lot higher than Whitacre's \$22.7 million in 2002. But think how much he might have earned if he actually did something of value for shareholders.

Note the de-emphasis on stock option grants and the new prominence of free share grants. Whitacre may be greedy but he's smart, too. No point in getting a lot of stock options when your stock seems to be heading nowhere but down. Free shares at least produce some value under that type of scenario.

The only bright light in the San Antonio sky is SBC's decision to move from stock options and free share grants to performance share grants. Under the new plan, 75 percent of the shares will be earned on the basis of meeting return on invested capital goals, and the remainder will be earned based on a comparison of SBC's total return to that of mostly major telephone companies.

The plan, though, is starting this year when Whitacre is already 62. So by the end of the first three-year performance cycle, Whitacre will have reached his normal retirement age of 65.

What he does or doesn't receive under this performance-oriented plan will constitute little more than a minuscule fraction of his abusive total pay over the last several years. Still, it would be refreshing to see him have to do what the common folks do: work for his dough.

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Last Updated: February 19, 2004 00:08 EST

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