

## U.S. CEO Pay Averages \$12M Annually; Jobs No. 1: Graef Crystal

Aug. 13 (Bloomberg) -- One group seems to have totally escaped the hard economic times of the last three years: chief executive officers of major U.S. companies.

Would you believe average annual pay of \$12 million a year?

A review of total pay from 2000 through 2002 for 243 CEOs running companies with 2002 revenue of \$5 billion or more also shows that total pay ranged from a low of \$336,000 a year received by Berkshire Hathaway Inc.'s Warren Buffett to \$219 million a year for Steve Jobs of Apple Computer Inc.

My review looked at three years because all compensation elements aren't present in any single year. Data for the study were furnished by Equilar, Inc. an independent provider of executive compensation information.

Sharing the spotlight with that \$12 million average annual total pay figure is that there is little rhyme or reason why one CEO makes more than another. Consider these findings:

-- Company revenue and its three-year total return to investors can explain 20 percent of the variation in the combination of base salary and annual bonus. Still, 80 percent of pay variation seems not to be explained by anything rational.

-- That pay variance explanation drops to 16 percent with the combination of salary, bonus, grants of free shares of stock, and payouts under other long-term incentive plans. Even worse, three-year total returns explain no pay variation at all.

-- The pay-level variance drops to 14 percent if you look at everything just mentioned and the estimated present value of stock option grants (measured at the date of grant using the Black-Scholes model). And forget about any emphasis on three-year total returns.

### Most Ludicrous

Besides having the group's highest three-year average annual pay, Jobs also wins my Most-Ludicrous-Pay-Package trophy, which isn't awarded every year. When Jobs returned to Apple in August 1997 to run the company he co-founded, he started out with a pay package of precisely one element -- \$1 a year in salary.

Then, in a stunning display of love gone out of control, Jobs' board in 2000 gave him title to a free Gulfstream 5 jet for his personal use and also history's most valuable stock option grant, one covering 20 million shares, equal to about 6 percent of all outstanding shares.

The jet, including reimbursing Jobs for all of his taxes on the gift, as well as the taxes on the taxes on the taxes, set back the shareholders \$84 million.

In fiscal 2002, after it became clear his 20 million option shares weren't likely to rise out of the muck of San Francisco Bay, Jobs's board gave him options on another 7.5 million shares.

In March 2003, after the end of my study period, Jobs gave up the ghost entirely on stock options. He turned in his 27.5 million option shares for a grant of five million free shares worth \$74.6 million.

## Pay Difference

For his part, Buffett continues in his long-running hair-shirt tradition. In this survey, he was joined in the No. 2 low spot by a fellow billionaire, Steve Ballmer of Microsoft Corp. Ballmer earned just \$688,000 a year.

Looking at these two folks, you may be tempted to conclude that all billionaires are equally modest in taking pay out of their companies. Don't do it.

Among the survey's 15 most relatively overpaid CEOs in relation to their company's revenue, we have such billionaires as Jobs, Larry Ellison of Oracle Corp., Sandy Weill of Citigroup Inc. and Sumner Redstone of Viacom Inc.

That tremendous diversity suggests to me that the 86 percent of pay variation that can't be explained by either company size or company performance might be explained by what Freud called superego controls -- or by what theologians and ethicists call conscience. If a CEO can't control his monetary appetites, then his board offers about as much resistance as a bunch of papier mache cutouts.

## Pay vs Returns

Looking at the 30 companies, it seems as though high pay destroys high performance.

The average three-year excess return over the Standard & Poor's 500 Index for the 15 most overpaid CEOs was 3.1 percent a year, while the return for the 15 most underpaid CEOs was 11.7 percent a year. However, because there was so much variation in returns within each group, a statistical analysis of the 30 companies showed there to be no significant difference in performance.

If major company CEOs can earn \$12 million a year in hard economic times, think of the upside pay possibilities when the good times start rolling again.

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The first table shows the 15 most overpaid CEOs and the second shows the 15 most underpaid CEOs. Both tables are arranged in descending order of the amount by which three-year average annual total pay exceeds (or is less than) a competitive rate of total pay determined on the basis of the company's revenue.

The tables also show for each of the 30 companies the three-year excess return, defined as the three-year total return for the company's fiscal period less the return on the Standard & Poor's 500 Index.

### The 15 Most Overpaid CEOs:

| Company                | CEO              | 3-Year<br>Excess<br>Return<br>(%) | Average<br>Annual<br>Total<br>Pay<br>(\$ '000s) | Above<br>Market<br>(%) |
|------------------------|------------------|-----------------------------------|---|------------------------|
| Apple Comp. Inc.       | Steven Jobs      | (10.0)                            | 218,896   | 2,935                  |
| Cisco Sys. Inc.        | John Chambers    | (14.2)                            | 87,250  | 662                    |
| SPX Corp.              | John Blystone    | 12.0                              | 51,351  | 649                    |
| Oracle Corp.           | Lawrence Ellison | 13.7                              | 49,260  | 462                    |
| Coca-Cola Co.          | Douglas Daft     | 6.8                               | 61,243  | 428                    |
| Citigroup Inc.         | Sanford Weill    | 12.5                              | 98,053  | 362                    |
| EMC Corp.              | Joseph Tucci     | (36.8)                            | 30,636  | 334                    |
| Viacom Inc.            | Sumner Redstone  | 2.3                               | 46,619  | 268                    |
| Sprint Corp.           | William Esrey    | (23.9)                            | 38,152  | 263                    |
| Cendant Corp.          | Henry Silverman  | (12.1)                            | 35,870  | 251                    |
| Bear Stearns Cos.      | James Cayne      | 28.6                              | 26,597  | 248                    |
| KB HOME                | Bruce Karatz     | 36.7                              | 23,159  | 238                    |
| Omnicom Group Inc.     | John Wren        | 1.9                               | 22,174  | 177                    |
| SBC Comm. Inc.         | Edward Whitacre  | (1.0)                             | 38,159  | 142                    |
| American Standard Cos. | Frederic Poses   | 30.3                              | 19,609  | 141                    |
|                        | Low              | (36.8)                            | 19,609  | 141                    |

|         |      |         |       |
|---------|------|---------|-------|
| Median  | 2.3  | 38,159  | 268   |
| Average | 3.1  | 56,468  | 504   |
| High    | 36.7 | 218,896 | 2,935 |

The 15 Most Underpaid CEOs:

|                         |                     | 3-Year<br>Excess<br>Return | Average<br>Annual<br>Total<br>Pay<br>(\$ '000s) | Below<br>Market<br>(%) |
|-------------------------|---------------------|----------------------------|---|------------------------|
| Dana Corp.              | Joseph Magliochetti | -9.5                       | 2,776   | (69)                   |
| Humana Inc.             | Michael McCallister | 21.4                       | 2,736   | (71)                   |
| Archer Dan. Mid. Co.    | Allen Andreas       | 9.2                        | 3,761   | (73)                   |
| AmerisourceBergen Corp. | David Yost          | 57.4                       | 4,337   | (73)                   |
| Supervalu Inc.          | Jeffrey Noddle      | 9.7                        | 2,944   | (74)                   |
| Am. El. Pwr. Co.        | Linn Draper         | 15.3                       | 2,580   | (75)                   |
| Sonic Automotive Inc.   | Bruton Smith        | 22.5                       | 1,936   | (75)                   |
| Costco Corp.            | James Sinegal       | 6.6                        | 3,534   | (77)                   |
| Genuine Parts Co.       | Larry Prince        | 26.4                       | 1,873   | (77)                   |
| Goodyear Co.            | Samir Gibara        | -20.4                      | 2,273   | (78)                   |
| Loews Corp.             | James Tisch         | 29.5                       | 2,033   | (82)                   |
| Great A&P Co.           | Christain Haub      | -36.5                      | 1,216   | (87)                   |
| Un. Auto Inc.           | Roger Penske        | 26.3                       | 882   | (89)                   |
| Microsoft Corp.         | Steven Ballmer      | -6.2                       | 688   | (95)                   |
| Berkshire Hathaway Inc. | Warren Buffett      | 23.6                       | 336   | (98)                   |
|                         | Low                 | (36.5)                     | 336   | (98)                   |
|                         | Median              | 15.3                       | 2,273   | (77)                   |
|                         | Average             | 11.7                       | 2,260   | (79)                   |
|                         | High                | 57.4                       | 4,337   | (69)                   |

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