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## Lifting The Lid: CEO compensation may be new trading signal

Reuters, 10.03.03, 5:10 PM ET

By Martin Howell

NEW YORK, (Reuters) - Getting an early reading on how U.S. executives are compensated in any year is becoming easier.

That can help companies that want to know how their rivals are paying the top brass -- and it could also be a boon for investors seeking to trade on the information.

Thanks to new disclosure requirements introduced after the MCI (formerly WorldCom), Enron

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Corp. and other accounting scandals broke in 2001-2002, corporate insiders now must disclose stock transactions and awards of stock and options within two days. Since this summer, they have to do it through electronic filings available to all through company and other Web sites.



Before August 2002, the insiders -- who consist of executives, directors and big shareholders -- could delay disclosing the information for up to 41 days and they could avoid announcing some transactions until after the end of a financial year. Up until a few months ago they still could file the information through a paper document that was not easily accessible by the public.

Investors, pay consultants and others keen on finding out how much executives were receiving in stock options and shares, often had to wait until a once-a-year disclosure in a company's proxy statement, issued ahead of its annual meeting. That data could be as much as 15 months out of date.

Now it is possible to analyze thousands of separate announcements (which can be found on Form 4s in filings with the Securities and Exchange Commission) and discern who got the richest awards of stock options and stocks in a particular quarter.

Individual investors probably wouldn't have the time to do this for more than a few companies -- there were 17,543 disclosures in July



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alone -- but it is a new focus for some pay research firms such as San Mateo, Calif.-based Equilar Inc.

The disclosures can tell investors whether there were targets tied to awards, or whether in compensation industry lingo it could be termed "pay for pulse," that is, just showing up, more than "pay for performance," which rewards those who produce results for shareholders.

So who's making the big bucks in the latest period?

In the quarter that just ended on Sept. 30, the biggest winner of restricted stock awards was Tim Donahue, the president and CEO of wireless carrier Nextel Communications Inc. according to figures from Equilar. Under a new employment agreement he was awarded 1 million deferred shares vesting between 2004-2006 that had a value on the day they were granted of \$17.9 million.

No. 2 was Citigroup Inc.'s new CEO Charles Prince with 318,337 shares valued at \$14.8 million, and No. 3 was James Farrell, the chairman and CEO of engineered products maker Illinois Tool Works Inc. with 140,000 shares valued at \$9.5 million.

In terms of numbers of stock

options, at the top of the heap were two executives from the telecom equipment industry, Cisco Systems Inc.'s CEO John Chambers and JDS Uniphase Corp.'s new chairman and CEO Kevin Kennedy, both with grants of two million options each, though Chambers are worth more because of Cisco's higher share price (\$20.76 vs \$16.63).

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For companies wanting to know what their rivals are paying their CEO, and for people advising them, it is a big change. While, the disclosure of salary and cash bonus will still only take place in the annual proxy filing, it has been the options and stock grants that have been the biggest element of executive pay in recent years.

"I think it is huge," said Equilar's CEO David Chun of the greater disclosure. "The information is incredibly valuable."

It is a view shared by executive compensation experts, such as Watson Wyatt senior consultant Richard Fine, who says the increased speed and ease of access to the information is going to be a big bonus.

But perhaps the most intriguing aspect of the disclosure is its potential to open money-making windows for investors and for shareholder activists to mount a quick campaign to head off compensation they consider unjustified.

Cisco, for example, faced some criticism from corporate governance experts in early September. The company announced it was granting employees 141 million stock options and set an exercise price of \$19.59. Two days later, its CEO John Chambers made some upbeat comments about August orders that boosted the stock price to more than \$20.

If analysts could detect patterns in the awarding of options and stocks to executives and employees, and share price gains soon afterward, investors would soon take notice.

"What we would like to do is know when companies give new awards, when the CEO gets an award, is that in anticipation of a strong business environment going forward?" said Chun.

Already, there are investors who swear by the predictive capabilities of research about the purchases and sales of stock by insiders. Soon, the same may be the case for company awards of stocks and options. (Martin Howell is equities editor at Reuters America and author of the Reuters/Prentice Hall book "Predators and Profits: 100+ Ways for Investors to Protect Their Nest Eggs")

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