



Michael Brush

To print article, click **Print** on your browser's **File** menu.

[Go back](#)

Posted 10/12/2005

### Cool Tools

[Get market news by e-mail](#)

[See if refinancing works](#)

[Personal finance bookshelf](#)

#### Find It!

- [Article Index](#)
- [Finance Q&A](#)
- [Tools Index](#)
- [Site map](#)



## Company Focus

### Free rides for CEOs -- on the company jet

Many CEOs (and even former CEOs) get free use of corporate aircraft for personal travel. This outsized perk costs shareholders millions of dollars each year.

By [Michael Brush](#)

Airfares are soaring. Airlines are sinking. But the skies are as friendly as ever for an elite class of corporate chief executives.

These frequent-flying bigwigs can ignore ticket prices because each year they take millions of dollars' worth of personal trips on company jets. Ultimately,

Surprisingly, the CEOs receive this perk -- which often extends to friends and family -- even though they already take home millions of dollars a year in salaries and bonuses.

As we've discovered in [other articles](#) we've published recently about excessive CEO compensation, investors who brush off this corporate largesse are making a big mistake. The stocks of these companies, on average, lag the rest of the market, according to a recent study.

Here's a look at some of the most egregious executive frequent-flier plans.

#### AT&T ([T](#), [news](#), [msgs](#)) paid Chairman and Chief

**Executive David Dorman** total salary and bonus of

\$10.3 million from 2002 to 2004. He also got restricted stock, long-term incentive awards and other compensation valued at \$18.2 million, and 2.3 million stock options. So you might think he had enough money to pay for his own personal air travel.

Instead, as part of that pay package shareholders footed a bill for \$922,000 for Dorman's private use of AT&T's jet during those three years, according to company reports.

But the true cost of that air travel was probably as much as \$2 million. Because of shortcomings in the way companies report the costs of corporate jets, which

advertisement



Start investing with \$100.  
**Explore our new ETF center.**

## Company Focus

### Recent articles:

- [Don't bet against retail stocks](#), 10/5/2005
- ['Stealth' pensions hide huge CEO payouts](#), 9/28/2005
- [Are China's Internet stocks fabulous or flaky?](#), 9/21/2005 [More...](#)

I'll discuss later in this story, they typically only reveal one-half to a third of the real price tag.

AT&T's subsidy for personal use of the corporate jet, like those for all the highfliers we mention here, is way above average. The median cost for private trips last year by CEOs at Fortune 500 companies was \$81,324, says Equilar, a San Mateo, Calif.-company that tracks executive compensation.

---

### Related news and commentary on MSN Money



- ['Stealth' pensions hide huge CEO payouts](#)
- [Overpaid CEO? Here's how to find out](#)
- [The 5 most outrageously overpaid CEOs](#)
- [Extravagant CEO pay is back](#)
- [Dear CEOs: Stop fudging your numbers](#)
- [See how Michael Brush's stock picks are doing](#)

---

**St. Paul Travelers Cos.** ([STA](#), [news](#), [msgs](#)) **Chairman and CEO Jay Fishman** pocketed \$7.2 million in salary and bonus over the past three calendar years, plus restricted stock and other pay valued at \$3.7 million. He also got 1.1 million options. As part of this rich pay package, his shareholders forked over \$1.3 million for personal air travel in the three years, according to St. Paul Travelers. The real cost was probably more than \$2.5 million.

**Former Starwood Hotels & Resorts Worldwide** ([HOT](#), [news](#), [msgs](#)) **CEO Barry Sternlicht** received a salary and bonus worth \$11.5 million over the past three years, and \$18.7 million in restricted stock and other pay. He also got 1.9 million options. As part of that pay package, Starwood shareholders kicked in \$971,000 worth of air travel for Sternlicht, according to the company.

Of all the execs enjoying big subsidies for personal travel on the company jet, **former Morgan Stanley** ([MWD](#), [news](#), [msgs](#)) **Chairman and CEO Philip Purcell** may be the one who needed it the least. Morgan Stanley paid Purcell \$22.5 million in salary and bonus over the past three years, plus restricted stock and other pay valued at \$22.5 million, and 328,000 options. During the same three years, shareholders paid for at least \$1.2 million worth of personal air travel on the corporate jet, according to the company, though the real cost was probably more than \$2 million.

### As much as a salary

Some executives get as much in free airfare for personal travel as they do in

salary and bonus.

**Goody's Family Clothing** ([GDYS](#), [news](#), [msgs](#)) Chairman and Chief Executive Robert Goodfriend and **Leucadia National** ([LUK](#), [news](#), [msgs](#)) President Joseph Steinberg each earned an average of about \$1.2 million a year from 2002 to 2004.

During those three years, Steinberg ran up an airfare bill worth \$1.9 million, while Goodfriend's travel cost \$1.2 million, according to company reports. But the true cost of that air travel was probably more than \$4 million for Steinberg and \$2 million for Goodfriend.

To find most of these examples, I took the 100 S&P 1,500 companies with the biggest perk packages for execs. Then I looked at proxy statements for each company to see how much the top execs were allowed to use corporate jets for private travel. Proxy statements, available at the [Securities and Exchange Commission Web site](#), are documents companies file each spring ahead of annual meetings, containing details of executive pay.

These flight subsidies, like other CEO perks and pay, appall shareholder advocates.

"There just isn't a credible business rationale for giving this perk to executives," says Brandon Reese, a research analyst at the AFL-CIO Office of Investment. "Use of the corporate jet for personal travel is the emblem of the imperial CEO. We believe it is a waste of corporate assets."

"Companies are pushing the limits of shareholder patience," says Patrick McGurn, executive vice president of Institutional Shareholder Services, which evaluates corporate governance for professional investors. "They are blurring the line between corporate and personal property, and that is where you always start to run into trouble."

### **Keeping the chief safe**

The companies say the practice is justified. Spokesmen for St. Paul Travelers and AT&T say their boards require their CEOs to use the company jet for private trips for security reasons.

"There is no question that there is a legitimate security argument," says National Business Aviation Association spokesman Dan Hubbard. "These aircraft do not have a record of being hijacked. The passengers don't get roughed up by other surly passengers. Their bags, which often contain sensitive information, don't get

snooped through, stolen or lost.”

But New York University Stern School of Business professor David Yermack, who follows private use of corporate jets closely, says safety records don't support the security rationale. “While the total accident rate per flight hour is comparable for corporate and commercial flights, corporate aviation has a much higher fatal accident rate,” he wrote in a recent paper on the topic, called “Corporate Jets, CEO Perquisites, and Inferior Shareholder Returns.”

St. Paul Travelers and AT&T also say they report a lot of business travel as “personal.” AT&T CEO Dorman is frequently “conducting legitimate business -- speaking, doing media interviews or attending other functions that advance our business goals -- on trips that we are classifying as personal,” says an AT&T spokesman.

NBAA's Hubbard says many companies use corporate jets because it minimizes an executive's time away from the office. He says some companies limit private use to times when the corporate jet is not otherwise in use.

AT&T's Dorman “gets a lot of work done” during his corporate-jet flights, which is a benefit to shareholders, says an AT&T spokesman. “These planes are essentially flying offices.” AT&T also maintains its incremental costs seem higher because it reports actual maintenance costs instead of estimates, and because Dorman uses older planes, which are out of warranty, so they have higher per-trip maintenance expenses.

### **Gone, but not forgotten**

None of these arguments seem to apply to another practice that corporate governance advocates find particularly galling -- giving *retired* CEOs free access to the corporate jet for personal travel, often for life.

**General Dynamics** ([GD](#), [news](#), [msgs](#)), for example, has promised CEO Nicholas Chabraja 500 hours worth of flight time on the corporate jet in his first 10 years of retirement. Chabraja earned \$10.9 million in salary and bonus from 2002 to 2004 and \$10.7 million in restricted stock and other pay, plus 826,150 stock options. Last year, General Dynamics paid \$270,000 in incremental costs for his private use of the corporate jet.

General Dynamics declined comment, other than to refer us to the company's proxy statement.

**SBC Communications** ([SBC](#), [news](#), [msgs](#)) will give Chairman and Chief

Executive Edward Whitacre Jr. access to the company jet for the rest of his life after retirement, along with office space, a support staff, access to a company car and health benefits.

In fairness to Whitacre, he is a relatively light user of the company aircraft. Last year, he took only \$32,312 worth of personal flights, well below the median for Fortune 500 companies.

It's not like Whitacre can't afford to pay his own way. SBC paid him \$22.3 million in salary and bonus over the past three calendar years and received restricted stock, long-term incentive payouts and other pay valued at \$21.5 million. He also received 3.2 million stock options.

"These kinds of benefits are important to retain the value that Mr. Whitacre brings to the company and shareholders, and to make sure he is available to the company after he retires," the spokeswoman says. Whitacre will work as a consultant for the company for at least three years in retirement. She says SBC wants Whitacre to use the corporate jet for private flights for security reasons, as well.

### **'Yes men' in the board room**

Reese says private use of the corporate jet by CEOs is an investor red flag because it suggests a board is too cozy with top executives. So the board is less likely to do its job of looking out for shareholder interests. "Excessive perks indicate that the board cannot say 'no' to the CEO, and there is fundamental power imbalance in the boardroom," says Reese.

NYU's Yermack found that the shares of companies reporting private use of the corporate jet by CEOs lagged comparable companies by four percentage points a year over a 10-year period ending in 2002. He also found that these companies, as a group, were more likely to miss earnings estimates and take extraordinary accounting write-offs.

### **The hidden costs**

A big problem for investors is that SEC rules on reporting perks can make it hard to know if a company lets the CEO use the corporate jet for private travel.

Companies don't have to report perks -- including private use of the corporate jet -- if those perks are worth less than \$50,000 or 10% of an executive's salary and bonus. And companies reporting perks don't have to reveal private use of the corporate jet unless the incremental cost exceeds 25% of the overall perk

package.

It's also hard to know how much the private use of the jet really costs. By SEC rules, companies only have to report the "incremental" cost of the jet time, or the costs of things like fuel, crew hotel and meals, onboard catering, landing fees, and trip-related maintenance and hanger fees.

By leaving out fixed costs -- like the price of the aircraft, crew salaries and insurance -- investors are missing a big piece of the picture.

For example, the incremental cost of running a Gulfstream 350, a jet commonly used by corporate execs, is \$2,775 per hour, according to David Wyndham at Conklin & de Decker Aviation Information, an aviation research and consulting firm based in Orleans, Mass. But that goes up to from \$4,500 to more than \$6,500 once fixed costs are thrown in, depending on accounting methods, says Conklin & de Decker.

*At the time of publication, Michael Brush did not own or control shares in any of the companies listed in this column.*

#### Editor's Choice

- [Top 10 priciest colleges ... and the cheapest](#)
- [Knock \\$4,000 off your taxes for going solar](#)
- [5 keys to driving a hard new-car bargain](#)
- [How to build your first budget](#)
- [Turn \\$1 a day into \\$67,815](#)

#### Readers' Choice

Ratings Top 5 Articles

- 9.28 [Zombie debt collectors dig up your old mistakes](#)
- 9.26 [10 ways to avoid outrageous hospital overcharges](#)
- 9.23 [10 ways to stop identity theft cold](#)
- 9.18 ['Phishing' scams: How to avoid getting hooked](#)
- 9.10 [How to spot trouble in earnings reports](#)

[View all top rated articles](#)

#### More Resources

- [E-mail us your comments on this article](#)
- [Post on the Start Investing message board](#)
- [Get a daily dose of market news](#)

Search MSN Money

[tips](#)

retail shopping

**Go**

advertisement

4.0%  
ANNUAL PERCENTAGE YIELD  
America's Highest Savings Rate\*  
EmigrantDirect.com™  
Member FDIC **Learn More**

### Sponsored Links

#### **[Great Stock Market Info Here](#)**

Receive 2 free weeks of Investor's Business Daily or 4 free weeks of eIBD. Visit our IBD Learning Center...  
[www.investors.com](http://www.investors.com)

#### **[The Options Industry Council](#)**

Learn and understand options and stock markets at your own pace.  
[www.888options.com](http://www.888options.com)

#### **[Stock Market Services: Buy Stocks for \\$4](#)**

No account or investment minimums and no inactivity fees. Automatically build a diversified portfolio today.  
[www.sharebuilder.com](http://www.sharebuilder.com)

 Fund data provided by [Morningstar, Inc.](http://Morningstar, Inc.) © 2005. All rights reserved.



Quotes supplied by ComStock, a division of Interactive Data Corporation, and are delayed at least 20 minutes. NYSE, AMEX, and NASDAQ index data are provided real time.

MSN Money's editorial goal is to provide a forum for personal finance and investment ideas. Our articles, columns, message board posts and other features should not be construed as investment advice, nor does their appearance imply an endorsement by Microsoft of any specific security or trading strategy. An investor's best course of action must be based on individual circumstances.