Fairchild Corp. May Be a Stock for Masochists: Graef Crystal

Dec. 3 (Bloomberg) -- Fairchild Corp., the Dulles, Virginia- based distributor of aircraft parts, may be a masochistic long- term investor's dream. Buy its stock and suffer. You'll love the pain.

Buy its stock and welcome to the compensation world of Jeffrey Steiner, the chief executive officer, and his son, Eric, the company's chief operating officer. They haven't suffered.

The older Steiner's compensation antics have been so blatant that I devoted an entire chapter to him in my 1991 book, ``In Search of Excess''.

Not having looked at his compensation for more than a decade, I decided to examine what's happened since then. Not much has changed; he's still repeating his old ways. During that 12- year time period that ended June 30, 2003, the father-and-son team carted away $89 million in pay. The company lost money in eight of those years, and, in the aggregate had pretax losses of $64 million. What's more, net sales fell to $78 million in fiscal 2003 from $490 million in fiscal 1992.

As for shareholders, during those 12 years Steiner delivered total return of negative 3.3 percent a year. In contrast, the return on the Standard & Poor's 500 Index was 10.6 percent a year. For another comparison, on June 30, 1991, the beginning of that time period, an investor could have purchased a 10-year risk- free U.S. Treasury bond and earned a return of 7.1 percent a year.

Steiner's core philosophy seems to be: ``My son and I take what we need, and then if there's anything left, why that, fairly, should go to our shareholders.''

Nothing for Shareholders

It's not too difficult to implement that philosophy because Steiner, through super majority voting stock, exerts 65.4 percent control.

Let's look at the Steiner's compensation for their company's most recent fiscal year, which ended June 30, 2003. Jeffrey Steiner earned total pay of $14.1 million, while Eric Steiner received $8.5 million.

If you looked only at their pay, you would have thought they had a banner year. Yet net sales declined to $78 million from $84 million in 2002 and $623 million in 2001. And the company reported a net loss of $53 million for 2003.

Maybe the Steiners judged 2003 to be a triumph because although the company lost money, the loss in 2002 was much higher -- $155 million.

To be fair, Fairchild's shareholders did have a good FY2003, with total return of 27.9 percent, and between then and Monday's close of $4.97, the stock rose another 23.3 percent. There was also FY96, when the stock soared 333 percent. But the company failed to beat the S&P 500 Index in eight of the 12 single years analyzed and in 10 of the 12 narrowing time windows of total return, stretching from a one-year window to a 12-year window.

To put Jeffrey Steiner's pay for 2003 in perspective, I examined compensation data covering the most recently reported year for CEOs of 90 U.S. companies with net sales in the $68 million to $96 million range.(Data were furnished by Equilar Inc., an independent provider of executive pay information.)

Among those companies, Fairchild ranked at the 58th percentile of net sales, meaning that 42 percent of the companies had higher net sales. It ranked at only the 10th percentile in net income.

Compared With Others

Steiner may not have the legs to win a net sales race or a net income race, but when you look at pay, a different story emerges, one where Steiner far outpaces every one of those 90 CEOs:

-- Steiner's salary of $2.5 million was 3.5 times higher than the next highest-reported salary (Smith & Wollensky Restaurant Group Inc.) and 8.1 times higher than the median salary.

-- His $7.8 million combination of salary and bonus (total cash compensation) was 7.1 times higher than the next highest- paid CEO (Ladenburg Thalmann Financial Services Inc.) and 19.4 times the median.

-- And his $14.4 million of total pay was 1.5 times higher than the next highest-paid CEO (E.piphany Inc.) and 23.2 times the median. (Total pay includes total cash compensation; the estimated present value of stock option grants, measured at the date of grant using the Black-Scholes model; the value of free shares granted during the year; payouts under other long-term incentive plans made during the year and miscellaneous compensation.)

Special Payment

One illustration of Steiner's grasping ways can be seen in a special payment of $6.3 million earned during the last fiscal year. He sold one of the company's businesses, Fairchild Fasteners, to Alcoa Inc. and gave himself a $6.3 million change- in-control payment. His son received $5.4 million.

On the other hand, Steiner has never emphasized stock option grants to any significant degree. The present value of option grants in the last three years amounted only to 4 percent of his total pay.

That shows how astute Steiner is in maximizing his pay package. Why take large stock option grants when you know that your stock price is much more likely to be going down than up, due to the huge hole at the bottom of your company's profit tank that is connected directly to your pay package.

And the Directors?

Maybe all of this is why no analyst is following the company. What's the point?

In lawsuit after lawsuit involving excessive executive pay, boards of directors have sought the safety of the so-called Business Judgment Rule. All the directors have to show is that they exercised their independent business judgment, however, flawed, and the courts let the company off the hook.

Surely, there must be some limit to this sort of reasoning. And with what has happened with the Steiners, that limit has not only been reached but surpassed.

* * *

The members of Fairchild's board compensation committee are:

-- Daniel Lebard, chairman, chairman of Daniel Lebard Management Development SA, Paris

-- Harold Harris, president, Wm. H. Harris Inc.

-- Herbert Richey, former president, Richey Coal Company.

Last Updated: December 3, 2003 00:00 EST

Print