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GILDED PAYCHECKS

## Pay Packages Allow Executives to Jump Ship With Less Risk

By [JULIE CRESWELL](#)

Correction Appended

It's called the "golden hello."

For a chief executive of a large corporation, it is the one thing — more than the corporate jet or any other perk — that must be guaranteed before the executive will move to run another company.

W. James McNerney Jr., a former superstar manager at [General Electric](#), received not one, but two such deals in recent years, worth tens of millions of dollars. In each deal, he was given any bonuses, stock options, restricted stock and pension benefits that he would have abandoned by leaving his previous employer.

Such golden hello payments are intended to make the executive "whole" — in essence to treat the executive as if his career were one smooth ascent with no costly interruptions. And these multimillion-dollar payments and perks are used to draw in not only chief executives, but virtually every member of the executive suite. If "golden parachutes" — rich exit packages of extra cash, stock or retirement benefits — are needed at times to kick out chief executives, golden hellos are increasingly needed to get them in the door.

The career path of Mr. McNerney illustrates the phenomenon. In late 2000, after losing out in the race to become chief executive at G.E., Mr. McNerney jumped to [3M](#), where he received a pay package worth more than \$34 million in guaranteed salary, bonus, option grants and restricted stock to make up for what he left behind at G.E., according to an analysis by Equilar, a compensation research company in San Mateo, Calif.

Five years later, in the summer of 2005, [Boeing](#), which had been rocked by scandals, was on the hunt for a squeaky-clean chief executive. It offered Mr. McNerney, who was a director on its board, a pay package worth more than \$52 million, which included \$25.3 million of

restricted shares and \$22 million to replace his 3M pension. A Boeing spokesman said that Mr. McNerney's compensation was in line with that of other chief executives.

Such golden hellos are not new, but lawyers representing executives at the negotiating table are constantly coming up with quirky ways to make clients whole. Matching salaries, guaranteed bonuses and millions of dollars in stock options are typical. On top of that, chief executives are made whole on lucrative pension benefits, often being credited at the new company for years of service elsewhere — a perk rarely available to nonexecutive employees.

These days, though, some executives are demanding that companies make up losses they may face from the sale of a home if they relocate, or that they receive price protection on losses they might incur in stock they own in the company they are leaving.

The problem with make-whole payments, critics say, is that they have become so common and widespread that lesser-known chief executives from smaller companies can demand multimillion-dollar foundations on which other benefits and perks are layered.

The existence of the golden hello undermines the very reason stock options and executive pensions are offered in the first place — to encourage executives to hit performance targets and then to stick around to receive the full value of their compensation package.

“The whole rationale for giving larger bonuses and larger payouts to executives is that their total pay package is supposed to be riskier than that of the average worker,” says Eleanor Bloxham, president of the Value Alliance, a group that advises companies on corporate governance. “What’s happening with these make-whole packages is that they have no relationship with performance at the new company. You’re paying people, really, a guaranteed bonus or, in fact, a guaranteed everything.”

At most companies, the stock options and restricted stock typically awarded to executives are tied to performance targets or, at the very least, require many years of service to vest. They are not sure things, particularly stock options, as they may take years to vest and could be worthless if the company's stock falls or the chief executive fails to hit major performance targets.

Yet, an executive who jumps ship can virtually guarantee a multimillion-dollar payout by the new company. While new chief executives these days are typically not given huge cash payouts as soon as they walk through the door, they usually are awarded the value of the pay package they left behind simply by sticking around for three to five years, executive pay watchdogs note.

Furthermore, the huge pension benefit packages and other retirement perks that chief executives are demanding come at a time when many corporations are severely reducing pension benefits for employees. While top executives are credited for years of service they did not work in order to more rapidly vest their supplemental executive retirement plans, or SERPs, employees of several large corporations have seen their traditional defined-benefit plans frozen or sharply reduced this year in favor of less-generous 401(k) plans that do not offer the same guaranteed payouts.

At Boeing, efforts are under way to move more employees out of defined-benefit plans and into defined-contribution plans, says Charles Bofferding, the executive director at the Society of Professional Engineering Employees in Aerospace, the union that represents 21,000 Boeing employees.

“They’re doing that to everyone but the big dogs, who continue to get defined-benefit plans,” Mr. Bofferding said. “When you have a different set of principles for the top people versus the rest of the employees, it undermines the top people’s moral authority to lead.”

Executive recruiters, compensation lawyers and analysts argue, however, that even companies that are reducing benefits to their work forces must offer golden hellos and other perks simply to compete for the limited pool of top-tier chief executive talent in the marketplace. For instance, Boeing, like so many companies that wind up paying big price tags for chief executives, was in desperate need of an outsider with a stellar reputation to earn back the trust of shareholders and Wall Street. In addition, Boeing was concerned about government investigators.

In 2003, the chief executive, [Philip M. Condit](#), resigned in the wake of an investigation into Pentagon contracts. His successor, Harry C. Stonecipher, was forced out in March 2005 for having an affair with a female executive.

At 3M, Mr. McNerney was turning in a stellar performance. After he left 3M, Mr. McNerney exercised more than 2.1 million stock options for gains of more than \$32.3 million, according to Equilar. Also, about 40 percent of Mr. McNerney’s restricted stock had vested, as well as about half of his \$22 million pension.

To match what Mr. McNerney was leaving behind at 3M, Boeing’s board offered him \$25.2 million worth of restricted shares that vest in three-, five- and six-year increments, as well as the equivalent of full funding of his entire 3M pension, although he needs to remain at Boeing for five years to be eligible for it.

But McNerney's pension could grow even bigger. A clause in his contract says that his pension will be based on the three consecutive years within the 10 years before leaving Boeing when he received the highest pay, whether that occurred at Boeing, at 3M or even General Electric.

"Boeing has gone further into territory that even I have not seen before," says Paul Hodgson, a senior research associate at the Corporate Library, an institutional advisory firm in Portland, Me. "Boeing shareholders are being asked to fund a pension potentially based on what 3M and G.E. paid McNerney, rather than what they themselves paid him. Such an arrangement would seem to take inappropriate to a new level."

John Dern, a spokesman for Boeing, said: "Jim McNerney's compensation is generally equivalent to what he was receiving at his previous company and in keeping with compensation practices at other large companies. It recognizes the value that he brings to Boeing and the company's performance has borne that out."

For shareholders, the high price Boeing paid to lure Mr. McNerney has yielded results. He has moved to put many of Boeing's ethical lapses behind it: the company agreed this summer with federal prosecutors in California and Virginia to pay \$615 million to settle allegations concerning use of competitors' information to bid on government contracts, and improper conduct in the hiring of a former government procurement officer.

Operationally, the company is beating its archrival, Airbus, in airplane orders this year. Its stock has soared 44 percent since Mr. McNerney got the job, compared with an 18 percent gain by the Standard & Poor's 500-stock index.

"I'm fine with McNerney's pay from a shareholder perspective," said Don Delves, a Chicago-based corporate governance and executive pay consultant. "I'm a shareholder at Boeing and we've been through a tumultuous time. Yeah, McNerney is expensive, but we're getting one of the top three people in the horse race to replace [Jack Welch](#) at G.E."

Yet even less-well-known chief executives are getting perks to make up for what they had in their previous jobs.

For instance, after ousting [Carleton S. Fiorina](#) as chief executive in 2005, [Hewlett-Packard's](#) board turned to Mark V. Hurd, a little-known executive at NCR, to replace her.

Mr. Hurd, who had already exercised stock options at NCR in 2005 worth \$14.7 million, received a \$2 million signing bonus; relocation benefits worth \$2.7 million; 450,000 stock option shares worth \$2.4 million; and 400,000 restricted shares worth about \$8.1 million,

according to Equilar.

But Mr. Hurd's employment agreement included an interesting twist. If NCR's stock fell by any amount up to 20 percent within 90 days of Mr. Hurd's leaving the company, Hewlett-Packard agreed to reimburse him for the losses he would have incurred on the 850,000 shares of NCR stock he still held. Hewlett-Packard said it paid Mr. Hurd a little more than \$5 million for his losses in NCR stock.

"This isn't inside the norm," said Jack Dolmat-Connell, a compensation adviser in Waltham, Mass. "But because he knew he was leaving, that was probably considered inside information, so he actually could not do anything with those shares."

Executives are not only getting price protection on stock, but they are also demanding price protection on the sale of homes if they have to relocate.

Take Robert H. Swan, who joined [eBay](#) in March as its chief financial officer. Several months after leaving his post as finance chief of [Electronic Data Systems](#), Mr. Swan was granted a supplemental relocation benefit by eBay's board "in light of the condition of the Plano, Texas, residential real estate market," according to a regulatory filing.

If Mr. Swan's Texas home sold for less than \$3 million, the company would pay the difference, up to \$700,000. (While Texas records indicate the home was sold in late August, the state does not make residential price information public.)

A spokeswoman for eBay said details of any payment made to Mr. Swan for his home would be made public when the company files its proxy next year.

Correction: December 30, 2006

A front-page article yesterday about benefits offered to top executives to switch companies referred incorrectly to options that were exercised and sold by W. James McNerney Jr., now chief executive of Boeing and a former chief of 3M. Mr. McNerney exercised and sold his 3M options for a gain of \$32 million after he left 3M — not before.

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