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Lehman, Bear Executives Cashed Out Big

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Bear Stearns Cos. and Lehman Brothers Holdings Inc. executives cashed out nearly $2.5 billion from their firms between 2000 and 2008 even though the financial crisis hammered the shares they held, according to a study set to be released Monday.

The study's authors include Lucian Bebchuk, executive director of Harvard Law School's corporate-governance program and an adviser to Treasury Department official Kenneth Feinberg.

What happened at Bear and Lehman, the study concludes, shows that toughened oversight of compensation proposed by the U.S. Federal Reserve and other regulators around the world is needed to prevent executives from taking excessive risks.

The Fed, which is reviewing compensation practices at U.S. banks, has said it favors reducing compensation risks through such moves as deferring pay or seizing pay later if a bank's financial performance suffers. Stock-based compensation also can shield firms from risk if executives are required to hold the shares for longer periods, according to the Fed.

Bear and Lehman are examples of what can happen when executive compensation isn't properly aligned with performance, the study argues. "Bonuses were kept by executives even though the earnings that were the basis of the bonuses turned out to have evaporated," said Mr. Bebchuk, who hasn't discussed the study's findings with U.S. government officials.

Mr. Bebchuk's co-authors were Alma Cohen and Holger Spamann, also of Harvard Law School.

Using public filings from the companies, the study calculated that the that the top five executives at the two New York companies got cash bonuses of about $500 million from 2000 to 2008 and sold shares worth nearly $2 billion. The numbers were adjusted slightly upward for inflation.

Former Bear Chairman and Chief Executive James Cayne and former Lehman Chairman and CEO Richard Fuld Jr. came out way ahead despite the huge losses suffered when their company's shares plummeted. Mr. Cayne walked away with $388 million for the period covered by the analysis, while Mr. Fuld got $541 million. Mr. Cayne's paper losses on his Bear stock were more than $900 million, and Mr. Fuld was hit with losses of about $930 million on his Lehman stake.

While Mr. Cayne held more shares in early 2008 than he sold over the prior eight years, the opposite was true for Mr. Fuld and, on average, the eight other executives whose pay was examined. For example, the senior Bear executives under Mr. Cayne sold four times as many shares from 2000 to 2007 as they held in early 2008, the study concluded.

Some pay experts have argued that the compensation structures at Bear and Lehman weren't a major factor in each company's demise because top executives were hammered financially as the share prices sank.

Defenders of Messrs. Cayne and Fuld, who accumulated large stakes through decades at their respective firms, have said the two CEOs were swept up in a bigger economic tsunami, while noting that their bonuses were based on short-term successes that many shareholders also profited from by selling their shares in Bear or Lehman before 2007.

After Bear shares tumbled 95% from their peak, the firm was sold to J.P. Morgan Chase & Co. for a rock-bottom price. Lehman's bankruptcy filing last year left shareholders with even less.

Mr. Cayne declined to comment, and a lawyer for Mr. Fuld couldn't be reached. A J.P. Morgan spokesman declined to comment.

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