CEO Bonuses Rose 46.4% At 100 Big Firms in 2004

By Joann S. Lublin
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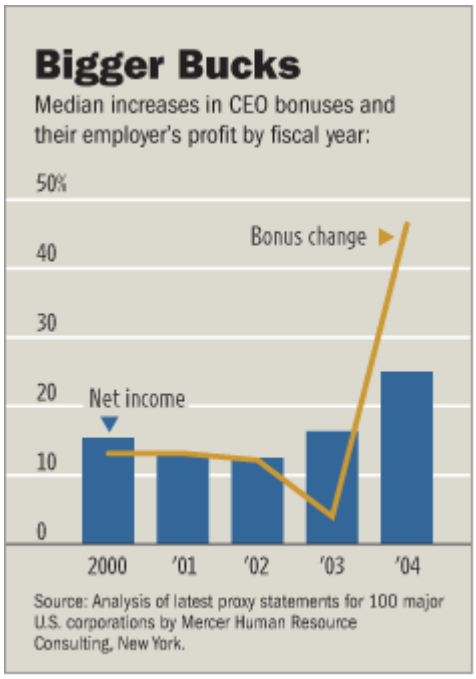
Bonuses for many chief executive officers surged last year amid rising criticism of what some deem excessive compensation, especially in cases where the bottom line doesn't keep pace.

At 100 major U.S. corporations, CEO bonuses rose 46.4% to a median of $1.14 million, the largest percentage gain and highest level in at least five years, according to an exclusive survey by Mercer Human Resource Consulting in New York. Mercer, which began tracking the latest proxy statements of 100 big companies for The Wall Street Journal in 1999, didn't scrutinize any heads of Wall Street firms, where much higher bonuses are common.

The biggest winners include Michael Eisner at Walt Disney Co., where 45% of the shares voted at its 2004 annual meeting opposed his re-election to its board; and John Tyson at Tyson Foods Inc., the target of a recent Securities and Exchange Commission probe into whether the company improperly accounted for perquisites provided to Don Tyson, his father and predecessor.



The Mercer study also revealed that the median 2004 bonus equaled 141% of annual salary, another record. Clerical and technical-support staff earned an average

bonus of 5% of salary last year at concerns granting bonuses across the board, other surveys indicate.

CEOs in the Mercer study enjoyed median total direct compensation of $4,419,300 -- about 160 times as much as the average U.S. production worker made last year. (Total direct compensation includes salary, bonus, the value of restricted stock at the time of grant, gains from stock-option exercises and other long-term incentive payouts.)

"This is not a good trend because the bonus traditionally has not been well-linked to performance," says Lucian Bebchuk, a Harvard law professor and co-author of the recent book, "Pay Without Performance." Corporate boards' compensation committees have wide discretion to set and change management bonus programs.

Boards defend the surge in CEO bonuses as a sign of improved profits and the diminished popularity of stock options. But activist investors and governance watchdogs contend that the enlarged awards often are unjustified.

At Disney, Mr. Eisner pocketed a $7.25 million cash bonus for the year that ended Sept. 30, up from nothing the year before. Disney directors rewarded him for its robust earnings recovery despite the shareholder revolt that cost him his chairmanship last March.

"Disney's management team delivered fiscal year 2004 earnings growth that exceeded 60%, recorded operating cash flow of $4.4 billion and significantly improved returns on capital for the second year in a row," a spokeswoman says.

The board also took into account Mr. Eisner's $1 million salary, which "remains lower than that of chief executives of comparable corporations, and thus a greater proportion of his overall compensation is subject to the company's overall performance," its proxy states.

Dissident ex-directors Roy E. Disney and Stanley Gold, who led the investor revolt last year, attacked Mr. Eisner's bonus, saying it "flies in the face of both logic and propriety."

At Shaw Group Inc., a Baton Rouge, La., construction-and-engineering business, Chief Executive J.M. Bernhard Jr. received a $238,000 bonus for a year in which the company lost $31 million. He has led Shaw since he helped found it in 1987 and remains its biggest individual shareholder.

"In the judgment of the compensation committee of the board of directors, he earned [the bonus]," says Chris Sammons, a Shaw vice president. During the second half of fiscal 2004, which ended Aug. 31, Mr. Sammons adds, "the company returned to profitability and generated significant cash flow."

Mr. Bernhard was one of five chiefs whose bonuses went up while their employers' net income went down last year, the Mercer analysis showed.

On the other hand, several CEOs experienced steep upturns in both bonus and profitability. Brian L. Halla, head of National Semiconductor Corp. in Santa Clara, Calif., received a $5 million bonus for the year ended May 30, representing a 12-fold increase over the prior year's $400,500.

Reaping his biggest bonus since he took command in 1996 "was wonderful," Mr. Halla remembers. "I feel I should pay somebody for doing this job."

Peak Performance

Chief executives whose fiscal-2004 bonus rose most sharply (dollar amounts in thousands)

CEO/Company	2004	2003	% Change:
Jerald G. Fishman/ Analog Devices	**$689**	$41	**1,591%**
Brian L. Halla/ National Semiconductor	**5,000**	401	**1,148**
Joseph W. Luter III/ Smithfield Foods	**6,609**	698	**846**
Markos I. Tambakeras/ Kennametal	**1,231**	168	**634**
Stanley A. Rabin/ Commercial Metals	**1,650**	240	**588**
Arthur F. Weinbach/ Automatic Data Processing	**840**	168	**401**

Source: Analysis of latest proxy statements for 100 major U.S. corporations by Mercer Human Resource Consulting, New York.

The semiconductor maker swung to a $283 million net profit in fiscal 2004 from a $33.3 million net loss in fiscal 2003. The board also paid Mr. Halla a handsome bonus because the company exceeded maximum performance levels set for revenue growth and return on invested capital.

Mr. Halla may soon collect an even fatter bonus check. He can make up to $6 million a year under a new pay plan intended to sweeten senior officers' potential cash incentives and reduce their reliance on options. He got one million options (adjusted for a subsequent stock split) in fiscal 2004, 22% fewer than in 2003.

The $6.6 million bonus Joseph W. Luter III at Smithfield Foods Inc. garnered for the year ended May 2 was a nearly ninefold increase from $698,429 the year before. He has run the Smithfield, Va., meat processor since April 1975 and made an $850,000 salary for almost five years.

Smithfield directors say they decided to award Mr. Luter a bonus only if 2004 pretax profit exceeded $100 million. They gave him 2% of such earnings between $100 million and $300 million plus 3% of the portion over $300 million. The company posted record net income of $227.1 million last year.

"We were trying to make sure [Mr. Luter's] rewards are based on the ups and downs of the company," says Ray A. Goldberg, an emeritus Harvard professor of agriculture and business who chairs the board's pay panel. "Compared to others in the industry, he's underpaid -- including bonuses."

Mr. Tyson, leader of the nation's biggest U.S. meatpacker, received a $5.4 million bonus for the year ended Oct. 2. It was his largest since he assumed the helm in April 2000 and more than twice as big as his 2003 bonus.

Under the senior-executive bonus plan, the Tyson Foods chairman and CEO should have collected only about $4.6 million. Directors of the Springdale, Ark., company justified the extra cash by using criteria from a new bonus plan being submitted for shareholder approval, according to the proxy.

Mr. Tyson's employment contract guarantees him a $1 million salary, 500,000 stock options a year, an annual grant of performance shares valued at $2.47 million, and personal use of corporate aircraft. Among his other perks last year was a $2,000 department-store gift card for the holidays.

"We experienced a record year in 2004, and as a result, overall compensation including performance-based bonuses, reflected the company's results," says Gary Mickelson, a Tyson spokesman. "We believe our compensation program, which is largely performance-based and approved by three independent board members, is consistent with other programs at similarly sized companies."

Tyson Foods and Don Tyson, its retired chief, have offered to pay a combined $1.7 million to settle the SEC probe without admitting any wrongdoing. The full commission has yet to approve the deal. Agency staffers previously planned to recommend a civil action against the concern for allegedly failing to accurately disclose about $1.7 million of benefits given to the elder Mr. Tyson in the fiscal years 1997 through 2003.

Some chief executives received a bonus last year not long before they lost their corner office. Carly Fiorina, Hewlett-Packard Co.'s chairman and chief executive, won a bonus of about $1 million for the first six months of the year that ended Oct. 31. She failed to land a second-half bonus because the giant printer and computer maker missed performance targets such as higher net profit and revenue.

The Palo Alto, Calif., company nevertheless paid her a $567,000 discretionary bonus in mid-December -- part of $90 million distributed to all employees following its

fourth-quarter earnings recovery. Directors sought "to recognize the hard work that was put in after a very difficult third quarter," recalls Bob Sherbin, an H-P spokesman.

The board dismissed Ms. Fiorina earlier this month. "You have to wonder how directors justify paying big bonuses and a few months later firing a CEO," says Carol Bowie, director of governance-research services at the Investor Responsibility Research Center in Washington.