7 ENTRIES BY GRAEF CRYSTAL

Continental Air CEO Bethune Doesn't Forego Much: Graef Crystal

(Commentary. Graef Crystal is a columnist for Bloomberg News. The opinions expressed are his own.)

Las Vegas, April 2 (Bloomberg) -- Continental Airlines Inc.'s chief executive officer, Gordon Bethune, elected after the Sept. 11 terrorist attacks to forego all compensation for the remainder of last year.

So how was it that Bethune received a $967,320 bonus, as revealed in the 2001 proxy statement that Continental released last month? And how was it that he also received a $2.35 million payout under a long-term incentive plan?

Well, the answer to the first question is that Continental, alone among the major airlines, pays bonuses quarterly. Bethune was able to get away scot-free for delivering a fourth-quarter loss of $3.81 a share.

Quarterly bonuses? Does any red-blooded American need an incentive to focus on a period so narrow as 90 days, when any red-blooded American needs no incentive whatsoever to engage in short-term behavior?

Judging by a search of hundreds of U.S. companies' proxies, it hardly appears that way. The review revealed only 11 cases in which companies had quarterly bonus programs for top executives. Otherwise, bonuses are predicated on the results of an entire year, not some shorter period of time.

All of the companies making quarterly payments have highly volatile earnings. Of course, that's precisely where paying the bonuses that often could help protect executives' income, even though it doesn't do anything for shareholders.

How Responsible?

Continental's plan applies to about 20 top executives, said Ned Walker, a spokesman for the Houston-based airline. Managers who didn't qualify for these bonuses nonetheless received some bonus money for 2001, in part because their payments were predicated on personal performance.

The plan's participants received bonuses for the first three quarters, including the third, when the company showed a loss of $1.76 a share. The cumulative loss during the three quarters was 86 cents a share.

Apologists will doubtless retort that they couldn't be held responsible for the disaster of Sept. 11. After all, none of the company's planes were involved.

Then again, how responsible could Bethune have been for his company's $342 million profit for 2000, when he received a bonus of $2.1 million? U.S. airlines were benefiting back then from a still-booming American economy.

And last year, the rank and file lost out on profit sharing for the first time in six years. It was their tough luck that the bonuses were based on earnings for the entire year.

Now to the second question: the payment under the long-term incentive plan, designed to reward executive performance during three-year, overlapping cycles. Performance is primarily defined as earnings before interest, taxes, depreciation and aircraft rentals compared with other airlines.

Transition Pay

When Continental started this plan in 2000, the company inaugurated two transition cycles. The first covered only 2000, making a mockery of the plan's long-term intent. For that cycle, Bethune received $781,875, equal to one-third of the payout he would have received for a full three-year period.

The second transition cycle covered two years, 2000 and 2001. Bethune was to receive a payout equal to two-thirds of his normal payout. His payout was $2,345,625, or precisely triple the amount from the first cycle.

This suggests Continental's board concluded his performance was better during the two-year period than during the one-year period. That's hard to swallow, given that the airline earned $5.45 a share in 2000 and lost $1.72 a share in 2001.

Moreover, the plan included a secondary performance target, which Continental had to meet for any payouts at all to be made: average annual operating income of $300 million. During the past two years, the average was $268 million.

However, the board's compensation committee has the authority to lower plan targets for one-time gains and losses, and the Sept. 11 tragedy may have been viewed as the latter.

Returning Options

There's another little nugget buried in Continental's proxy: In October 2001, virtually all management employees surrendered all their stock options. Was that an effort to show solidarity with Continental's suffering employees and shareholders?

Get real. The airline almost assuredly plans to reissue the options, according to its proxy. If it does so, the strike price will be equal to the current, and lower, market price.

The reason offered by the board's compensation committee for this bit of aerobatics is that it ``believes it is important that management be appropriately incentivized." Huh? If all of those surrendered options weren't incentive enough, how is that new ones will propel Bethune and company to produce for their shareholders?

That said, Bethune is no stranger to option repricings. He participated in them back in 1994 and 1995, and later exercised options on 920,000 shares during a five-year period for a total gain of $22.9 million.

Continental's stock has performed relatively well, which made the gain possible. Between Nov. 1, 1994, the day before he became CEO, and the first quarter's close, the shares have risen by an average of 19.6 percent a year. That exceeds the 15.8 percent average for the Standard & Poor's 500 Index.

Recipe for Riches

Last October, Bethune surrendered options on 800,000 shares. The strike prices ranged from $35 to $56.81, and had a weighted average of $41.14. The stock ended the first quarter at $28.32.

He and the other executives are most likely to get new options sometime this month, once Continental can avoid the potentially onerous accounting consequences of a repricing.

Under accounting rules, companies have to take charges to earnings for any and all future gains on exercise from reissued options. The charge can be avoided by waiting six months and one day for the reissue.

So here's a recipe for becoming rich as a CEO:

1) Work in a highly volatile business, where stock prices are all over the map;

2) Institute a quarterly bonus plan to protect yourself against a bad final quarter;

3) Adopt a long-term compensation plan that rewards you for relative performance against your peers, just in case your stock doesn't do so well;

4) Make it possible to adjust earnings for purposes of the plan if real earnings are insufficient for a payout;

4) Reprice your options when your stock price drops; and

5) Exercise your options when your stock price rises.

This is a complicated recipe, to be sure. But it has worked beautifully for Bethune.

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E*Trade's Cotsakos Could Do With Even Less Pay: Graef Crystal

(Commentary. Graef Crystal is a columnist for Bloomberg News. The opinions expressed are his own.)

Las Vegas, May 21 (Bloomberg) -- There's good news and bad news concerning Christos Cotsakos, E*Trade Group Inc.'s chief executive officer.

The good news is that Cotsakos finally completed his doctoral dissertation at the University of London. Shareholders were paying for his travel abroad and the cost of research assistants, so that will save a lot of future expense.

The bad news is that he extracted a $64 million graduation present from holders, based on my calculations. This doesn't even count another $18 million that he agreed to return to the Silicon Valley-based securities firm.

His gift came in the form of a 2001 pay package that ultimately was 1.8 times more than the $36.1 million earned by Citigroup Inc.'s Sandy Weill. Students of CEO pay have long known there is an unwritten law that no one in Wall Street is permitted to earn more than Sandy Weill.

Cotsakos's pay was 4.1 times higher than the $15.8 million given to Bear Stearns Cos.'s Jimmy Cayne, the lowest paid among six Wall Street CEOs. Goldman Sachs Group Inc.'s Hank Paulson, Lehman Brothers Holdings Inc.'s Dick Fuld, Merrill Lynch & Co.'s David Komansky and Morgan Stanley Dean Witter & Co.'s Phil Purcell earned a relative pittance too.

Such a `Visionary'

Cotsakos appears to be thrilled that he finished the dissertation and received his doctoral degree. In reviewing the proxy statement that E*Trade filed on April 30, I counted 107 references to ``Dr. Cotsakos."

The great doctor has a lot of admirers, including the writer of the biography that appears in the proxy. Cotsakos was cited as being the ``recipient of several industry and visionary awards."

His greatest admirers seem to be the three members of E*Trade's compensation committee: its chairman, David Hayden, executive chairman of Critical Path Inc.; Ronald Fisher, vice chairman of Softbank Holdings Inc.; and William Ford, a venture capitalist and managing member of General Atlantic Partners LLC.

In a report to holders, the committee cited the ``vision, drive and passion that Dr. Cotsakos has for our business." Then it said: ``Dr. Cotsakos is considered to be one of the visionaries of e-commerce." The report went on to mention accomplishments ``under Dr. Cotsakos' visionary leadership."

Vision? Visionary? Did this guy receive his degree in economics or optometry?

More for Less

Cotsakos's brilliant vision for 2001 included delivering a loss of 73 cents a share. Although E*Trade's shares had a return of 39 percent, the cumulative return for the two years ended last Dec. 31 was negative 61 percent. For good measure, this year's return through last Friday was another negative -- 33 percent.

This wonderful performance record is one reason why the compensation committee was evidently unhinged when it decided his pay. Another is that E*Trade is a veritable shrimp among lobsters. Its 2001 revenue of $1.3 billion was only 2 percent of Citigroup's figure and 26 percent of the total for Bear Stearns.

Four things stand out about Cotsakos's pay package. First, a $15 million loan was forgiven. Because the forgiveness generated taxable income, he was handed a further $15.2 million in cash to pay the taxes on the loan and the taxes on the taxes.

The compensation committee justified that largesse by saying the forgiveness and tax payment were in return for his waiver of certain payments he would have received in a takeover. They were required under an employment agreement, which was renegotiated.

In other words, for giving up a mere possibility that a change of control would occur and enrich him, his compensation committee substituted an absolute certainty that he would receive $30.2 million in extra pay.

`Retention Instrument'

Second, Cotsakos received a couple of stock option grants in 2001. The first, covering 666,666 shares, was awarded on Jan. 2 and gave him the right to buy stock at $7.42 a share, then the market price.

The timing of that grant was terrific for him. Just two months before the option was granted, the stock had closed at $15.56. And just 27 days afterward, it had rebounded to $14.94. Maybe there's something to the claim that Cotsakos is a visionary after all.

Yet it didn't look so good by June 18, when the stock had declined 17 percent from the strike price, to $6.13. That's when Cotsakos got his second grant, for 625,000 shares. Why one would further reward someone who has just cost the shareholders so much was a question the compensation committee apparently didn't ask.

The third noteworthy item was the committee's decision to grant him 4 million free shares of stock, valued at $24.4 million. The panel justified this award as a ``retention instrument.'' One wonders where Cotsakos might have gone otherwise -- certainly not to any Wall Street firms. They couldn't afford him.

For its piece de resistance, the committee had E*Trade contribute $9.6 million to fund a pension arrangement that not only provides Cotsakos with 100 percent of his total pay as a retirement benefit, but also features immediate full vesting.

Unfit Directors

When the details of this pay package hit the press, Cotsakos and his cronies on the committee must have decided that they had gone a tad too far. The CEO, purely out of the goodness of his heart, turned in half of his retention shares and waived the vesting on $6 million of the retirement contribution.

Even after those givebacks, Cotsakos was nowhere close to having to go on the dole. His pay package was worth a stunning $64.1 million.

To my way of thinking, E*Trade is nothing more than a personal enrichment vehicle for Cotsakos and his friends. Through the years, he has consistently demonstrated a penchant for excess by repricing his stock options, among other things. He and his top management associates have also borrowed millions from E*Trade and even rented houses that the company purchased with funds that could have gone into the business.

By their actions, Cotsakos and the three members of his compensation committee have demonstrated that they aren't fit to be associated with a public company -- one supposedly founded to benefit all its shareholders, not just a handful.

It turns out that Fisher and Ford are both leaving E*Trade's board this year. That leaves Hayden, the committee chairman, and Cotsakos. Two down, two to go.

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Qwest's Nacchio Wins Big; Company, Holders Lose: Graef Crystal

(Commentary. Graef Crystal is a columnist for Bloomberg News. The opinions expressed are his own.)

Las Vegas, June 4 (Bloomberg) -- What would you view as an appropriate reward for a chief executive officer who presided over a precipitate widening of his company's net loss, to $2.42 a share last year from 6 cents the year before? A savage beating, perhaps?

How about a pay package of $87.8 million? That's what I estimate Joseph Nacchio of Denver-based Qwest Communications International Inc. hauled down in 2001.

The Qwest board's comatose compensation committee increased Nacchio's salary, to $1.2 million from $855,000 in 2000, despite the terrible earnings performance and a total return of negative 65 percent last year.

While his bonus appeared to have decreased to $1.5 million from $2.3 million, zero would have been a better number. And the figure actually rose by $7,500 after omitting a $750,000 payment, made to recognize his work in the acquisition of U S West Inc., which padded his bonus for 2000.

Nacchio received $24.4 million more under an incentive plan, part of his employment agreement when he joined Qwest. The payout was originally linked to the total return for a five-year period ended last Dec. 31, and was subsequently capped to reflect the split-adjusted price of $5.50 a share when it went public.

Ill-Timed Reward

In addition, Nacchio was handed a stock-option grant that covered 7.25 million shares and carried a strike price of $16.81 a share. By my estimate, the grant had a $60.5 million present value when it was made last October.

Qwest reached its closing high for 2001, $47.50, on Jan. 11 and fell 65 percent through the date of this colossal grant. How can a compensation committee watch its company's stock fall that much and then coolly decide that the time is ripe to reward the CEO? And, by coincidence, give him about $1 million of present value for each percentage-point decrease in the share price?

Compounding the felony, Nacchio's board apparently failed to notice that he had already exercised options on 2.2 million shares and garnered gains of $74.6 million during the year.

Funny how he managed to exercise all those options in the first half of 2001. The stock's weighted average market price on the various dates of exercise was just under $40, or about 2 1/2 times the strike price of his October grant.

Roller-Coaster Ride

Nacchio held 20.9 million unexercised options as of Dec. 31. While all of them are currently underwater, they still offer some amazing profits if he can get his act together.

If Qwest's stock appreciates to $65 a share from its Friday close of $5.16, his paper profit would increase to $954 million from nothing.

A ridiculous example? Well, consider that Qwest's record close was $64.50, reached on March 3, 2000. His potential profit represents an overly lavish reward for getting the stock back to where it was more than two years ago.

While shareholders pray for a rebound, those that are thrill-minded can keep on riding the wild roller coaster that Nacchio has built for them. Since the company made its initial public offering in June 1997, its stock-price volatility has been 3.2 times higher than that of the Standard & Poor's 500 Index.

This year, the holders' coaster has gone down, not up. Qwest's return was negative 63 percent through Friday. That compared with a negative 6.5 percent return on the S&P 500.

Choices Shunned

The stock's 2002 performance doesn't count in figuring 2001 pay, of course. And it is certainly true that Qwest's compensation committee had to make the five-year incentive payment.

But it is equally true that the committee didn't have to give Nacchio a hefty raise in his base salary for 2001. (It could have frozen his salary.) Or a $1.5 million bonus. (It could have given him nothing.) Or a stunningly large option grant. (It could have declined to give him any options.)

Given the ineptitude of the committee's members, a strong case could be made for throwing them off the Qwest board and then appointing a new panel by selecting the first six people named in the Denver telephone book. They couldn't do any worse for the company's shareholders than the current crowd.

Let's hear it for Aaron Aardvark.

For the Record

The members of the Qwest compensation committee are:

-- Frank Popoff, committee chairman; former CEO of Dow Chemical Co.
-- Philip Anschutz, Qwest's founder and chairman;
-- Thomas Donohue, CEO, U.S. Chamber of Commerce;
-- Jordan Haines, former CEO, Fourth Financial Corp.;
-- Marilyn Carlson Nelson, CEO, Carlson Cos.;
-- Craig Slater, president, Anschutz Investment Co.

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Huge Option Grants May Not Spur Fraud: Graef Crystal

(Commentary. Graef Crystal is a columnist for Bloomberg News. The opinions expressed are his own.)

Las Vegas, July 16 (Bloomberg) -- Many pundits have identified stock options, and particularly excessively large option grants, as the root cause of all the unethical behavior we have witnessed among chief executive officers in recent months.

Here is the thrust of the argument: Extremely large grants trigger an extremely large desire on the part of the recipient to increase his company's stock price, and thereby to make a killing when the options are exercised. Because the incentive of a higher share price isn't hedged by any pre-conditions, then any behavior necessary to accomplish the goal is fair game.

Naturally, one can try to increase revenue and carefully control costs to lift earnings as well as the stock price. But if companies can achieve these ends by playing with partnerships, as Enron Corp. did, or by reclassifying ordinary expenses as capital costs, as WorldCom Inc. did, why, no problem.

If that logic is correct, then we should find that the CEOs with the largest option grants are candidates for striped suits -- and I don't mean pinstripes, either.

Billion-Dollar Winner

To shed some light on the issue, I constructed a database consisting of U.S. companies with revenue of $7 billion or more during 2001, based on data from Aon Corp.'s eComp database. That cutoff created a group of 252 companies.

I then measured the size of all the option grants made to each CEO between 1999 and 2001. The calculation was simplicity itself: multiplying the number of shares in each grant by the strike price, or the price of buying shares. I then concentrated on the 10 CEOs with the very largest set of option grants during the three-year period.

The big winner was Citigroup Inc.'s Sanford Weill, who received options covering $1.3 billion of stock. That amount was 1.9 times the size of the second-place winner, Tyco International Ltd.'s Dennis Kozlowski, whose options amounted to $699 million.

Collectively, the Top 10 received options on $4.3 billion of stock. You would have to add up the grants made to CEOs number 11 through 49 to equal that figure.

The Terrible Trio

Here are the top 10 sets of option grants, in descending order of size:

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COMPANY	CEO	GRANTS (millions)
Citigroup Inc.	Sanford Weill	$1,295

Tyco International Ltd.	Dennis Kozlowski	699
Cisco Systems Inc.	John Chambers	589
Qwest Communications International Inc.	Joseph Nacchio	378
Sprint Corp.	William Esrey	322
Oracle Corp.	Lawrence Ellison	300
Capital One Financial Corp.	Richard Fairbank	242
Cendant Corp.	Henry Silverman	176
Philip Morris Cos.	Geoffrey Bible	161
WorldCom Inc.	Bernard Ebbers	157
TOTAL		$4,317

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Three names stand out. The first is WorldCom's Ebbers, who departed in April and was seen taking the Fifth Amendment before Congress last week. The second is Qwest's Nacchio, who left last month -- before his company disclosed a criminal investigation by federal prosecutors. The third is Tyco's Kozlowski, indicted for failing to pay state sales tax and tampering with evidence.

Also-Ran Skilling

Still, after looking at all the names on the top 10 list, it would be hard to draw a solid conclusion that exceedingly large stock option grants corrupt a person's moral character. Sandy Weill may be a pay porker of the first rank, but I have never heard anyone accuse him of unethical or criminal behavior.

Another CEO to take Fifth this year, Enron Corp.'s Jeffrey Skilling, didn't even appear among the Top 10. Data on grants he may have received last year hasn't been published, and may never be published now that the company is in bankruptcy. The total of his grants in 1998 through 2000 would have ranked him 31st down the list of CEOs.

Leaving aside whether large option grants lead to criminal behavior, do they lead to higher performance? After all, that's what options are supposed to do.

To find an answer, I measured stock-price appreciation for each of the top 10 companies for the three-year period ended this past June 30. Here are the figures, along with percentile rankings against the other members of the Standard & Poor's 500 Index. (The index's very best performer would have a ranking of 100; the very worst, a ranking of 0.)

Not Exactly Stars

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COMPANY	PERCENT CHANGE	PERCENTILE RANK
Citigroup	+ 9	68
Tyco International	-71	6
Cisco Systems	-57	10
Qwest Communications International	-92	1
Sprint	-80	4
Oracle	+ 2	60

Capital One Financial	+10	69
Cendant	-23	31
Philip Morris	+ 9	68
WorldCom	-98	0
MEDIAN	-40	21
AVERAGE	-39	32

*T

We sure don't have a group of champion sluggers here. The average CEO among the top 10 performed at a level surpassed by some 70 percent of the other companies in the S&P 500.

So what can we conclude from this analysis? First, it is way too simplistic to argue that large stock options lead to unethical or even criminal behavior.

Second, large stock options don't seem to motivate excellence. Indeed, they seem to motivate relatively poor performance, if anything. We are dealing with a cost-benefit equation here. Options are costly, and if the cost rises enough, it can overwhelm benefits that might otherwise have been obtained.

The bottom line: The pundits have some explaining to do.

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The Unnoticed Pay Gap: CEO-to-CEO: Graef Crystal

(Commentary. Graef Crystal is a columnist for Bloomberg News. The opinions expressed are his own.)

Las Vegas, Nov. 26 (Bloomberg) -- Large sectors of the American public are screaming about rising chief executive officer-to-worker pay ratios that are brushing up against the 500-to-1 mark, if they aren't already above it. But almost no one has noticed another rising pay-ratio series, that of one CEO to another.

What could possibly explain the pay gap as wide as the one between Berkshire Hathaway Inc.'s Warren Buffett -- who earned an average of $350,000 a year over a three-year period -- and Citigroup Inc.'s Sandy Weill -- $127.5 million a year, or 364 times as much during the same time?

The short answer is: Hardly anything. That's the principal finding of my review of pay for CEOs of 180 major U.S. companies.

The average three-year pay for all those CEOs was $13.9 million. And the only explanation for the way they are paid is that board compensation committees appear to give them whatever they want. Those committee meetings aren't what they seem to be. Rather, they are game shows like ``Wheel of Fortune," with the committee chairman playing the role of Pat Sajak. All that's missing is Vanna White.

My study of three-year CEO pay at those companies showed you can account for only 15 percent of CEO pay variation based on differences in company size and precisely zero percent based on differences in company performance.

I looked at companies with 2001 revenue of $8 billion or more. Each CEO had held his position for three years or more. Data were furnished by Equilar Inc., an independent provider of executive compensation information.

Anyone's Guess

Pay used for the study included base salary, annual bonus, free share grants, the estimated present value at grant of stock options, payments under other long-term incentive plans and miscellaneous compensation. For the great majority of companies, the period covered was the three years ended Dec. 31, 2001.

Why use three years of pay, instead of focusing on a single year? CEOs are paid salaries every year, and, company performance notwithstanding, almost everyone gets a bonus every year. But when
it comes to free shares and stock option grants, practices differ. Some companies make regular annual grants, whereas others will wait two to three years between grants. By focusing on aggregate pay over a longer period, those peaks and hollows in pay are smoothed, and a better picture of how the CEO is really paid emerges.

What could possibly explain that awesome difference between CEOs, such as Buffett and Weill?

Percent Breakdowns

Average revenue over the three-year period explained 15 percent of the pay variation, according to regression analyses I ran. But when I tried to coax my computer into improving its explanation of pay variation by taking account of both company size, as measured by revenue, and company performance, as measured by total return over the three-year period, it gave up and declared that 15 percent was the best I was going to get.

So 85 percent of pay variation comes under the category of: Your guess is as good as mine.

Does Warren Buffett have a conscience, whereas Sandy Weill does not? Do the folks out in Omaha, where Berkshire is based, have different values than the folks in Gotham? Is Sandy Weill Svengali incarnate when dealing with his board? I don't have any good answers here.

You don't have to feel too sorry for good old Warren, of course, because his shareholdings are currently worth $36.1 billion. As for Weill, he's worth a mere $885 million in stock.

Although Weill won the trophy for highest absolute pay, his pay, when calibrated for the immense size of his company, ranked him seventh down the list. That list was headed by two famous or should I say, infamous -- CEOs who have departed under less-than-ideal circumstances. The first is Tyco International Ltd.'s Dennis Kozlowski and the other is Qwest Communication International Inc.'s Joe Nacchio.

The Overpaid

Here, in descending order of overpayment, are the 15 most relatively overpaid CEOs:

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COMPANY	CEO	3-Year Total Return Percentile Rank	Avg. Annual Total Pay	Percent Above (Below) Market
Tyco International	Kozlowski, L. Dennis	90	$118,168	619%
Qwest Communications	Nacchio, Joseph P.	9	$71,406	469%
Cisco Systems Inc.	Chambers, John T.	4	$77,724	462%
Comcast Corp.	Roberts, Ralph J.	63	$47,355	434%
Cendant Corp.	Silverman, Henry R.	43	$37,025	393%
Oracle Corp.	Ellison, Lawrence J.	68	$42,109	324%
Citigroup Inc.	Weill, Sanford I.	98	$127,482	306%
Sprint Corp.	Esrey, William T.	7	$44,816	201%
AOL Time Warner Inc.	Levin, Gerald M.	24	$46,900	162%
Masco Corp.	Manoogian, Richard A.	29	$21,528	156%
FPL Group Inc.	Broadhead, James L.	45	$20,364	142%
Hewlett-Packard Co.	Fiorina, Carleton S.	20	$49,974	142%
Viacom Inc.	Redstone, Sumner M.	59	$31,164	133%
Household International	Aldinger, William F.	85	$20,384	126%
Pharmacia Corp.	Hassan, Fred	31	$22,867	108%
	Low	4	$20,364	108%
	Median	43	$44,816	201%

Average	45	$51,951	278%
High	98	$127,482	619%

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Look at the column labeled ``Three-Year Total Return Percentile Rank." The company in the study with the very best performance received a percentile rank of 100, while the company with the very worst performance received a percentile rank of 0. The median percentile rank was 50.

Note that Sandy Weill, for all his excess, delivered performance that was better than all but two percent of the companies.

Even Dennis Kozlowski looked to be a winner, but that's because of his fiscal year, which ends Sept. 30. His pay was based on the three years ended Sept. 30, 2001, or before he caught the eye of New York prosecutors.

On the other end, note that Bill Esrey of Sprint Corp. could also end up on the 15 most relatively overpaid list with a performance ranking worse than 93 percent of the other companies.

So much for the sinners.

Now it's on to the saints:

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COMPANY	CEO	3-Year Total Return Percentile Rank	Avg. Annual Total Pay	Percent Above (Below) Market
Tech Data Corp.	Raymund, Steven A.	88	$3,314	-75%
General Motors Corp.	Wagoner, Jr., G. R.	28	$10,018	-75%
Genuine Parts Co.	Prince, Larry L.	67	$2,121	-76%
Manpower Inc.	Joerres, J.A.	74	$2,280	-77%
7-Eleven Inc.	Keyes, James W.	63	$2,099	-78%
Georgia-Pacific Corp.	Correll, Alston D.	39	$3,090	-79%
Costco Wholesale Corp.	Sinegal, James D.	87	$3,371	-80%
American Electric Power	Draper, Jr., E. Linn	49	$3,199	-81%
Supervalu Inc.	Noddle, Jeffrey	56	$2,726	-81%
Dow Chemical Co.	Parker, Michael D.	65	$2,925	-82%
TXU Corp.	Nye, Erle	60	$2,579	-82%
A&P	Haub, Christian	27	$1,303	-87%
Loews Corp.	Tisch, J.S.	56	$1,772	-87%
Microsoft Corp.	Ballmer, Steven A.	13	$688	-96%
Berkshire Hathaway Inc.	Buffett, Warren E.	48	$350	-98%
	Low	13	$350	-98%
	Median	56	$2,579	-81%
	Average	55	$2,789	-82%
	High	88	$10,018	-75%

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At first glance, it would appear that high CEO pay is negatively correlated with total return performance. The average performance percentile rank for the 15 most relatively overpaid CEOs was 45, while that for the 15 most relatively underpaid CEOs was a higher 55. But my computer decided that there was so much scatter around those averages that there was no significant

difference in performance between the Top 15 CEOs and the Bottom 15 CEOs. Neither was there any difference between the performance of either group and the middle 150 CEOs.

Another way to view the chaos in CEO pay is to concentrate on those 18 companies with performance in the highest 10 percent. Fans of Sandy Weill will doubtless tell you that you have to pay $127.5 million a year to get the 98th percentile performance he delivered. Nice theory. You can get 94th percentile performance from AmerisourceBergen Corp.'s David Yost for a mere $3 million a year.

Americans are already angry about how much CEOs are hauling away in pay. Now they need to be pardoned for being infuriated to learn that CEO pay, smoothed over three years to eliminate the lumps, bears no relationship at all to performance.

I have an idea for a new TV series: ``Wheel of Pay.'' Let's put all those compensation committees on national TV and get some entertainment value out of them.

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The results are based on data from Equilar Inc., an independent provider of executive compensation data.

Here Are the Most Overpaid and Underpaid CFOs: Graef Crystal

(Commentary. Graef Crystal is a columnist for Bloomberg News. The opinions expressed are his own.)

Las Vegas, Dec. 3 (Bloomberg) -- If a company's chief executive officer is overpaid, then the chief financial officer won't be too far behind. Overpaid CEOs breed overpaid CFOs.

That's the principal finding in my compensation review of 73 CFOs of U.S. companies with 2001 revenue of at least $8 billion.

Big companies pay CEOs more, but according to regression analysis I did for these companies, the most important factor in determining whether a CFO was overpaid or underpaid was how much his boss earned.

Pay here is defined as average annual compensation over three years and included base salary, annual bonus, free stock grants, the estimated present value of stock option grants, other long-term incentive payouts and miscellaneous compensation. For the great majority of companies, the period covered Dec. 31, 1998, to Dec. 31, 2001. Data for this review came from Equilar, Inc., an independent provider of executive compensation information.

The CEO Factor

Differences in company size, as measured by three-year average revenue, accounted for 19 percent of the variation in CFO pay. Differences in company performance -- three-year total return was my measure for that -- didn't move the 19 percent figure.

Another factor pushed that 19 percent to 76 percent. That was the percent by which the company's CEO was overpaid or underpaid, which was based on my review of pay for CEOs of 180 major U.S. companies for the same three-year period that I reviewed CFOs. Those results -- subject of my Nov. 26 column, ``The Unnoticed Pay Gap: CEO-to-CEO'' -- showed the only explanation for the way CEO's are paid is that board compensation committees appear to give them whatever they want.

As for the CEO and CFO pay relationship, consider Mark Swartz, former CFO of Tyco International Ltd. Based on Tyco's three-year revenue, the ``going rate'' for his job was $4.1 million a year. His actual three-year pay of $59 million a year put him 1,052 percent over the market.

His former boss, Dennis Kozlowski, also late of Tyco International Ltd., earned pay over three years that positioned him 619 percent over the market. If Kozlowski's pay overage is used to explain Swartz's pay overage, then Swartz turns out to be overpaid, not by 1,052 percent, but by a lesser 273 percent.

So, if the CEO is overpaid, then the CFO is apt to be overpaid, too. But not quite to the same extent. Simulations using a company with average annual three-year revenue of $30 billion show that if the CEO is overpaid by, say, 300 percent, then the CFO will be overpaid by 201 percent. By the same token, if the CEO is underpaid by 50 percent, then the CFO will be underpaid by 29 percent.

The Overpaid CFOs

Here, in descending order, are the 15 most relatively overpaid CFOs for the Dec. 1998-Dec. 2001 period studied.

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Company	CFO	3-Year Total Return Percentile Rank	Avg. Annual Total Pay	Pct. Above (Below) Market
Tyco International	Mark Swartz*	92	$59,034	1052%
Oracle Corp.	Jeff Henley	66	$10,845	281%
Cisco Systems	Larry Carter	4	$13,853	231%
Worldcom	Scott Sullivan*	3	$16,536	179%
Alcoa	Richard Kelson	99	$10,639	149%
Anadarko Petroleum	Michael Rose	96	$4,729	143%
Goldman Sachs	David Viniar	77	$11,401	117%
CIGNA Corp.	James Stewart	65	$8,401	105%
Schering-Plough	Jack Wyszomierski	16	$5,519	101%
Sprint	Arthur Krause	7	$8,686	90%
Eli Lilly	Charles Golden	31	$5,433	85%
Sun Microsystems	Michael Lehman*	1	$6,396	77%
Dominion Resources	Thomas Chewning	86	$4,170	64%
Electronic Data	James Daley	78	$6,789	63%
Verizon	Frederic Salerno*	34	$12,945	59%
	Low	1	$4,170	59%
	Median	65	$8,686	105%
	Average	50	$12,358	186%
	High	99	$59,034	1052%

*Denotes no longer CFO
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Look at the column labelled ``Three-Year Total Return Percentile Rank." The company in the review with the very best performance received a percentile rank of 100, while the company with the very worst performance received a percentile rank of 0. The median percentile rank was 50.

The Underpaid CFOs

And here, in descending order, are the 15 most relatively underpaid CFOs for the time period reviewed.

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Company	CFO	3-Year Total Return Percentile Rank	Avg. Annual Total Pay	Pct. Above (Below) Market
Ashland	Marvin Quin	35	$1,141	-54%
Xcel Energy	Edward McIntyre	57	$1,351	-56%
Weyerhaeuser	William Stivers	54	$1,493	-57%
Valero Energy	John Gibbons	95	$1,313	-59%
Tech Data	Jeffery Howells	91	$1,598	-60%
Winn-Dixie Stores	Richard McCook	5	$1,296	-60%
Costco Wholesale	Richard Galanti	89	$1,882	-65%
Great Atlantic & Pac	Fred Corrado*	26	$1,001	-66%
Conagra Foods	James O'Donnell	45	$1,662	-66%
Schlumberger	Jack Liu*	73	$948	-68%
Manpower	Michael Van Handel	72	$852	-70%
Supervalu	Pamela Knous	55	$1,265	-71%
Goodyear Tire & Rubber	Robert Tieken	8	$918	-73%
TXU	Michael McNally	59	$1,162	-74%
Berkshire Hathaway	Marc Hamburg	46	$393	-93%
	Low	5	$393	-93%
	Median	55	$1,265	-66%
	Average	54	$1,218	-66%
	High	95	$1,882	-54%

*Denotes no longer CFO
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Malignant Relationship

This relationship between CEO pay and CFO pay would be benign, even welcome, if CEOs were paid rationally. My earlier review showed no relationship whatsoever between CEO pay and three-year total returns.

So what we have instead is a malignant relationship. If a CEO is overpaid for no good reason, then his CFO will likely be overpaid, too, and, seemingly, for no good reason. And, of course, so will other senior executives.

A CEO's pay package can be like a 4,000-horsepower vacuum cleaner. It sucks in any pay package that gets close to the nozzle. Of course, by the time we get to the ordinary worker, there isn't enough suction left to move that person's tie, much less his pay.

In past years, many companies were fond of saying you could double the CEO's pay, and that doubling would be lost in the rounding of profits. But today the statement is patently absurd. And when you consider the ``vacuum cleaner effect," the costs to shareholders of overpaying a CEO become quite heavy.

The bottom line: Don't ignore an overpaid CEO. Rather, see him as a warning signal of an overpaid top management team and a consequent drain on future profits.

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Siebel Leads Top CEOs on Stock Options: Graef Crystal (Correct)

(CORRECTS numbers in first and second columns for Low, Median, Average, and Total. Commentary. Graef Crystal is a columnist for Bloomberg News. The opinions expressed are his own.)

Las Vegas, Dec. 24 (Bloomberg) -- The U.S. chief executive officer who received the most stock options in 2001 also received the most gains when he exercised options that year: Tom Siebel of Siebel Systems Inc.

The San Mateo, California-based software supplier received 7.95 million shares, leading my list of the 30 CEOs who received the biggest option grants from among the heads of 1,128 U.S. companies with 2001 revenue of $1 billion or more.

Siebel received three different grants: 4 million shares with a strike price of $54; 3.2 million shares at $23.88, and 750,000 shares at $17.70. Those three grants contained an aggregate present value of a staggering $177.7 million when they were granted, according to my calculations using the Black-Scholes option-pricing model.

When Siebel exercised other options in 2001, he obtained aggregate gains of $174.6 million.

Those nearly 8 million options granted in 2001 are worth a lot less now. On Dec. 11, I recalculated the present value of those three grants and found that because Siebel's stock closed that day at $7.44, the combined value of all three had plummeted to $21.9 million, a reduction of 88 percent.

That reduction was far stiffer than for most of the other 29 CEOs on the Top 30 list. For the group as a whole, the median reduction in present value was 48 percent.

Some Winners

Just as every company's stock hasn't tanked in the last few years, there were a few winners out there, too. The operative word is ``few'' because only three of the 30 CEOs saw their grants increase in value. They included NVR Inc.'s Dwight Schar, who saw the present value of his 2001 options increase by 105 percent; Cendant Corp.'s Henry Silverman, who came in second with a 21 percent increase, and CDW Computer Center Inc.'s John Edwardson, in third place with a 20 percent increase.

In two of those three, the timing of the grant enters into the equation of option value. On Jan. 3, 2001, Cendant's Silverman received an option on 6 million shares carrying a strike price of $9.41. By Dec. 11, the stock price had advanced to $12.11, increasing the present value of his grant by 21 percent. But it's worth taking a closer at that strike price of $9.41. That was the market price at the time of the grant, but at the beginning of 2000, the stock had closed at $24.31. It then fell, more or less steadily, all during 2000, reaching a price of $9.41 on Jan. 3, 2001, when Silverman received his grant. Nice timing.

As for CDW's Edwardson, he received an option on Jan. 28, 2001, covering 1.6 million shares at a strike price of $36.63. By Dec. 11, the stock price had increased to $47.61, increasing the

present value of his option by 20 percent. But on Sept. 15, 2000, about four months before he received his grant, CDW's stock closed at $83.50. Even better timing.

Time Left

Only NVR's Schar seems not to have benefited by the timing of his option grant. When he received that grant on May 2, 2001, covering 400,000 shares at a strike price of $189 a share, his stock price in past years had gone nowhere but up. By Dec. 11, his stock price closed at $319.75.

Even though the median present value of the top 30 option grants declined by 48 percent between the date of grant and Dec. 11, there is still hope for many of the CEOs on the list. That's because the all-but-universal term of an option is 10 years, and so far, not more than two years of that 10-year term has been exhausted.

Indeed, notwithstanding the plunge in present values, the option grants made to the top 30 have the potential to produce future gains on exercise worth $1.8 billion, according to my calculations. And that assumes only average future performance on the part of the 30 CEOs.

Here are the 30 biggest option grants made in 2001. Data for this review were obtained from Equilar Inc., an independent provider of executive compensation information.

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2001 Option Grants Present Values ($ Millions)

		At Grant	Dec. 11	Pct. Chg.
Siebel Systems	Thomas Siebel	177.7	21.9	-88
Liberty Media	Robert Bennett	112.1	60.0	-46
AOL Time Warner	Gerald Levin *	100.1	13.3	-87
Capital One Financial	Richard Fairbank	81.0	53.9	-34
Omnicom Group	John Wren	63.0	53.8	-15
Gemstar TV Guide	Henry Yuen *	61.9	3.8	-94
Qwest Communications	Joseph Nacchio *	57.3	22.3	-61
Sprint	William Esrey	55.2	21.1	-62
Cisco Systems	John Chambers	53.4	35.0	-35
SBC Communications	Edward Whitacre	52.2	18.0	-66
EMC	Joseph Tucci	45.8	8.8	-81
Global Crossing	Thomas Casey *	41.7	0.0	-100
Veritas Software	Gary Bloom	37.7	19.4	-49
Tyco International	Dennis Kozlowski *	37.6	13.1	-65
Pepsico	Steven Reinemund	37.1	27.8	-25
NVR	Dwight Schar	32.8	67.3	105
Gillette	James Kilts	32.5	17.1	-48
CDW Computer Centers	John Edwardson	31.3	37.6	20
MBNA	Alfred Lerner *	31.2	28.1	-10
Maxim Integrated Products	John Gifford	29.8	26.3	-12
Cendant	Henry Silverman	29.7	35.9	21
Corning	John Loose *	28.2	3.9	-86
PerkinElmer	Gregory Summe	25.6	4.7	-81
Phillips Petroleum ***	James Mulva	25.0	16.2	-35
Philip Morris Cos.	Geoffrey Bible	24.4	14.1	-42
Caremark Rx	Edwin Crawford	23.8	16.6	-30
St. Paul Cos.	Jay Fishman	23.5	12.4	-47
Charter Communications	Carl Vogel	22.9	2.7	-88
Lucent Technologies	Henry Schacht *	22.7	1.7	-92
Alcoa	Alain Belda	22.3	6.9	-69
Low		22.3	0.0	-100

Median	35.0	17.5	-48
Average	47.3	22.1	-53
High	177.7	67.3	105
Total	1,419.5	663.6	

* Former CEO ** Subsequently acquired by another company *** Subsequently merged to form ConocoPhillips

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