



Twenty-One U.S. CEOs with Golden Parachutes of More Than \$100 Million

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Introduction

After Jack Welch retired from General Electric it wasn't until a divorce settlement forced the disclosure of his retirement benefits package that anyone took any notice. At that time, the scandal surrounding Mr. Welch was that his perquisites were valued at \$2.5 million a year, and included luxuries such as the use of an \$80,000-per-month Manhattan apartment owned by the company, court-side seats to the New York Knicks and U.S. Open, seating at Wimbledon, box seats at Red Sox and Yankees baseball games, country club fees, security services and restaurant bills. No one at the time of his departure had valued Mr. Welch's full retirement package either, which – at almost \$420 million – dwarfs the perks package that Mr. Welch ultimately relinquished.

Since then, multi-million dollar severance and other separation packages, commonly referred to as “walk-away” packages, have become so commonplace for CEOs that when HP fired Leo Apotheker with a \$12 million guaranteed cash payment it barely registered. Accelerated equity awards along with substantial pensions and other deferred compensation all but guarantee significant payouts at many of America's largest corporations in every termination situation except for a termination “for cause.” This report goes back to 2000 to examine the largest golden parachutes and other termination packages of the past decade, many of which have never been quantified before.

Key findings:

- 21 CEOs received walk-away packages in excess of \$100 million since 2000
- Four CEOs were in the financial sector and four more were in the health care sector
- Walk-away packages include, where relevant:
 - Actual and potential stock option profits
 - Full-value stock awards
 - Salary and bonus continuation
 - Benefit and perquisite continuation
 - Executive pension benefits
 - Other deferred compensation
- The 21 CEOs walked away with a total of almost \$4 billion in compensation
- Four-fifths of the group's total compensation was comprised of equity, pensions and other deferred pay
- Tenure for the CEOs ranged from nine months for Viacom's Thomas Freston to 29 years for North Fork Bank's John Kanas
- Three CEOs received payouts without ever leaving

Golden parachute –

compensation awarded to a departing CEO as a result of termination, sometimes as a result of a merger or acquisition

Full walk-away package – an estimate of how much money would need to be paid to a departing CEO based on current employment contracts and other compensation plans.

Some shareholders are campaigning for such a figure to be disclosed in company proxy statements.

Since 2007 public companies must disclose, either as text or in a table, the amount any named executive officer would be paid if they were terminated on the last day of the company's fiscal year. Unintended consequence: while the SEC offered advice as to what should be included in such an amount, this advice was unspecific and has led to many company differences in valuation.

In 1984, Congress chose to implement a 20 percent excise tax – Section 280G of the Internal Revenue Code – on severance exceeding 2.99 times annual compensation. Unintended consequence: 3X salary and bonus became the floor rather than the ceiling for cash severance.

Golden parachutes in excess of the IRS limit are subject to excise tax. Unintended consequence: most companies offered to pay the tax themselves leading to even higher costs for shareholders.

Company	CEO	Tenure	Total Payout
General Electric	John F. Welch Jr.	1981-2001	\$417,361,902
Exxon Mobil Corp.	Lee R. Raymond	1993-2005	\$320,599,861
UnitedHealth Group Inc.	William D. McGuire	1991-2006	\$285,996,009
AT&T	Edward E. Whitacre Jr.	1990-2007	\$230,048,463
Home Depot Inc.	Robert L. Nardelli	2000-2007	\$223,290,123
North Fork Bank	John A. Kanas	1977-2006	\$214,300,000
Merck & Co., Inc./Schering-Plough	Fred Hassan	2003-2009	\$189,352,324
International Business Machines	Louis V. Gerstner Jr.	1993-2002	\$189,005,929
Pfizer Inc.	Hank A. McKinnell Jr.	2001-2006	\$188,329,553
CVS Caremark Corporation	Thomas M. Ryan	1998-2011	\$185,415,435
Gillette Co.	James M. Kilts	2001-2005	\$164,532,192
Target Corporation	Robert J. Ulrich	1994-2008	\$164,162,612
Merrill Lynch & Co. Inc.	E. Stanley O'Neal	2002-2007	\$161,500,000
U.S. Bancorp	Jerry A. Grundhofer	2001-2006	\$159,064,090
Omnicare, Inc.	Joel F. Gemunder	2001-2010	\$146,001,476
Wachovia/South Trust	Wallace D. Malone Jr.	1981-2004	\$125,292,818
United Technologies Corporation	George A. L. David	1994-2008	\$122,631,309
eBay Inc.	Margaret C. Whitman	1998-2008	\$120,427,360
WellPoint Health Networks	Leonard Schaeffer	1992-2004	\$119,041,000
XTO Energy Inc.	Bob R. Simpson	1986-2008	\$103,485,972
Viacom	Thomas E. Freston	2006	\$100,839,772

Principles and Practice

The principle of the golden parachute is a sound principle. The principle of incentivizing an executive into retirement is another sound principle. Golden parachutes are designed to protect executives, primarily CEOs, from financial harm when they make M&A decisions that may be in the best interest of shareholders but that might lead to their losing their jobs. Incentivizing executives into retirement, by having stock compensation continue to vest during retirement, is also in the best interest of shareholders because it ensures that the decisions made by the executives are in the long-term interest of the company despite the proximity of their retirement age.

Since these principles are sound, what went wrong?

In our view, what went wrong was that the principles were applied too widely. They were applied not just to cash compensation, but equity compensation, perquisites, benefits, pensions, and virtually all other forms of pay. In principle, to protect someone from financial harm if they lose their job due to a merger, that executive needs a single year's salary and bonus. A CEO should not need three or even two years' salary and bonus, plus immediate vesting of all equity and pensions, plus benefit and perquisite continuation, as was paid to most of the CEOs in this report. A CEO who is retiring should not need a severance package as well as a retirement package, such as was paid out to John Kanas by North Fork. A CEO who is retiring should not need a pension as well as the continued vesting of stock options and restricted stock, as was paid out to Lee Raymond by Exxon Mobil.

Too many golden parachutes and too many retirement packages are of a size that clearly seems only in the interest of the departing executive. In the case of some of the packages in this report, they have been paid to an executive who has not even departed. In the cases discussed in this report, it would seem that compensation committees have lost sight of the original principles, resulting in little or no value for shareholders despite excessive compensation.

"A CEO should not need three or even two years' salary and bonus, plus immediate vesting of all equity and pensions, plus benefit and perquisite continuation, as was paid to most of the CEOs in this report."

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Methodology

Rather than simply reproducing disclosed severance package figures – values over which companies exercise great discretion – to arrive at the full value of “walk-away” payments, we calculated and included all forms of compensation paid out to the CEOs in their final year of employment. These include:

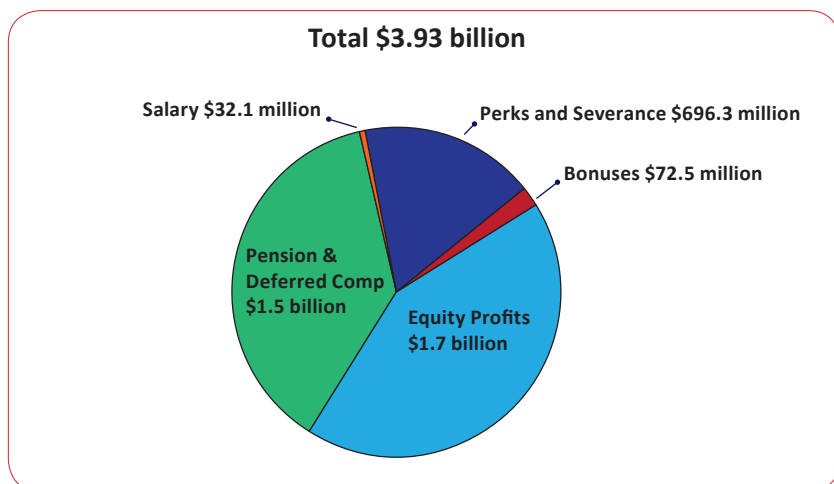
- final year salary and bonuses, as well as perks and benefits
- any full-value stock that vested during the year, as well as any stock option profits resulting from the exercise of options
- actual cash and perquisite severance amounts, including any enhancement to pensions
- the value of any full-value stock that that did not lapse as a result of the termination
- the notional profit on the exercise of any stock options that did not lapse as a result of the termination
- the total accumulated benefits of any qualified or non-qualified executive retirement plans
- all other deferred compensation
- any disclosed excise tax gross-up payments

Thus our figures represent the total walk-away package earned by the executive in their final year of employment; they do not include all compensation earned by these CEOs during their tenure as CEO.

CEO Exit Packages Over \$100 Million

We found 21 CEOs whose final payouts each totaled more than \$100 million in the past decade plus. The list includes four companies in the health care sector and four more from the financial sector. These 21 CEOs walked away with almost \$4 billion in combined compensation. In total, \$1.7 billion in equity profits was realized by these CEOs, primarily on the exercise of time-vesting stock options and restricted stock. At \$1.5 billion, pension payments and non-qualified deferred compensation is just behind equity profits in the ranking of pay components responsible for the total payout. In fact, equity profits, pensions, and deferred compensation represent 80 percent of the \$4 billion earned by these 21 CEOs. Parting cash severance, salary, bonuses and other perquisites comprise the remaining 20 percent.

“These 21 CEOs walked away with almost \$4 billion in combined compensation.”



The average tenure of the CEOs in this study is about 13 years. Ed Whitacre was head of AT&T for only two years before receiving a payout of \$230 million, though he had served as the CEO of SBC Communications for 15 years prior to a merger with AT&T. Wallace Malone received \$125 million after only two years as head of Wachovia, after serving as CEO of SouthTrust for 23 years, and Viacom’s Thomas Freston was CEO for just nine months before receiving more than \$100 million in walk-away compensation.

While some of these CEOs moved on to less high profile positions, many found gainful employment shortly after receiving these exit packages. For instance, Fred Hassan became a partner at Warburg Pincus about a year after receiving almost \$190 million from Merck & Co. Similarly, Thomas Freston became a principal with firefly3, a consulting and investment firm, immediately after receiving his severance at Viacom. Meg Whitman served as a part-time Strategic Advisor to Kleiner, Perkins, Caulfield & Byers, venture capital firm, after leaving eBay and now serves as the CEO of Hewlett-Packard. In circumstances that undermine the principle of the golden parachute even further, the CEOs in the report’s “Paid and Stayed” sidebar never even left the companies they served as CEO when receiving payouts comparable to an exit package. Table 2 provides compensation details for the 21 golden parachutes in excess of \$100 million.

“While some of these CEOs moved on to less high profile positions, many found gainful employment shortly after receiving these exit packages.”

Table 2: 21 CEOs Over \$100 Million Individual Pay Elements (Source: GMI)

Company	CEO	Salary	Bonuses	Perks and Severance	Equity Profits	Pension and NQDC	Total Payout
General Electric	John F. Welch Jr.	\$3,375,000	\$12,700,000	\$6,868,102	\$298,418,800	\$96,000,000	\$417,361,902
Exxon Mobil Corp.	Lee R. Raymond	\$4,000,000	\$4,900,500	\$1,450,800	\$211,810,730	\$98,437,831	\$320,599,861
UnitedHealth Group Inc.	William D. McGuire	\$2,146,923	\$0	\$477,314	\$180,526,547	\$102,845,225	\$285,996,009
AT&T	Edward E. Whitacre Jr.	\$983,916	\$2,813,771	\$2,038,469	\$63,860,811	\$160,351,496	\$230,048,463
Home Depot Inc.	Robert L. Nardelli	\$2,331,538	\$6,000,000	\$100,202,137	\$79,427,436	\$35,329,012	\$223,290,123
North Fork Bank	John A. Kanas	\$0	\$0	\$136,300,000	\$77,000,000	\$1,000,000	\$214,300,000
Merck & Co., Inc./Schering-Plough	Fred Hassan	\$1,467,542	\$0	\$33,722,817	\$56,116,816	\$98,045,149	\$189,352,324
International Business Machines	Louis V. Gerstner Jr.	\$2,000,000	\$1,500,000	\$2,770,465	\$154,985,464	\$27,750,000	\$189,005,929
Pfizer Inc.	Hank A. McKinnell Jr.	\$2,270,500	\$2,158,300	\$12,324,517	\$9,968,187	\$161,608,049	\$188,329,553
CVS Caremark Corporation	Thomas M. Ryan	\$1,475,000	\$2,200,000	\$281,481	\$50,363,317	\$131,095,637	\$185,415,435
Gillette Co.	James M. Kilts	\$0	\$0	\$164,532,192	\$0	\$0	\$164,532,192
Target Corporation	Robert J. Ulrich	\$1,600,000	\$0	\$1,285,507	\$23,345,200	\$137,931,905	\$164,162,612
Merrill Lynch & Co. Inc.	E. Stanley O’Neal	\$584,231	\$0	\$25,293,691	\$161,500,000	\$29,086,480	\$161,500,000*
U.S. Bancorp	Jerry A. Grundhofer	\$1,100,042	\$4,000,000	\$361,737	\$42,188,985	\$111,413,326	\$159,064,090
Omnicare, Inc.	Joel F. Gemunder	\$1,052,917	\$0	\$17,148,485	\$3,323,260	\$101,889,528	\$146,001,476
Wachovia/SouthTrust	Wallace D. Malone Jr.	\$83,333	\$0	\$48,714,812	\$4,090,318	\$72,404,355	\$125,292,818
United Technologies Corporation	George A. L. David	\$916,667	\$4,568,623	\$19,010,469	\$54,071,948	\$44,063,602	\$122,631,309
eBay Inc.	Margaret C. Whitman	\$995,016	\$1,652,874	\$792,436	\$116,987,034	\$0	\$120,427,360
WellPoint Health Networks	Leonard Schaeffer	\$0	\$0	\$50,586,000	\$0	\$68,455,000	\$119,041,000
XTO Energy Inc.	Bob R. Simpson	\$1,629,169	\$30,000,000	\$376,127	\$71,480,676	\$0	\$103,485,972
Viacom	Thomas E. Freston	\$4,101,954	\$0	\$71,752,741	\$7,935,773	\$17,049,304	\$100,839,772

* the Merrill Lynch Board refused to give Mr. O’Neal anything beyond his equity holdings.

What happened when each of these CEOs left their positions? Some retired and some were terminated, but all were handsomely rewarded for their service.

Company	CEO	CEO Tenure
General Electric	John F. Welch Jr.	20 years

Despite leading GE for 20 years, Mr. Welch is perhaps best known for what was revealed in his 2002 divorce proceedings. Second wife Jane Beasley Welch detailed benefits including extensive use of corporate aircraft, a New York apartment and box seats to Red Sox games, perks that had been obfuscated in public filings. An SEC investigation ensued with GE ultimately agreeing to increased disclosure regarding perks. Mr. Welch walked away from GE in 2002 with almost \$300 million in equity profits and a pension worth \$96 million; or nine million a year for the rest of his life.

“Mr. Welch walked away from GE in 2002 with almost \$300 million in equity profits and a pension worth \$96 million; or nine million a year for the rest of his life.”

Company	CEO	CEO Tenure
Exxon Mobil Corp.	Lee R. Raymond	12 years

Mr. Raymond left Exxon Mobil in 2005 of his own volition after 12 years as CEO. He helped to build the largest oil company on earth, combining Exxon with Mobil Oil in 1999. In his 12 years as CEO, he raised Exxon’s profits from \$5 billion to over \$25 billion. For his efforts, he retired with more than \$320 million in total walk-away money including \$212 million in equity profits and \$98 million in pension and deferred compensation.

Company	CEO	CEO Tenure
UnitedHealth Group Inc.	William D. McGuire	15 years

Mr. McGuire’s tenure at UnitedHealth ended when he became embroiled in a stock options backdating scandal. He was asked to leave the company in October 2006, after the IRS and federal prosecutors requested documents detailing his option grants. In December 2007, UnitedHealth released the findings of a Special Litigation Committee which listed repayments required by Mr. McGuire, including:

Dr. McGuire will surrender to the Company (1) all of his right, title and interest in stock options to acquire 9,223,360 shares of Company common stock, including all options unvested as of November 30, 2006; (2) all rights he has under the Company’s Supplemental Executive Retirement Plan, amounting to approximately \$91 million; and (3) his rights to approximately \$8 million in his Executive Savings Plan Account.

Dr. McGuire will relinquish claims to (1) Company-paid health care for himself and his family; (2) participation in any Company life, dental, short-term or long-term disability insurance plans; and (3) a Company-paid office, secretarial and administrative support, and the use of Company aircraft for personal business.

He still walked away with \$180.5 million in equity profits and a pension worth almost \$103 million.

“Despite relinquishing options and having others repriced, McGuire still walked away with \$180.5 million in equity profits and a pension worth almost \$103 million.”

Company	CEO	CEO Tenure
AT&T	Edward E. Whitacre Jr.	17 years

Mr. Whitacre announced he would retire from AT&T in June 2007, after only two years as CEO but having spent 43 years with SBC Communications prior to the AT&T merger, including serving as SBC’s CEO since 1990. His retirement package included post-retirement automobile benefits, home security, corporate jet and country-club fees. At the time of

his retirement, he had the highest accumulated pension in Corporate America. His walk-away package included a pension of \$160 million as well as equity profits worth about \$64 million.

"...he had the highest accumulated pension in Corporate America. His walk-away package included a pension of \$160 million."

Company	CEO	CEO Tenure
Home Depot Inc.	Robert L. Nardelli	6 years

Mr. Nardelli left Home Depot in January 2007 amid disagreements with shareholders and the board over his pay. Shareholders were up in arms over Nardelli's compensation, which reached \$131 million in total compensation for 2006, despite a stagnant stock price. He left the company after the board asked him to more closely tie his pay to shareholder gains. He took with him a severance package worth more than \$100 million, equity profits of \$80 million (inflated by the housing boom), and a pension worth \$35 million.

Company	CEO	CEO Tenure
North Fork Bank	John A. Kanas	29 years

Mr. Kanas is the longest-tenured CEO on this list at 29 years. He was President of North Fork bank before he turned 30 years old and helped the bank expand in New York during the 1990s. The bank was acquired by Capital One in December 2006, and the merger left him with immediate vesting of restricted stock and company-sponsored tax gross-ups. In total, his equity profits and perquisites were worth a combined \$213 million.

Company	CEO	CEO Tenure
Merck & Co., Inc./Schering-Plough	Fred Hassan	6 years

Like Mr. Kanas, it was a merger that resulted in a multi-million severance payment for Mr. Hassan. His position was eliminated after six years as CEO when Merck & Co. and Schering-Plough combined in March 2009. The merger left Mr. Hassan to retire with a pension of \$98 million, equity profits of \$56 million, and perks and severance worth almost \$34 million.

Company	CEO	CEO Tenure
International Business Machines	Louis V. Gerstner Jr.	9 years

Mr. Gerstner headed IBM for nine years, but it is his 10-year consulting deal for which he is best known. When he stepped down as Chairman of IBM in 2003, pursuant to his employment agreement, he began a 10-year consulting contract at a rate of \$600 an hour. Mr. Gerstner's post-CEO consulting contract stipulated that he would have 20 years' access to company aircraft, cars, home security and financial planning assistance. His exit package included equity profits of \$155 million and a pension worth almost \$28 million.

"Mr. Gerstner's post-CEO consulting contract stipulated that he would have 20 years' access to company aircraft, cars, home security and financial planning assistance."

Company	CEO	CEO Tenure
Pfizer Inc.	Hank A. McKinnell Jr.	5 years

Mr. McKinnell had an unsuccessful five-year run as CEO of Pfizer, as evidenced by a market value loss of \$140 billion during his tenure. At the company's 2006 annual meeting, a shareholder-sponsored publicity stunt included an airplane flying over the premises with a banner reading "Give it Back, Hank!" However, Mr. McKinnell kept all accrued compensation and then some, departing with a severance package of almost \$200 million that included a pension of \$161.6 million, the highest of any CEO in this report.

Company	CEO	CEO Tenure
CVS Caremark Corporation	Thomas M. Ryan	13 years

Mr. Ryan is one of the most recent entries into the group of departed CEOs receiving in excess of \$100 million to resign in 2011. His tenure was marked by major expansion of the CVS drugstores, but was also marred by a U.S. Federal Trade Commission investigation of the acquisition of Caremark RX Inc. His walk-away package included pension and deferred compensation worth a combined \$131 million, with the pension of more than \$58 million being taken as a lump sum. He also took home equity profits of more than \$50 million.

“... his walk-away package included pension and deferred compensation worth a combined \$131 million.”

Company	CEO	CEO Tenure
Gillette Co.	James M. Kilts	5 years

Mr. Kilts was CEO of Gillette Co. just five years before selling the company to Procter & Gamble. For his efforts, the company promised him a package of stock options and severance worth about \$165 million. In addition, like the CEOs in our sidebar discussion on page 9, he did not have to leave right away; he would go on to receive \$23 million to serve as the combined entity’s vice chairman for one year.

Company	CEO	CEO Tenure
Target Corporation	Robert J. Ulrich	14 years

Mr. Ulrich joined the company that eventually became Target in 1967 before beginning a 14-year term as CEO in 1994. The company considered his CEO tenure a success, tripling both sales and number of stores and increasing profits by a multiple of nine. His walk-away package included pension and deferred compensation worth \$138 million and equity profits worth more than \$23 million.

Company	CEO	CEO Tenure
Merrill Lynch & Co. Inc.	E. Stanley O’Neal	5 years

Mr. O’Neal was removed from his CEO and Chairman positions at Merrill Lynch by a board vote in October 2007 after a multi-billion dollar write-down on sub-prime mortgages. Few exit packages have drawn the ire of shareholders and the public like those associated with the financial crisis. Merrill allowed Mr. O’Neal to retire, keeping his outstanding stock, but announced he would get nothing further from the company in bonus or severance amounts. He forfeited a pension worth \$25 million, and other payouts, but still left with \$161.5 million in total compensation.

Company	CEO	CEO Tenure
U.S. Bancorp	Jerry A. Grundhofer	5 years

Mr. Grundhofer retired in December 2006 after the completion of his employment agreement. U.S. Bancorp became the third consecutive bank he would head following mergers, the others having been Star Banc Corporation and Firststar Corporation. His retirement from U.S. Bancorp involved an exit package including a pension and deferred earnings worth more than \$111 million and equity profits of more than \$42 million.

Company	CEO	CEO Tenure
Omnicare, Inc.	Joel F. Gemunder	9 years

Mr. Gemunder served as Omnicare management over three decades, beginning as President in 1981. His 2010 retirement was abrupt and came just prior to an unfavorable second quarter earnings report. Omnicare had no succession plan in place to address the departure, eventually naming Mr. Gemunder’s successor in December 2010. Mr. Gemunder retired from Omnicare with pension and deferred earnings of almost \$102 million along with \$17 million in perks and severance.

“His 2010 retirement was abrupt and came just prior to an unfavorable second quarter earnings report.”

Company	CEO	CEO Tenure
Wachovia/SouthTrust	Wallace D. Malone Jr.	23 years

Mr. Malone signed an employment agreement with SouthTrust in 1996 which was assumed by Wachovia when it acquired SouthTrust for \$14 billion in 2004. He came to Wachovia with a deferred compensation plan worth more than \$34 million and a potential severance in excess of \$100 million. Mr. Malone remained with Wachovia for a year and a half as Vice Chairman before retiring, stating he did not have “any disagreement with management” and exited with the golden parachute attached to his SouthTrust employment agreement. Mr. Malone left Wachovia with pension and deferred compensation of more than \$72 million along with perks and severance of almost \$50 million.

“Mr. Malone stated he did not have ‘any disagreement with management’ and exited with the golden parachute attached to his SouthTrust employment agreement.”

Company	CEO	CEO Tenure
United Technologies Corporation	George A. L. David	14 years

Mr. David was considered a very successful CEO over his 14-year tenure. He was not only successful in terms of elevating United Technologies to compete with the likes of GE at a fraction of the market cap, but also successful in terms of overall compensation. Financial writer Michael Brush described Mr. David’s 2004 compensation of \$88.7 million as equivalent to taxpayers paying for “one president, a vice president, 535 lawmakers on Capitol Hill, and nine Supreme Court justices.” Mr. David retired as executive chairman of UTC at the end of 2009 with pension and deferred compensation earnings of more than \$44 million and equity profits exceeding \$54 million.

Company	CEO	CEO Tenure
eBay Inc.	Margaret C. Whitman	10 years

Ms. Whitman joined eBay in 1998 when the company had 30 employees and revenues of \$4 million. She departed 10 years later after growing the company to nearly \$8 billion in revenues with 15,000 employees spanning the globe. During her tenure as eBay CEO, Ms. Whitman was ranked as one of the world’s most influential people by *Time* magazine. She did not exit eBay with a pension, deferred earnings, or severance payments. Instead, her \$120 million exit package was comprised almost entirely of equity; she exercised 5.7 million stock options as she retired as CEO after previously exercising zero options during her tenure.

Company	CEO	CEO Tenure
WellPoint Health Networks	Leonard Schaeffer	12 years

Mr. Schaeffer helped spearhead the merger between WellPoint Health Networks and Anthem in 2005, combining the entities to form the largest healthcare organization in the U.S. He was named chairman of the merged company before collecting his golden parachute of more than \$50 million. The compensation consisted of severance and perks including payment of his country club membership for four years and use of financial counseling and office space for five years. Mr. Schaeffer’s deferred compensation and pension plans under WellPoint all vested at the time of the merger resulting in a lump sum payment of more than \$68 million.

“The compensation consisted of severance and perks including payment of his country club membership for four years and use of financial counseling and office space for five years.”

Company	CEO	CEO Tenure
XTO Energy Inc.	Bob R. Simpson	22 years

Mr. Simpson co-founded XTO Energy in 1986, serving as CEO from that time until December 2008 when he assumed the role of chairman. In December 2009, Exxon Mobil Corp. bought XTO Energy for \$41 billion, which resulted in a big exit package for Mr. Simpson. He

waived his original change-of-control bonus of \$171 million in exchange for a consulting contract with Exxon Mobil worth \$40 million. In addition, he also received more than \$350 million in Exxon Mobil stock as well as cash and retention payments under his new Exxon Mobil employee contract. In his last year as CEO of XTO Energy, Mr. Simpson received a discretionary bonus of \$30 million and made nearly \$70 million in stock option profits.

Company	CEO	CEO Tenure
Viacom	Thomas E. Freston	9 months

Mr. Freston was terminated as CEO of Viacom by media mogul Sumner Redstone in September 2006, just nine months after having assumed the role. Mr. Redstone’s decision was seen as a direct result of News Corp. having won a bidding war to acquire MySpace, an acquisition Mr. Redstone deeply wanted. Mr. Freston exited Viacom with salary, bonus, and deferred compensation totaling just shy of \$59 million and with total severance and perquisites of more than \$71 million. In addition, he received more than \$17 million in pension and deferred compensation earnings as well as nearly \$8 million in equity profits.

Conclusion

Large equity grants and pensions are the primary vehicles behind these extraordinary severance payments. Also responsible was deferred compensation which allows CEOs to put aside large compensation awards that often earn about 6 percent interest over and above the market rate. But even if these awards were based solely on cash payouts, they would seem excessive for the purpose for which they were designed – to make executives financially sound during merger and acquisition events and/or to align their interests with shareholders well into retirement. The focus of concern over these awards should be the boards that approve the employment agreements guaranteeing them.

The board of directors is entrusted with the responsibility of making sure CEOs are not being incentivized to take short-sighted risks, are not encouraged to arrange a merger simply because their walk-away package means that they could earn more through selling the company than trying to make it a success, and that they not be allowed to depart with millions in shareholder capital when mergers fail. Overgenerous severance amounts are the end result of policy permitted by the board, and the compensation committee in particular.

Directors who approve such awards for an incoming CEO or allow them to continue in place for existing CEOs may be held accountable when CEOs receive tens of millions after a short or unproductive tenure. They may also be held accountable if CEOs are paid twice for their successes. No one would argue that Jack Welch had not made a large amount of money for shareholders, but few would argue that he had not already been paid for it (and that such an excessive retirement package was, therefore, unnecessary). With increased disclosure standards on compensation and opportunities for shareholders to express themselves through Say on Pay and director withhold votes, we expect that there will be significant reputational penalties paid by the directors negotiating such awards.

Paid and Stayed

Company: Nabors Industries Ltd.
CEO: Eugene M. Isenberg
CEO Tenure: 1987-2011

As of November 2011, Mr. Isenberg was set to receive \$100 million simply for relinquishing his CEO title and staying on with Nabors as its chairman. At the same time, the SEC began an investigation regarding perks received by executives, including personal use of corporate aircraft. When Nabors promoted its President and COO to CEO in October 2011 and Mr. Isenberg stepped down as CEO but remained as Chairman, the move triggered a clause in Mr. Isenberg’s employment agreement entitling him to a \$100 million payday.

Company: Simon Property Group, Inc.
CEO: David Simon
CEO Tenure: 1995-

In July 2011, the board of Simon Property Group entered into a new long-term employment agreement with eponymous CEO David Simon. The agreement was for the CEO to serve for another eight years. In addition to annual stock grants worth \$12 million annually over the term of the agreement, Mr. Simon was also granted a retention award worth \$120.3 million. What remains unclear is exactly why such a “retention” award would be necessary. The real estate firm was co-founded by Mr. Simon’s father and uncle and Mr. Simon is already one of the highest paid CEOs in the real estate industry.

Company: Viacom Inc.
CEO: Philippe P. Dauman
CEO Tenure: 2006-

Mr. Dauman became the President and CEO of Viacom Inc. in September 2006. In April 2010, the board entered into an employment agreement with the CEO which extended his term until 2016. As part of the agreement, his annual salary was increased from \$2.5 million to \$3.5 million, one of the highest annual salaries in GMI’s coverage universe. He was also granted special retention equity awards worth \$54.3 million, on top of his annual \$6 million in equity grants and annual cash bonus opportunity of \$12 million.



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