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Stock awards and bonuses push up compensation totals

By Danielle Douglas,

Hefty stock awards and bonuses drove total compensation up more than 20 percent for Washington's highest-paid chief executives last year, reflecting a nationwide trend among the largest public companies.

The awards came in a year when many top executives were busy steering their companies out of the worst economic downturn since the Great Depression. And for many, the packages are the last before new government rules take effect this year mandating nonbinding "say-on-pay" votes by shareholders.

David M. Zaslav, chief executive of Discovery Communications, topped the local list of the highest-paid executives with $42.6 million in total compensation in 2010, according to data filed with the Securities and Exchange Commission. That represented a 264 percent increase from 2009.

The bulk of Zaslav's pay, about 84 percent, was derived from stock and option awards, or equity pay, aligned with the growth of Discovery's stock. Shares of the Silver Spring-based cable programming giant traded as low as $14 in 2009, but hovered around $42 per share by the close of last year. Profit in 2010 also climbed 19 percent year over year to $653 million.

Discovery, which declined to comment for this story, cited Zaslav's accomplishments in its proxy statement, including his "success in driving quality content . . . and strong advertising sales that outperformed other major cable groups."

For Zaslav to receive the full amount of his $20.3 million stock award, he must meet set performance goals before the award vests in 2013. That's not unusual. Stocks and bonuses at many companies these days come with performance targets, said Charlie Tharp, executive vice president for policy at the Center on Executive Compensation.

"Giving long-term awards is more reflective of the scope of decision-making," he said. Corporations also want to ensure "senior executives are aligned with the interest of shareholders. The best way to do that is to give a large portion of the pay in equity."

Some payouts are not guaranteed

Executives often have to wait several years before cashing in options, with or without performance tie-ins, but the face value of the awards can soar — or plummet — by that time.

“CEOs have been able to profit from stock market fluctuations,” said Brandon Rees, deputy director of the AFL-CIO’s office of investment. “The stock options they received in 2008 have allowed many CEOs to profit for simply getting share prices back up to where they were, whereas long-term investors have not seen significant share price appreciation.”

More companies are starting to require C-suite executives to own a substantial amount of the equity they receive, a measure supporters believe mitigates risky behavior by aligning an executive’s potential payout with shareholders.

Option awards locally shot up 41 percent year over year in 2010, while stock grants rose 12.6 percent, according to a study conducted for Capital Business by Equilar, an executive compensation research fi rmSalaries climbed a smaller 4.3 percent, though bonuses surged 19.2 percent.

The rise in all components of pay reverses two consecutive years of decline, said Aaron Boyd, an analyst at Equilar. “The improvement of the economy from 2009 to 2010 and the rise of stock prices drove these values upwards,” he said.

All told, the median pay for Washington’s highest paid executives was $2.5 million last year, a 13.2 percent increase over 2009.

At the top

As was the case the year before, a number of the executives who landed in the top 10 received the lion’s share of their compensation in equity. Nearly 96 percent of the total compensation for NVR’s Paul C. Saville was composed of stock and option awards. The head of the home-building company in Reston ranked second on the list, with reported pay of $30.9 million. Capital One’s Richard D. Fairbank, who ranked seventh, received nearly all of his compensation — $14.8 million of his total $14.9 million pay — in equity awards, continuing a longtime practice at that financial firm.

There were some new entrants into the top tier, such as Human Genome Sciences’ H. Thomas Watkins, who climbed to 10th place with $9.9 million in pay. The Rockville pharmaceutical company bestowed on its leader a $8.4 million performance-based stock award at a time when its groundbreaking treatment for lupus was attracting notice for being the first new therapy for the disease to come to market in 50 years. The Food and Drug Administration in approved the drug in March.

Once again defense contractors — with third-place Wesley G. Bush of Northrop Grumman at $22.1 million, fourth-place Robert J. Stevens of Lockheed Martin at $19.1 million and eighth-place Jay L. Johnson of General Dynamic at $13.8 million — dominated the top ranks. Those chief executives, however, logged little to no growth in their total pay, as the government moved to slow spending in the sector.

Say on pay

Opponents of excessive executive pay anticipate companies will be taking a new look at how they structure pay packages in the wake of rules passed in the aftermath of the recent economic downturn. One of the few written rules to come out of the Dodd-Frank legislation requires public companies to give investors a “say on pay” at annual shareholder meetings.

Though the vote is nonbinding, boards have discretion to change pay packages, said Ronald O. Mueller, an attorney in the corporate governance practice at Gibson, Dunn & Crutcher in the District.

Protests against pay packages for this year have been scant, but corporate watchdogs remain heartened by the activity. Of the 2,061 say-on-pay ballots held as of June 16 at the largest public companies nationally, 33 have resulted in sizable “nay-on-pay” votes, according to Institutional Shareholder Services of Rockville, which itself advised investors to vote against the compensation awarded at NVR.

Two of those negative showings occurred at local firms NVR and Cogent Communications; several other Washington-area companies, including TNS and LaSalle Hotel Properties, had large minority “no” votes.

At NVR, 44 percent of shareholders voted against the company’s executive compensation awards. Saville saw his total compensation skyrocket 2,408 percent thanks to $29.6 million in equity awards. On the other hand, he has for the past four years requested the company freeze his $800,000 salary.

NVR has performed better than many other home builders since the housing meltdown, posting a 7.2 percent increase to $206 million in profit last year, at a time when its competitors were struggling to survive. Officials at the company did not return repeated calls for comment.

Cogent, TNS and LaSalle also did not respond to a request for comment.

“Shareholders’ objections cannot be ignored,” said Paul Hodgson, senior research associate at GovernanceMetrics, formerly the Corporate Library. “Even if it’s a minority no vote, if all of those investors decide to sell tomorrow it could significantly damage the company’s share price.”

Shareholders, he added, tend not to bristle at jaw-dropping figures in pay packages, so don’t expect them to tamp down chief executive awards. Investors will, however, raise a stink if rewards and results are out of sync.

Wage disparity

Renewed public scrutiny likely gave pause to perks such as gross-ups, in which firms pay such things as the excise tax on retirement parachutes. Companies may be looking at other benefits once regulators, as part of Dodd-Frank, force every public company to disclose the disparity between the pay of the CEO and the average worker.

According to the AFL-CIO, chief executive pay last year was 343 times workers’ median compensation, compared to 42 times higher in 1980.

“CEOs are being paid as if they were in a bubble,” said Rees of the AFL-CIO. “Companies compare their CEOs to their peer group and benchmark pay based on the median levels of compensation, which go up year after year."

Corporations are lobbying Congress to strike down the disclosure provision, due out later this year, but a number of investors have come out in support.