Half of CEOs Made More Than $8.3M at S&P 500 Companies Examined by the AP

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NEW YORK (AP) _ A new Associated Press calculation shows that compensation for America's top CEOs has skyrocketed into the stratospheric heights of pro athletes and movie stars: Half make more than $8.3 million a year, and some make much, much more.

CEOs of companies in the Standard & Poor's 500 that filed proxy information in the first half of this year received a combined $4.16 billion in 2006, according to AP's formula.

The high cost of chief executive pay has drawn criticism in recent years as salaries rose, stock options paid off like lottery jackpots, and perks like chauffeured cars and private jets spread. Still, there are few signs of any investor backlash.

Yahoo Inc.'s Terry Semel, whose Internet company has lagged behind Google Inc. in profit growth and stock performance, led the pack with total compensation last year of $71.7 million, according to the AP formula used to analyze those filings.

That's more than 2½ times the $27 million in total compensation this year for the New York Yankees' Alex Rodriguez, baseball's highest-paid player, and higher than the typical pay A-list stars like Brad Pitt or Leonardo DiCaprio earn for a movie _ $20 million, plus 20 percent of the gross box office take.

Semel was followed on the AP list by two energy industry CEOs, Bob Simpson of XTO Energy Inc. at $59.5 million and Occidental Petroleum Corp.'s Ray R. Irani at $52.8 million. Investment banks and energy companies were the sectors with the highest-paid leaders.

The top 10 earners were in disparate industries, but they all had one thing in common: They were paid at least $30 million each in 2006.

The Securities and Exchange Commission required companies starting this year to more completely disclose what they're paying their top executives. But the SEC's approach has been criticized for failing to provide useful figures for investors; the AP, in consultation with leading experts, came up with its own formula designed specifically to isolate the value of all compensation awarded to CEOs in the previous year.

Of the 386 companies in the AP list _ those whose fiscal years ended after Dec. 15, and who reported by June 1 under the new SEC rules _ only six reported their CEOs made less than $1 million last year.

The lowest paid was Costco Wholesale Corp. CEO James Sinegal, who made $411,688. But no need to shed tears for him: Sinegal also owns 2.4 million Costco shares, worth about $1.3 billion, and has options to buy 1.2 million more shares.

This year's expanded disclosure requirements also offer a much more detailed look at perks given to top executives. They range from multimillion dollar tax payments on behalf of executives to much smaller amounts for household bills, including home alarm monitoring.

A handful of companies, including Washington Mutual Inc., have stopped offering some perks, and pay consultants say many more are likely to do so as boards think twice about the repercussions of seeing their largess disclosed in proxies.

The AP formula, developed with advice from pay consultants Pearl Meyer & Partners and Mercer Human Resource Consulting, adds up salaries, bonuses, perks, above-market interest on pay that is set aside for later and what companies estimated the present value to be of restricted stock and options awards on the day they were granted last year.

This differs from the summary compensation formula that the SEC requires companies to use in proxy statements. Some executive pay consultants say the SEC formula is of less value to investors because it includes expenses that companies recognize during the year for current and previously awarded stock grants.

That tends to overstate in some cases, and understate in others, the specific pay decisions boards of directors took during the year, they said.

SEC Chairman Chris Cox told the AP that the SEC is looking at the statements it receives this year and could change the rules going forward.

No matter which formula you use, Yahoo CEO Semel's total illustrates one of the most pronounced recent trends in executive pay: Salary and cash bonuses account for only a small portion of total compensation. Almost all of his pay _ $71.4 million _ came as stock grants and stock options, according to AP calculations. His salary totaled only $250,001.

Plus, the eventual payouts from stock options handed to CEOs could be substantially higher in future years if the overall market keeps floating most stock boats higher.

Consider the case of Occidental Petroleum's Irani, who topped a separate Top 10 list of executives who exercised previously awarded stock options, compiled for the AP by Capital IQ, a division of Standard & Poor's. His net gain, before taxes, on shares he exercised in 2006 was $270.2 million _ an amount not included in AP's pay total.

But it's worth noting that three hedge fund managers _ James Simons of Renaissance Technologies Corp., Kenneth Griffin of Citadel Investment Group and Sears Holding Corp. Chairman Edward Lampert, who also runs ESL Investments _ together earned more than the 386 CEOs the AP studied combined. They collectively earned $4.4 billion last year, according to Alpha magazine, published by Institutional Investor.

Hedge fund managers say there is nothing wrong with such outsized returns because their pay is strictly related to performance and could fall to zero in any year when they stumble.

The likelihood of a similar flatlining of pay totals for CEOs of public companies is almost nil, however, even for companies with huge losses and dire prospects. And consultants expect CEOs to cite the fat paychecks of hedge fund managers and the kings of Wall Street to argue for even more lucrative packages.

It wasn't supposed to turn out this way.

This was expected to be the year that investor anger over pay boiled over. After Home Depot Inc.'s Robert Nardelli and Pfizer Inc.'s Henry A. McKinnell left their battered companies with golden parachutes worth $210 million and nearly $200 million, respectively, shareholder activists entered proxy season this spring primed for a showdown on pay and outsized retirement packages. It didn't happen.

Most annual meetings were quiet affairs. Shareholders did win votes giving them a say in executive compensation at Verizon Communications Inc., Blockbuster Inc. and Motorola Inc.

But mutual funds largely backed companies in voting against the initiatives, a poor portent for their future success at slowing the growth of executive compensation.

A recent report by the Congressional Research Service helps to put the executive pay issue into a real-world context. CEOs make, on average, 179 times as much as rank and file workers, double the 90-to-1 ratio in 1994, according to the agency's calculations.

Options grants and stock awards helped boost CEO pay as much as eight-fold during the 1990s economic expansion, according to compensation consultant Donald Delves. Then the stock market bubble burst in 2000 _ but CEO pay hasn't come down since.

By contrast, median household income edged up only 8.6 percent from 1990 to 2005, according to U.S. Census data.

If the minimum wage had risen at the same pace as CEO pay since 1990, it would be worth $22.61 today, according to the Institute for Policy Studies. Instead, the federal minimum wage will increase to $5.85 an hour on July 24, the first increase in a decade.

CEOs are also much richer than lower-level executives at their own companies. The Hay Group, a compensation consulting company, estimates that the average CEO makes 2.5 times more than the average executive in base pay.

That doesn't bother S. Randy Lampert, a managing director for investment banking at Morgan Joseph & Co., who advises corporations through the bank's Activist Defense Group. "Compensation is only excessive when it exceeds industry norms and the stock performance has been underwhelming," he said.

That's not how the board _ and executives _ at Costco see it.

CEO Sinegal and company Chairman Jeffrey Brotman haven't received a salary increase in six years, a period when shares of the nation's largest wholesale club operator rose 28.3 percent.

"The philosophy of the board, in terms of compensating executives, is that we are fairly paid, if not slightly underpaid, relative to other corporate peers," Richard Galanti, the company's chief financial officer and a director, said in an interview. "But that's OK. It's a fair wage, but not absurd."

"I think it sends a message to our employees that they don't see their CEO's name on the Top Five highest-paid people in the world," he said. "It's a positive message."

Not every board thinks the same way as Costco's, which angers J. Richard Finlay, founder of The Centre for Corporate & Public Governance in Toronto, which bills itself as North America's first independent think tank for corporate ethics.

CEO pay isn't set by markets, Finlay said in an e-mail interview. Instead, it is "determined by a small clique of like-minded directors, most of whom are themselves past and current CEOs with a vested interest in perpetuating a failed, but to them, remarkably generous, system."

Billionaire investor Warren Buffett, the world's second richest man after Microsoft Corp. founder Bill Gates, doesn't go quite that far. But he did write in his annual letter to Berkshire Hathaway shareholders letter last year that "too often, executive compensation in the U.S. is ridiculously out of line with performance."

Some boards, apparently, are starting to agree. Harvard law professor Lucian Bebchuk, author of the book "Pay Without Performance," said board members have been calling him to talk about proposals he made this year at a handful of companies to give shareholders a louder voice on pay.

As a shareholder activist, he engaged three of them _ American International Group Inc., Bristol-Myers Squibb Co. and Home Depot. All agreed that CEO compensation should be ratified by the entire board, not just the compensation committee.

"I did not expect boards to be so willing to make changes," he said.

The SEC's new disclosure rules also required companies to explain the thinking behind their CEO pay packages, describing, in detail, the goals they've set for executives in a section called compensation discussion and analysis.

John Wilcox, head of corporate governance at retirement system TIAA-CREF, which manages more than $410 billion, said his sense is that "some companies are backing into this process."

"Some have admitted, as they have gone through this process, that they have not had a compensation philosophy," he said.

The rules also mandate narratives, in plain English, explaining how pay decisions are reached. But a study of the disclosures by Clarity Communications found that most failed to meet readability standards many states require for insurance forms.

"It's a complex subject and that's really the question _ Why is it so complex?" said Dominic Jones, Clarity's president.

"Why is it that a CEO gets compensated in such a discombobulating fashion when the average worker gets a paycheck and can tell immediately what it's about? ... If you're an investor and you get your (proxy) statement and it just goes on for pages and pages of the different methods used to pay the CEO, at some point you have to ask yourself why. 'Why don't I get all this?'"

Still, if the process around pay is inching its way toward something that looks more democratic, executive pay may be one area where gravity doesn't apply.

Said TIAA-CREF Wilcox: "Once it's up there, it's very hard to pull it down again."