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Executives tell all by Frances A. McMorris

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Glassman: "There is something wrong"

More than a year after the passage of the Sarbanes-Oxley Act of 2002, some progress has been made. In particular, companies seeking to go public are increasingly transparent about the compensation packages of their top executives.

Companies are revealing more and more about the amount and the manner in which they pay executives, whether through salaries, bonuses and perks or the increasing use of stock options, restricted share plans and other long-term incentives. Many companies, in fact, are exceeding current disclosure guidelines for companies going public.

"No one wants to give the appearance of hiding

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information," says Brandon Cherry, a principal with **Presidio Pay Advisors Inc.** of San Francisco. "It's easier to see where money is going."

Has that transparency tempered the windfalls that some companies shower on their top executives as they go public? There's no evidence of that.

Consider the 61 companies that went public by early December 2003. They reported CEO salaries ranging from about \$230,000 to \$1 million but also provided details about bonuses that, in a few, rare cases, hit \$1 million or more, as well as details about restricted share offerings to executives.

Take the pay package for Kenneth J. LeStrange, the CEO of **Endurance Specialty Holdings Ltd.**, a Hamilton, Bermuda-based insurance giant. LeStrange racked up a \$900,000 annual base salary, along with a \$1 million bonus. The registration filings for the IPO also detail his employment contract and point out that he was required to buy 100,000 shares of the company's ordinary shares for \$2 million.

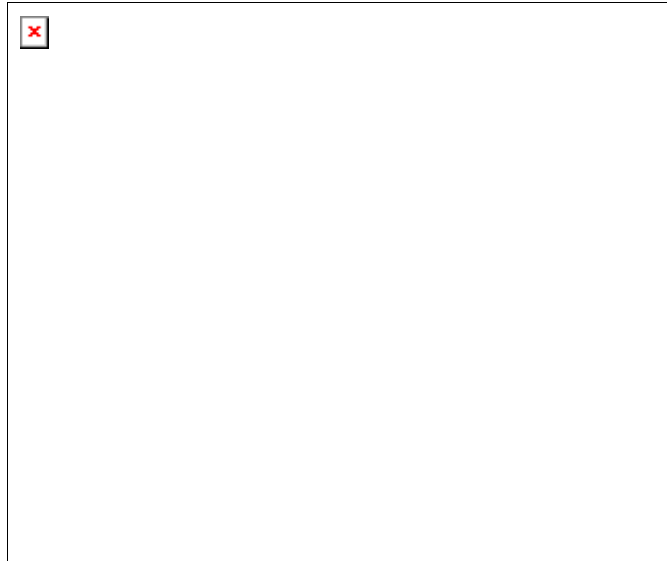
In addition, the company also disclosed that he was granted stock options to buy 1.094 million ordinary shares at \$20 per share, exercisable Dec. 14, 2006. As part of his pay package, LeStrange also received just over \$330,000 for expenses and is entitled "to travel in a private aircraft or receive reimbursement for first-class air accommodations in connection with required business travel and to participate in an air travel club."

That's not all. He also gets a housing allowance of up to \$200,000 and "reasonable expenses" for membership in a country club.

While all that may seem outlandish to working stiffs, it's what the market accepts. Compare those figures with the average base salary and bonuses among S&P 500 CEOs in 2002. They were \$919,381 and \$1,222,856, respectively, according to figures compiled by online investor watchdog group **Corporate Library LLC**. Among non-S&P executives, the averages were \$564,933 and \$535,583, respectively.

CEO compensation, however, "depends very much on the size of companies and also the industry," says Paul Hodgson, a senior researcher on those pay packages for Corporate Library. He says LeStrange's compensation, for example, isn't really out of line for his type of work. "Financial companies tend to pay pretty high, particularly insurance companies," he says.

Presidio's Cherry notes another change in compensation practices among companies going public last year. He analyzed executive compensation at companies that went public in 2002 and early 2003 and noticed a key difference: More newly public companies are using restricted stock and similar share allocations and deferred compensation plans, rather than stock options, to pay their CEOs.



Maguire Properties Inc. of Los Angeles, for instance, reported that its co-CEO and president, Richard I. Gilchrist, received \$8.75 million in restricted shares. And Leo H. Suggs of Richmond, Va.-based trucking company **Overnite Corp.** received \$3.1 million in such compensation.

Indeed, options don't cast the spell they once did, says Patrick McGurn, senior vice president at **International Shareholder Services** of Rockville, Md. Conscious that government regulators may soon require companies to expense stock options, many companies going public are designing stock plans that allow grants of restricted stocks and similar compensation vehicles normally reserved for more mature companies.

Newly listing companies are also wary of shareholder approval of stock option packages, McGurn says. "One near-term solution is to approve lots of shares for options before you go public and need shareholder approval," he explains. But that approach could be a red flag for investors as to whether they should put their money into such a business, he adds.

The problems with stock options also have executives at companies going public actively looking for more cash. "There is no magic dust via options that you can sprinkle to get people to take substandard cash packages," McGurn says.

That's pretty clear when you look at some of the compensation schemes for executives now heading up companies that went public in 2003. Although only a handful of the executives leading newly listed companies are in the million-dollar bonus club alongside LeStrange, it's still indicative of the lure of cash.

John Charman, CEO of **Axis Capital Holdings Ltd.**, an insurance company in Pembroke, Bermuda, netted a \$1.75 million bonus on top of a \$1 million base salary. The co-founders of **CapitalSource Inc.**, John K. Delaney and Jason M. Fish, each got \$1 million in bonuses in addition to base pay of \$400,000 from the Chevy Chase, Md.-based commercial finance company that provides loans to small and medium-sized businesses.

Student-loan financier **First Marblehead Corp.** of Marblehead, Mass., gave its chairman and CEO, Daniel Maxwell Meyers, annual pay of \$500,000 along with a \$1 million bonus. Also surpassing the million-dollar mark was Gilchrist of real estate investment trust Maguire Properties. He took in \$1.25 million in bonus money on top of his \$450,000 salary.

But it wasn't just financial institutions paying the big bonuses. Farid Suleman, chairman and CEO of Las Vegas media company **Citadel Broadcasting Corp.**, got \$1 million as salary and another \$1 million as a bonus.

Then there was the \$4 million success fee paid to **Nexstar Broadcasting Group Inc.**'s Perry A. Sook. The award from the Irving, Texas-based media company was for completing the offering in addition to his salary of \$615,000 and a regular bonus of \$350,000.

Why such high bonuses in media? "It's an industry that pays a lot of money anyway," Hodgson says. "The entertainment industry is very high-paying, regardless of the size of the company."

Hodgson opposes such high bonuses and success fees, as are more shareholder watchdogs inside and outside of government. "There's a relatively strong movement in corporate governance circles against such bonuses," he says.

Yet even as everyone from the Securities and Exchange Commission to Congress to the AFL-CIO scrutinizes excessive executive pay, the packages continue to grow in size and complexity. This has led to renewed calls to rein in corporate pay or, at the very least, disclose all aspects of the pay packages to investors.

"Executive compensation should not be a get-rich- quick scheme," SEC Commissioner Cynthia A. Glassman said in an Oct. 20 speech before the National Association of Corporate Directors. "There is something wrong when managers achieve unthinkable riches, especially when the owners' investment disappears."

In her speech, Glassman urged companies to "make sure there is full and open disclosure about executive compensation in their filings, even if it means going beyond the minimum requirements of [the SEC's] rules." She added, "If you are embarrassed to disclose what you are doing, that is a good sign you are not on the right track."

Seems like most of the companies going public last year heeded her call for more disclosure — if not necessarily for less hefty pay packages.

IPO update: 2003

The Deal's quick reference guide to how last year's initial public offerings fared

Issuer <i>Symbol</i>	Exchange	Date of first trade	Offer price per share	First day close	Closing price, Dec. 31*	% change from offer price*
Accredited Home Lenders <i>LEND</i>	Nasdaq	2/14/03	\$8.00	\$7.25	\$30.60	282.5%
Acusphere <i>ACUS</i>	Nasdaq	10/8/03	14.00	14.03	8.78	down 37.3
Advancis Pharmaceutical <i>AVNC</i>	Nasdaq	10/16/03	10.00	10.00	7.50	down 25.0
American Equity Investment Life <i>AEL</i>	NYSE	12/4/03	9.00	9.05	9.97	1,070.0
American Financial Realty Trust <i>AFR</i>	NYSE	6/25/03	12.50	14.25	17.05	36.4
AMIS Holdings <i>AMIS</i>	Nasdaq	9/24/03	20.00	20.10	18.28	down 8.6
Anchor Glass Container Corp. <i>AGCC</i>	Nasdaq	9/25/03	16.00	16.80	16.00	0.0
Ashford Hospitality <i>AHT</i>	NYSE	8/26/03	9.00	9.00	9.39	4.3
Aspen Insurance <i>AHL</i>	NYSE	12/4/03	22.50	24.05	24.81	10.2
Axis Capital Holdings <i>AXS</i>	NYSE	7/1/03	22.00	22.55	29.28	33.1
Buffalo Wild Wings <i>BWLD</i>	Nasdaq	11/21/03	17.00	22.95	25.95	52.6
Callidus Software	Nasdaq	11/20/03	14.00	17.30	17.69	26.4

<i>CALD</i>							
CancerVax <i>CVX</i>	NYSE	10/30/03	12.00	12.00	9.50	down 20.8	
CapitalSource <i>CSE</i>	NYSE	8/7/03	14.50	18.20	21.68	49.5	
Carter's <i>CRI</i>	NYSE	10/24/03	19.00	24.65	25.45	33.9	
Central Freight Lines <i>CENF</i>	Nasdaq	12/12/03	15.00	17.28	17.75	18.3	
China Life Insurance <i>LFC</i>	NYSE	12/17/03	18.68	23.72	32.97	76.5	
Chunghwa Telecom <i>CHT</i>	NYSE	7/17/03	14.24	14.35	14.50	1.8	
Citadel Broadcasting <i>CDL</i>	Nasdaq	8/1/03	19.00	20.65	22.37	17.7	
Compass Minerals International <i>CMP</i>	NYSE	12/12/03	13.00	13.75	14.28	9.8	
Conn's <i>CONN</i>	Nasdaq	12/5/03	14.00	15.04	16.10	15.0	
Ctrip.com International <i>CTRP</i>	Nasdaq	12/9/03	18.00	33.94	34.01	88.9	
DigitalNet <i>DNET</i>	Nasdaq	10/10/03	17.00	20.95	19.50	14.7	
Digital Theater Systems <i>DTSI</i>	Nasdaq	7/10/03	17.00	24.92	24.69	45.2	
Direct General <i>DRCT</i>	Nasdaq	8/12/03	21.00	25.15	33.10	57.6	
Endurance Specialty <i>ENH</i>	NYSE	2/28/03	23.00	23.00	33.55	45.9	
Falcon Financial Investment Trust <i>FLCN</i>	Nasdaq	12/17/03	9.00	9.05	9.80	8.9	
First Marblehead <i>FMD</i>	NYSE	10/31/03	16.00	22.15	21.88	36.8	
First Potomac Realty Trust <i>FPO</i>	NYSE	10/24/03	15.00	15.95	18.74	24.9	
FormFactor <i>FORM</i>	Nasdaq	6/12/03	14.00	17.58	19.80	41.4	
Franklin Bank <i>FBTX</i>	Nasdaq	12/18/03	14.50	17.61	19.00	31.0	
Genitope <i>GTOP</i>	Nasdaq	10/30/03	9.00	10.00	9.18	2.0	
Gladstone Commercial <i>GOOD</i>	Nasdaq	8/13/03	15.00	15.04	16.85	12.3	

Highland Hospitality <i>HIH</i>	NYSE	12/16/03	10.00	10.62	10.90	9.0
Infinity Property & Casualty <i>IPCC</i>	Nasdaq	2/21/03	16.00	15.90	33.05	106.6
Integrated Alarm Services Group <i>IASG</i>	Nasdaq	7/24/03	9.25	9.43	8.50	8.1
International Steel Group <i>ISG</i>	NYSE	12/12/03	28.00	35.20	38.95	39.1
InterVideo <i>IVII</i>	Nasdaq	7/17/03	14.00	19.69	11.75	16.1
iPass <i>IPAS</i>	Nasdaq	7/24/03	14.00	18.67	16.03	14.5
iPayment <i>IPMT</i>	Nasdaq	5/12/03	16.00	21.02	31.00	93.8
Journal Communications <i>JRN</i>	NYSE	9/24/03	15.00	16.25	18.53	23.5
Kintera <i>KNTA</i>	Nasdaq	12/19/03	7.00	10.30	12.40	77.1
Knology <i>KNOL</i>	Nasdaq	12/19/03	9.00	9.38	9.02	0.2
LECG <i>XPRT</i>	Nasdaq	11/14/03	17.00	21.03	22.89	34.6
LKQ Corp. <i>LKQX</i>	Nasdaq	10/3/03	13.00	15.00	17.95	38.1
Luminent Mortgage Capital <i>LUM</i>	NYSE	12/19/03	13.00	13.56	14.10	8.5
Maguire Properties <i>MPG</i>	NYSE	6/25/03	19.00	19.00	24.30	27.9
Marlin Business Services <i>MRLN</i>	Nasdaq	11/12/03	14.00	16.15	17.40	24.3
Marshall Edwards <i>MSHL</i>	Nasdaq	12/18/03	7.50	7.50	11.77	56.9
Molina Healthcare <i>MOH</i>	NYSE	7/2/03	17.50	20.00	25.23	44.2
Myogen <i>MYOG</i>	Nasdaq	10/30/03	14.00	14.90	14.30	2.1
National Financial Partners <i>NFP</i>	NYSE	9/18/03	23.00	26.25	27.55	19.8
Nelnet <i>NNI</i>	NYSE	12/11/03	21.00	21.80	22.40	6.7
Netgear <i>NTGR</i>	Nasdaq	7/31/03	14.00	17.69	15.99	14.2

Nexstar Broadcasting <i>NXST</i>	Nasdaq	11/24/03	14.00	13.98	13.71	down 2.1
NitroMed <i>NTMD</i>	Nasdaq	11/6/03	11.00	9.23	7.19	down 34.7
NpTest <i>NPTT</i>	Nasdaq	12/11/03	12.00	11.49	11.04	down 8.0
Open Solutions <i>OPEN</i>	Nasdaq	11/26/03	17.00	18.66	17.57	3.4
Orbitz <i>ORBZ</i>	Nasdaq	12/17/03	26.00	23.33	23.20	down 10.8
Overnite <i>OVNT</i>	Nasdaq	10/31/03	19.00	22.16	22.75	19.7
Pharmion <i>PHRM</i>	Nasdaq	11/6/03	14.00	14.00	15.25	8.9
Pinnacle Airlines <i>PNCL</i>	Nasdaq	11/25/03	14.00	13.30	13.89	down 0.8
Provide Commerce <i>PRVD</i>	Nasdaq	12/17/03	15.00	13.00	15.17	1.1
Providence Service <i>PRSC</i>	NYSE	8/19/03	12.00	14.00	16.18	24.8
Provident Financial Services <i>PFS</i>	NYSE	1/16/03	10.00	15.50	18.90	89.0
Quality Distribution <i>QLTY</i>	Nasdaq	11/7/03	17.00	18.71	19.55	15.0
RedEnvelope Inc. <i>REDE</i>	Nasdaq	9/25/03	14.00	14.55	16.70	19.3
RedlinePerformance Products <i>RED</i>	Amex	5/16/03	5.00	4.50	3.70	down 26.0
SigmaTel <i>SGTL</i>	Nasdaq	9/19/03	15.00	19.80	24.68	64.5
SIRVA <i>SIR</i>	NYSE	11/25/03	18.50	18.10	19.54	5.6
Synnex Information <i>SNX</i>	NYSE	11/25/03	14.50	14.20	13.76	down 5.1
Telkom SA <i>TKG</i>	NYSE	3/4/03	13.98	13.90	42.38	203.1
Tempur-Pedic <i>TPX</i>	NYSE	12/18/03	14.00	15.48	15.50	10.7
Tessera Technologies <i>TSRA</i>	Nasdaq	11/13/03	13.00	18.50	18.81	44.7
Texas Capital Bancshares <i>TCBI</i>	Nasdaq	8/13/03	11.00	11.99	14.46	31.5
United National <i>UNGL</i>	Nasdaq	12/17/03	17.00	17.50	17.67	3.9

Universal Technical Institute <i>UTI</i>	NYSE	12/18/03	20.50	26.35	30.00	46.3
Volume Services America <i>CVP</i>	AMEX	12/17/03	15.00	15.26	16.65	11.0
Webzen <i>WZEN</i>	Nasdaq	12/16/03	11.17	10.00	10.39	down 7.0
Whiting Petroleum Corp. <i>WLL</i>	NYSE	11/20/03	15.50	16.27	18.40	18.7

* Prices as of close of trade on 12/31/2003

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