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Theory & Practice More Finance Chiefs Get Top Dollar

Compensation Jumps As the Job Becomes Tougher; Stepping Stone to CEO?

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To follow the money in executive compensation these days, you have to follow the money -- to the chief financial officer.

CFOs are gaining prominence because of their key role in implementing the Sarbanes-Oxley corporate-overhaul law. At the same time, more companies view the finance chief as a potential chief executive. Yet the increased demands of the job are prompting some CFOs to step aside sooner, creating more turnover.

The result: Compensation for CFOs is rising even faster than for CEOs, by some measures.

Equilar Inc., a San Mateo, Calif., research firm, compared the compensation of CFOs and CEOs at companies in the Standard & Poor's 500-stock index who have been in their jobs for three years. It found the CFOs gaining on their bosses, with median compensation up 17% over the three years, compared with 4% for the CEOs.

The CEOs still make a lot more money -- a median of \$7.4 million, to \$2.6 million for the CFOs. But CFOs are catching up because they're getting bigger awards of restricted stock and stock options, while equity grants to CEOs are leveling off and in some cases declining, according to Equilar.

(The Equilar analysis is different from other studies because it focuses on compensation at the time it is given; the firm values stock options and restricted stock when they are granted to executives, but doesn't count the exercise of stock options, which can lead to huge paydays in other surveys.)


Executive recruiters say the jump in CFO pay reflects changes in the job, as well as the increased turnover, which tends to generate bigger paychecks. Turnover among chief financial officers of big companies increased 23% last year, according to Russell Reynolds Associates Inc., a New York search firm.

"Any time there is volatility, you're going to have ascending compensation associated with it," says Peter D. Crist, chief executive of Crist Associates, a boutique search firm in Hinsdale, Ill. Mr. Crist says companies increasingly are using the CFO spot as a "bench position," or training ground for executives.

That's what happened to George Paz, 50 years old, at **Express Scripts Inc.**, a Maryland Heights, Mo., pharmacy-benefit manager. Trained as an accountant, Mr. Paz spent five years as Express Scripts' CFO before being named president in 2003. In those jobs, he helped orchestrate acquisitions that fueled Express Scripts' growth. In April, he was promoted to chief executive, with the board citing his "broad business experience."

Microsoft Corp. in April named as its CFO Chris Liddell, who had previously been chief executive of **Carter Holt Harvey Ltd.**, a New Zealand forest-products company. One of Mr. Liddell's predecessors, Greg Maffei,

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recently was named the next CEO at **Liberty Media Corp.**, after a short stint as one of three co-presidents at Oracle Corp. Just last week, **General Motors Corp.** named Frederick "Fritz" Henderson its new CFO. Mr. Henderson had been running GM's European operations and is widely seen as a potential successor to Chief Executive Rick Wagoner.

"A lot of CFOs are looking to make a jump into general management," says Eric Rehmann, senior client partner in the financial-officer practice at the Washington office of search firm Korn/Ferry International.

To see the impact of turnover on CFO compensation, consider Kiran Patel, the new finance chief at software maker **Intuit Inc.** According to his September employment contract, Mr. Patel's annual salary is \$675,000. That's 38% more than the 2004 salary of Intuit's prior CFO, Robert Henske, which was \$487,500. It's also 13% more than Mr. Patel's 2004 salary of \$600,000 as CFO of **Solectron Corp.** Messrs. Patel and Henske were eligible for comparable bonuses, and each participates in a deferred-compensation plan. But Mr. Patel also received a \$350,000 signing bonus and 425,000 stock options -- six times as many as the 70,000 options Mr. Henske received last year.

An Intuit spokeswoman says the company is "delighted" to have Mr. Patel and his "phenomenal background" in both finance and operations. "We are committed to putting together compensation packages that attract and retain talent," she says.

Some CFOs now make nearly as much as their bosses. **Analex Corp.**, an Alexandria, Va., technology provider for defense contractors, in September hired C. Wayne Grubbs as its new CFO, at an annual salary of \$250,000, with a potential \$100,000 bonus, 400,000 options and 50,000 shares of restricted stock.

That puts his compensation very close to that of **Analex CEO Sterling Phillips**, who earned \$242,000 in salary, a \$199,000 bonus and received 200,000 stock options last year. Mr. Grubbs, formerly corporate controller for **SRA International Inc.**, says that Mr. Phillips has since received a raise, so that his boss's salary tops his own.

Mr. Phillips says Mr. Grubbs was selected because he "has the skills to take us to a much higher level" as **Analex** seeks to grow, and to help the company comply with the Sarbanes-Oxley rules next year. He calls Mr. Grubbs's compensation package "competitive and appropriate."

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Money Management

Compensation is rising for chief financial officers. Here's a look at some recent pay packages for new CFOs, compared with what their predecessors made in the most recent year.

COMPANY	CFO		SALARY	BONUS	STOCK OPTIONS
Intuit	New	Kiran Patel ¹	\$675,000	Up to \$506,250	425,000
	Predecessor	Robert Henske	\$487,500	\$380,000	70,000
99 Cent Stores	New	Rob Kautz	\$400,000	Up to \$200,000	150,000
	Predecessor	Andrew Farina	\$177,500	\$25,000	13,500
Wet Seal	New	John Luttrell ²	\$375,000	Up to \$187,000	100,000
	Predecessor	Douglas Felderman	\$253,484	\$100,000	60,000
Analex	New	C. Wayne Grubbs	\$250,000	Up to \$100,000	400,000
	Predecessor	Ronald Alexander	\$193,624	\$90,709	100,000

¹Received a \$350,000 signing bonus ²Received a \$50,000 signing bonus

Source: SEC filings