



PAY FOR CHIEF LEGAL OFFICERS

by Graef Crystal

September 2008

Time was, the best and brightest law graduates joined the so-called White Shoe law firms, firms like Cravath Swain and Millbank Tweed. After around six to seven years, some of those associates became partners. The remainder were sent out to various of the firm's clients, where even though they couldn't be partners, they could at least earn a decent living and perhaps even become a chief legal officer (CLO). Moreover, it was hoped, they could give business to their former law firm.

That was time was. Now we have time is. CLOs today earn hefty base salaries and bonuses. But more than that, they get options and free shares. And what do you know, the tables have been turned in many cases. Now a well-paid CLO can earn more than what he would have earned had he been given a partnership in his old law firm.

I've studied the pay of CLOs in 239 major companies, all with market caps of \$3 billion or higher.

Before proceeding further, I need to define what I mean by total pay. It consists of the sum of:

- Base salary.
- Bonus for annual performance.
- The value at grant of free shares granted during the year.
- My estimate for the present value at grant (using the Black-Scholes model) of stock options granted during the year. (The terms "present value" and "grant date fair value" are synonymous.)
- The "target" value of prospectively-granted performance shares or units awarded during the year.
- The present value of pension accruals made during the year.

- And, as defined by the U.S. Securities and Exchange Commission, miscellaneous compensation.

Before presenting some findings, it needs to be emphasized that you don't get to be a CLO listed on a company's proxy statement unless you are one of the three highest-paid executive officers, other than the chief executive officer and the chief financial officer of your company. Given that I found 242 CLOs and 507 CEOs using the same selection criteria, the chances of being one of those especially well-paid CLOs is only about one out of two. So we have here what the academic economists call "survivor bias".

The pay of those CLOs ranged from a low of \$335,000 earned by Glen Bodzy of Urban Outfitters Inc. to a high of \$8.4 million earned by Michael Fricklas of Viacom Inc.

So what explains these vast differences? I found that two factors – the size of the company, as measured by its 2007 net sales; and the degree of pay risk taken by the CLO (as measured by the ratio of option present value to total pay, options being the most risky form of executive pay) – could account for 43 percent of the variation in total pay.

But that 43 percent figure would rise dramatically if a factor for the pay of the CLO's boss, the CEO, were taken into account.

In this latter case, I correlated the extent to which the CEO was paid more or less than a competitive level for CEOs (again, after taking account of company size and pay risk) against the extent to which the CLO was paid more or less than a competitive level for CLOs (after controlling for the same two factors).

For an illustration, consider a CEO whose pay was one standard error above the regression trendline. That would put him at the 84th percentile of his fellow CEOs, meaning that only 16 percent of CEOs earned relatively more than he did.

In that case, the likelihood would be that the CLO in that company would earn 33 percent more than she would earn were her CEO to be paid at the mean.

And if her CEO were paid two standard errors above the regression trendline – equal to the 98th percentile – then she would be paid 76 percent more.

So if you're considering joining a company as CLO or even as someone immediately below the CLO level, take the time to check out how the ultimate boss – the CEO – is paid. Low CEO pay may be nice for the shareholders. But it isn't likely to be nice for you.

And speaking of "she", in the table that follows, I found no CLOs with female first names among the 30 most relatively highly-paid CLOs. But I found five women among the 30 most relatively lowly-paid CLOs.

Is that evidence of discrimination? Maybe. But maybe not, either. It could be the case that women, who have had a lot of trouble breaking through the glass ceiling, have done so but haven't been on the job long enough to rise in the pay ranks.

Two tables follow. The first shows the 30 most relatively-overpaid CLOs, including their actual total pay and the percent by which their pay is above (or below) a competitive level, after taking account of company size and pay risk.

The second shows the 30 most relatively-underpaid CLOs. All of these folk are paid way below their competitive pay levels.

In both cases, the tables are arrayed in descending order of the percent by which the executive's actual pay exceeds (or is under) the pay figure predicted by my pay model.

THE 30-MOST RELATIVELY-HIGHLY-PAID CLOs:

COMPANY	CLO	ACTUAL TOTAL PAY (000)	PERCENT DEVIATION
PLAINS EXPLOR. & PROD.	WOMBWELL, JOHN	\$6,246	387%
SL GREEN REALTY CORP	LEVINE, ANDREW	\$6,585	383%
PEOPLE'S UNITED FINANCIAL, INC.	KOSTURKO, WILLIAM	\$5,721	334%
CROWN CASTLE INTL.	HAWK, BLAKE	\$4,176	217%
INTUITIVE SURGICAL INC	MELTZER, MARK	\$5,099	215%
VIACOM INC.	FRICKLAS, MICHAEL	\$8,367	175%
RAYTHEON CO/	STEPHENS, JAY	\$7,160	131%
VERTEX PHARMACEUTICALS	BOGER, KENNETH	\$2,248	127%
YAHOO INC	CALLAHAN, MICHAEL	\$6,454	126%
VENTAS INC	RINEY, T. RICHARD	\$2,511	116%
LAB. CORP OF AMERICA HLDGS	SMITH, BRADFORD	\$4,854	111%
UST INC	KOHLBERGER, RICHARD	\$3,007	107%
ANADARKO PETROLEUM CORP	REEVES, ROBERT	\$6,016	107%
TEXTRON INC	O'DONNELL, TERRENCE	\$5,834	107%
CAPITAL ONE FINANCIAL CORP	FINNERAN, JOHN	\$7,293	101%
CBS CORP	BRISKMAN, LOUIS	\$6,711	99%
ALBEMARLE CORP	KISSAM,, LUTHER	\$3,050	97%
SUNPOWER CORP	LEDESMA, BRUCE	\$2,149	96%
OCCIDENTAL PETROLEUM CORP	DE BRIER, DONALD	\$5,651	90%
STARWOOD HOTEL & RESORTS	SIEGEL, KENNETH	\$4,379	89%
AMERICAN TOWER CORP	DISANTO, EDMUND	\$3,834	88%
WALT DISNEY CO	BRAVERMAN, ALAN	\$7,160	84%
WEATHERFORD INTERNATIONAL	MARTIN, BURT	\$3,953	75%
SCHERING PLOUGH CORP	SABATINO, THOMAS	\$5,467	74%
ALEXION PHARMACEUTICALS INC	DUBIN, THOMAS	\$1,137	67%
ILLUMINA INC	CABOU, CHRISTIAN	\$2,112	61%
CITRIX SYSTEMS INC	FRIEDMAN, DAVID	\$2,502	60%

COMPANY	CLO	ACTUAL TOTAL PAY (000)	PERCENT DEVIATION
AK STEEL HOLDING CORP	HORN, DAVID	\$3,576	59%
JOHNSON & JOHNSON	DEYO, RUSSELL	\$7,654	59%
ALLEGHENY TECHNOLOGIES	WALTON, JON	\$3,203	58%
	LOW	\$1,137	59%
	MEDIAN	\$5,099	101%
	AVERAGE	\$4,859	132%
	HIGH	\$8,367	387%

THE 30-MOST RELATIVELY-LOWLY-PAID CLOs:

COMPANY	CLO	ACTUAL TOTAL PAY (000)	PERCENT DEVIATION
ENERGEN CORP	WOODRUFF, DAVID	\$829	-46%
CF INDUSTRIES HOLDINGS	BARNARD, DOUGLAS	\$996	-47%
ENERGY EAST CORP	CONNOLLY, PAUL	\$1,068	-47%
PUGET ENERGY INC	O'CONNOR, J. L.	\$905	-47%
RELIANT ENERGY INC	JINES, MICHAEL	\$1,450	-47%
SLM CORP	LAVET, ROBERT	\$1,377	-47%
CONOCOPHILLIPS	GATES, STEPHEN	\$3,646	-48%
PATTERSON UTI ENERGY	MOLL, WILLIAM	\$787	-48%
ARROW ELECTRONICS	BROWN, PETER	\$1,623	-48%
EXCO RESOURCES INC	BOEING, WILLIAM	\$713	-48%
SAIC, INC.	SCOTT, DOUGLAS	\$1,461	-49%
HELMERICH & PAYNE	MACKEY, STEVEN	\$916	-49%
BERKLEY W R CORP	LEDERMAN, IRA	\$1,025	-50%
AVNET INC	BIRK, DAVID	\$1,495	-52%
HARLEY DAVIDSON INC	LIONE, GAIL	\$1,213	-52%
PEPSI BOTTLING GROUP	RAPP, STEVEN	\$1,422	-54%
WEIGHT WATCHERS INTL.	FIARMAN, JEFFREY	\$713	-54%
US BANCORP	MITAU, LEE	\$1,994	-54%
SYNOVUS FINANCIAL CORP	GRIFFITH, SANDERS	\$753	-57%
GLOBAL PAYMENTS INC	TORNAY, SUELLYN	\$610	-57%
HOST HOTELS & RESORTS	ABDOO, ELIZABETH	\$855	-58%
SAFEWAY INC	GORDON, ROBERT	\$2,066	-61%
EQUITABLE RESOURCES INC	O'LOUGHLIN, JOHANNA	\$500	-62%
TYSON FOODS INC	GONZALEZ-PITA, ALBERTO	\$1,357	-63%
WARNER CHILCOTT LTD	HARA, IZUMI	\$419	-64%
THERMO FISHER SCIENTIFIC	HOOGASIAN, SETH	\$842	-65%
ALLEGHENY ENERGY, INC	FEINBERG, DAVID	\$543	-69%
J C PENNEY CO INC	BOBER, JOANNE	\$1,119	-72%
URBAN OUTFITTERS INC	BODZY, GLEN	\$335	-75%
SOUTHERN COPPER	ORTEGA GOMEZ, ARMANDO	\$378	-82%
	LOW	\$335	-75%
	MEDIAN	\$996	-52%
	AVERAGE	\$1,139	-55%
	HIGH	\$3,646	-46%

The compensation data for this article were obtained from Equilar, Inc., a leading provider of executive pay data (www.equilar.com) .

2009 marks Graef Crystal's 50th anniversary in the executive compensation field. He has been a director of compensation for General Dynamics and Pfizer, worked as a consultant for Booz, Allen & Hamilton, served as worldwide practice director at Towers Perrin for 18 years, was a professor at the University of California at Berkeley's Haas School of Business for 10 years and a syndicated columnist for Bloomberg News for almost nine years. He has written six books and more than 1,600 articles on executive pay. In the Spring of 2009, he will be teaching a course in executive compensation at the University of California at Berkeley's Boalt School of Law.