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The Crystal Report on Executive Compensation



Hewlett-Packard Pays Mark Hurd \$34 Million

by Graef Crystal

February 3, 2009

Ignoring the thousands of layoffs that have taken place at Hewlett-Packard Co. in recent months, the company's board of directors just handed CEO Mark Hurd a pay package worth \$34 million.

Here's a few Bloomberg headlines over the recent past:

- Oct. 9, 2008 – “Hewlett-Packard To Cut 133 Irish Jobs”.
- Oct. 8, 2008 – “Hewlett-Packard To Cut Up to 3,378 Jobs at Unit in the U.K.”.
- Oct. 6, 2008 – “Hewlett-Packard to Cut 1,400 Jobs in Germany”.
- Sept. 16, 2008 – “Hewlett-Packard Cuts 24,600 Jobs After EDS Purchase.”

And that's less than the full picture. According to a Jan. 20 Associated Press story: “When the company's current round of job cuts is complete – HP is slashing 24,600 positions, nearly 8 percent of its 320,000 workers – Hurd will have cut nearly 40,000 jobs in two big rounds of layoffs since he took the job.”

Yet days after those headlines were created, H-P's compensation committee paid Mr. Hurd a \$24 million bonus as part of a \$34 million pay package.

That, friends, is The Marie Antoinette School of Management at its best.

Mark Hurd's Performance

Before getting to Mr. Hurd's pay, let's look at his performance during his tenure, which began on March 29, 2005, when he joined H-P as CEO from NCR Corp., where he had served as CEO for the previous two years.

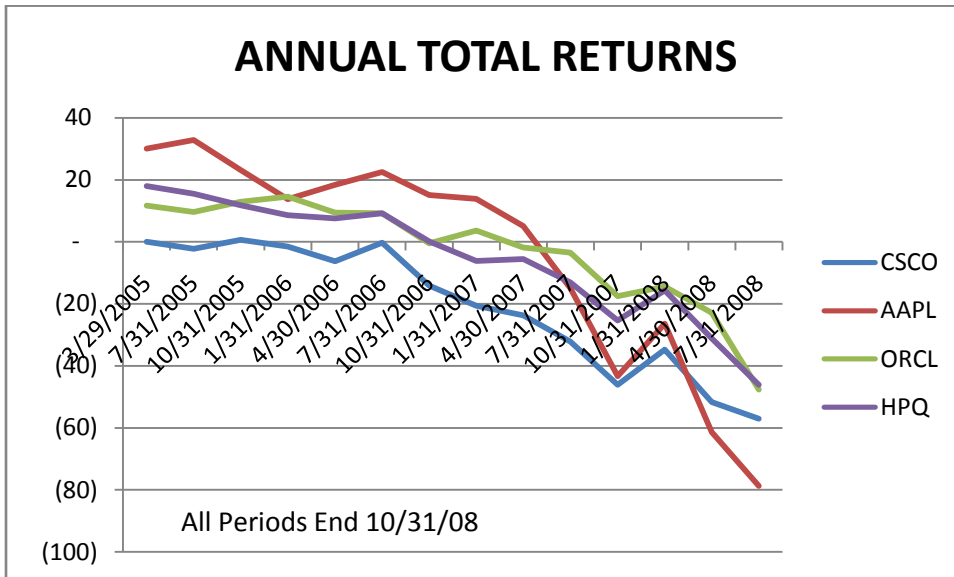
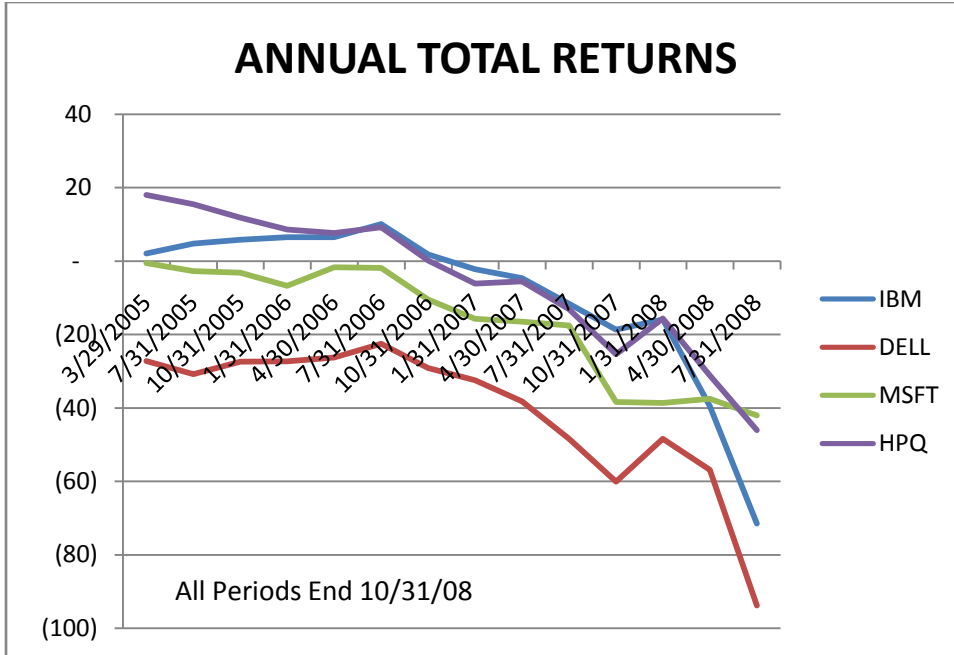
I looked at H-P's total return in 14 time windows, all of them ended on Oct. 31, 2008, the end of the company's most recently-completed fiscal year. The widest time window began March 29, 2005, the day Mr. Hurd became CEO. It was followed by a second time window beginning July, 31, 2005. Thereafter, each succeeding time window began three months following the start of the preceding time window, i.e., July 31, 2005, Oct. 31, 2005, Jan. 31, 2006, etc.

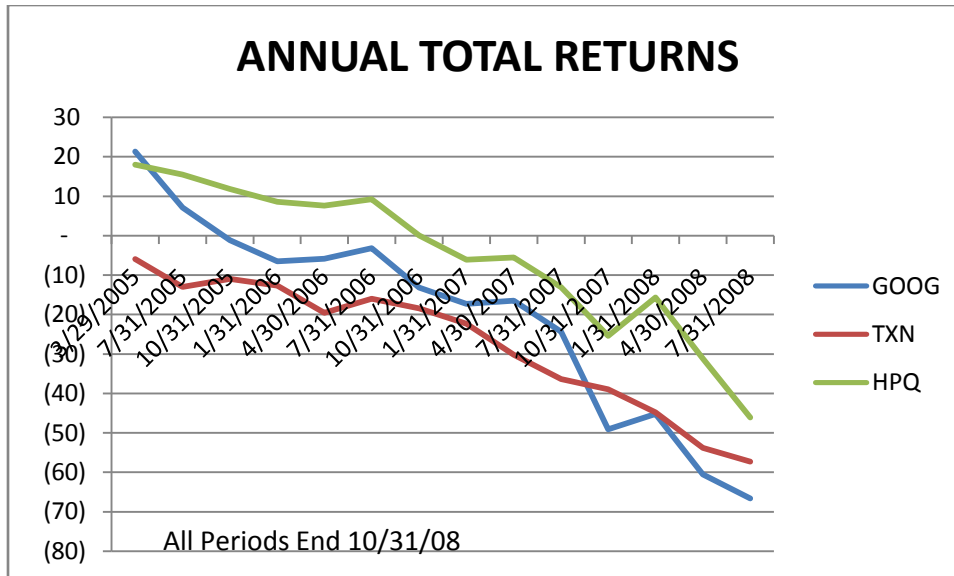
In its proxy statement filed on this Jan. 20, H-P lists 19 comparator companies, which it uses in setting its executive pay levels.

I decided to focus on eight high-tech companies on this list, including:

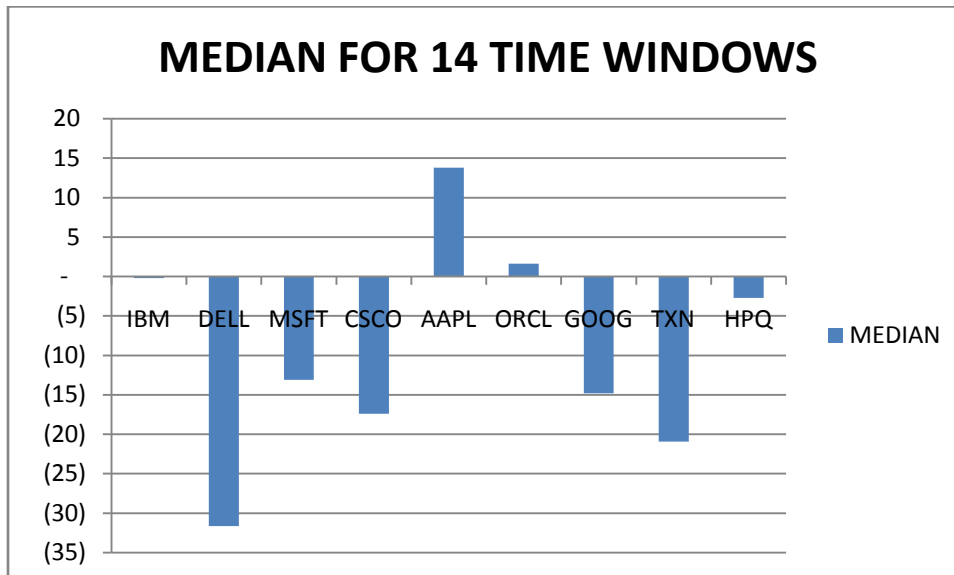
- International Business Machines Corp. (IBM)
- Dell Inc. (DELL)
- Microsoft Corp. (MSFT)
- Cisco Systems Inc. (CSCO)
- Apple Inc. (AAPL)
- Oracle Corp. (ORCL)
- Google Inc. (GOOG)
- Texas Instruments Inc. (TXN)

Following are three charts, in each of which H-P's total return in the 14 time windows is compared to two to three of the aforementioned comparators. (H-P's ticker symbol is HPQ.) For comparison purposes, the H-P's results are shown in each of the four charts.





I also calculated for each of the companies the median annualized total return in that company's 14 time windows. H-P turned out to be the fourth relatively-best performer, as can be seen in the following chart.



Bottom line: Mr. Hurd has done a good long-term job running H-P, after taking over from his hapless (or as some believe, incompetent) predecessor, Carly Fiorina. On the other hand, H-P was not the best performer in the group, and in seven of the 14 time windows, it lost money for its shareholders.

As to Mr. Hurd's performance during FY2008:

- Total return was negative 25.4 percent. That compares to negative 36.1 percent for the Standard & Poor's 500 Index and negative 41.2 percent for the 75-company S&P 500 Information Technology Index.
- Net sales rose 13.5 percent, to \$118 billion.
- Operating income rose 16 percent, to \$10.8 billion.
- Net income rose 14.7 percent, to \$8.3 billion.
- Diluted EPS rose 21.3 percent, to \$3.25 a share.

Although shareholders could not have been happy about that negative return of 25 percent, they could at least have consoled themselves with the handsome income statement numbers produced by Mr. Hurd, as well as the fact that they would likely have lost more had they invested elsewhere.

Mark Hurd's Pay

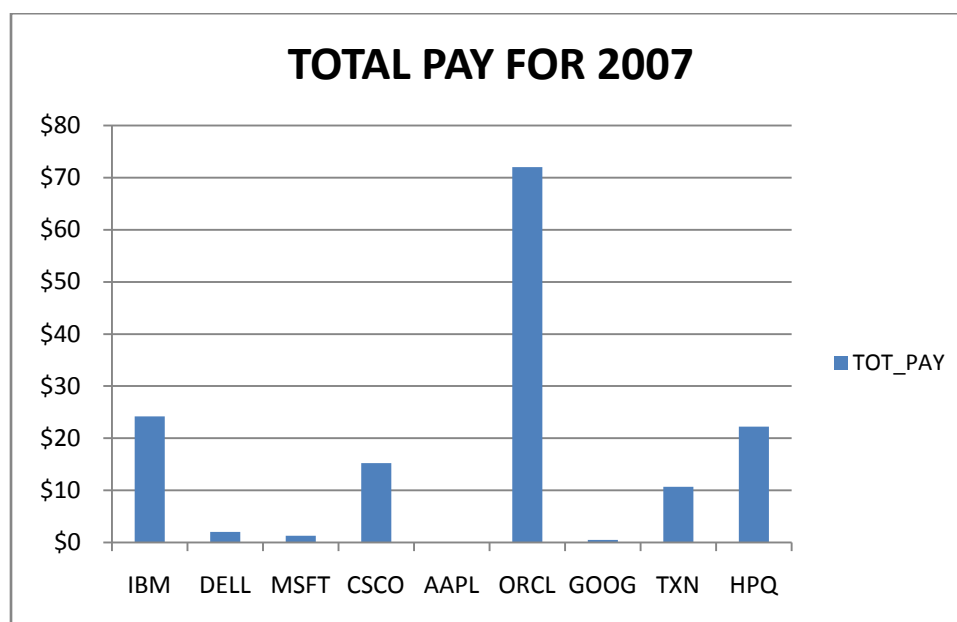
With that as backdrop, let's look at Mr. Hurd's pay for FY2008:

- A salary of \$1.45 million.
- Two bonuses totalling \$23.9 million. The first, for \$18.6 million, was based on goals set early in the fiscal year. The second, for \$5.3 million, was because Mr. Hurd's board somehow thought that \$18.6 million wasn't enough. On top of that, the larger of the two bonuses was predicated half on revenues and half on net profit. In other words, Mr. Hurd is paid for increasing his company's revenues, even though his shareholders make no profit on the gain in sales or take a loss.
- Free shares worth \$6.2 million at grant.
- The opportunity to earn further free shares based on future performance. The "target" value of this award was \$1.3 million.
- Miscellaneous compensation of \$741,000. The big ticket items here were \$256,000 for security services, \$136,000 for personal aircraft usage and \$124,000 for tax gross-ups, presumably to handle his tax bills for such perks.

Pay Comparisons

None of the eight companies used for performance comparison purposes have yet released their pay figures for 2008.

But here's a chart showing their pay figures for 2007:



In this chart, I have used Mr. Hurd's pay for 2007, not for 2008.

In 2007, Mr. Hurd earned total pay of \$22.2 million. That being the case, he was given a raise in 2008 of 53 percent. In dollar terms, the raise was worth \$12 million.

Note also that the median 2007 pay of the four companies that did not pay their CEOs a crazy lowball pay figure was \$20 million, almost identical to the \$22 million that Mr. Hurd earned in 2007.

But will those other CEOs receive a 53 percent increase in 2008? I doubt it, but stay tuned.

In recent weeks, we have seen Citigroup Inc. embarrassed over the purchase of a new jet worth more than \$40 million. And we have seen the U.S. auto CEOs lambasted for flying on their private jets to Washington, with tin cups rattling.

And now we have Mr. Hurd, with his \$34 million pay package, standing atop a huge pile of laid-off employees.

Shame on him. He could at least have asked that his board not give him that extra \$5.3 million bonus. And he even could have asked his board to cut his formula bonus. But he didn't.

More than anything, shame on his board and his board compensation committee for allowing all of this to happen.

The members of H-P's board compensation committee are:

- Lawrence Babbio, Chair, Senior Advisor to Warburg Pincus, a private equity firm, and former Vice Chairman and President of Verizon Communications Inc.
- John Hammergren – CEO of McKesson Corp.
- Joel Hyatt – CEO, Current Media LLC, a cable and satellite television company.
- Lucille Salhany – CEO of JHMedia, a consulting company.

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, 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. He is now teaching a course in executive compensation at the University of California at Berkeley's Boalt School of Law.