

# Detroit Free Press

www.freep.com

<http://www.freep.com/article/20110310/BUSINESS01/103100537/Ford-chief-Alan-Mulally-s-compensation-record-an-auto-CEO?odyssey=tabltopnews|text|FRONTPAGE>

## Ford chief Alan Mulally's compensation is a record for an auto CEO

12:51 AM, Mar. 10, 2011

BY GREG GARDNER  
DETROIT FREE PRESS BUSINESS WRITER



*Alan Mulally joined Ford in 2006. His compensation is likely to stir debate: Is this a well-earned reward or excessive?*

Alan Mulally's compensation for reviving Ford likely will exceed the auto industry's previous record set in 1998 by former Ford CEO Alex Trotman, who received \$73 million, a number that included the value of all his stock and options.

Last week, the company's president and CEO realized after-tax gains of \$33.4 million on incentive stock awards granted as part of his 2008 pay package. And that's just a part of what he has earned for leading Ford's historic recovery since 2006.

Ford will report Mulally's 2010 compensation in the coming weeks, and there's a strong chance it will be the largest pay package the auto industry has ever seen.

## Compensation for auto executives

Equity awards					
Based on Monday's stock closing price of \$14.01 per share					
<b>Alan Mulally</b>					
Total equity	Value of options	Value of shares	Unexercised options	Unvested stock	
\$313,333,329	\$119,129,959	\$194,203,370	14,532,167	13,861,768	
<b>Bill Ford</b>					
Total equity	Value of options	Value of shares	Unexercised options	Unvested stock	
\$133,668,324	\$43,322,850	\$90,345,474	12,794,114	6,448,642	
<b>Mark Fields</b>					
Total equity	Value of options	Value of shares	Unexercised options	Unvested stock	
\$38,372,421	\$19,902,072	\$18,470,350	2,644,050	1,318,369	
<b>Dan Akerson</b>					
2010 total: \$7,000,000		2010 salary: \$1,700,000		Salary stock*: \$5,300,000	
<b>Sergio Marchionne</b>					
2010 total: \$600,000		2010 salary: \$0		Salary stock*: \$600,000	

\* To be delivered over three years beginning Sept. 30, 2011

well-earned reward or excessive?

Ford spokesman John Stoll declined to comment on the amount, but noted Ford's stock rose 68% in 2010 and that Ford trimmed debt by \$14.5 billion and fully funded Ford's \$7-billion obligation to the UAW retiree health care trust.

Already, Mulally's accumulated equity-based incentives -- 13.9 million shares and 14.5 million options -- are worth about \$313 million based on Ford's \$14.01 closing price Monday, according to an analysis by Equilar, a firm that specializes in executive pay. That does not include salary, bonus and other corporate perks.

His compensation is likely to stir debate: Is this a

## Wednesday stock performance



Mulally's pay vastly exceeds the pay of GM CEO Dan Akerson and Chrysler CEO Sergio Marchionne. Mulally led Ford to a combined annual profit of \$9.3 billion over the past two years -- and without taxpayer aid.

In recent weeks, Ford shares have fallen about 24% from their January peak of \$18.97 over concerns that rising oil prices will hurt profitability. Mulally has plenty of incentive to keep Ford on track. **"This is like a guy who hits**

**45 home runs and you pay him, but it's spring training and you ask what is he going to do this year,"** said Van Conway, a restructuring consultant.

## Some say Mulally's \$313M fair, others have reservations

Ford President and CEO Alan Mulally is reaping impressive rewards for accomplishing what his domestic industry peers could not -- leading a successful turnaround without the political stigma of government assistance.

Now the debate begins over whether it was too much.

Ford will not release details of its top executives' compensation for a few weeks, but this week's disclosure that Mulally received a \$56.5-million stock award, for delayed compensation granted in 2008, set tongues a-wagging.

Many advocates of "pay-for-performance" say it is fair, reasonable and well-deserved.

General Motors paid CEO Dan Akerson a \$1.7-million salary and stock valued at \$5.3 million. It also will pay him another \$2 million in restricted stock, based on GM's performance. Chrysler CEO Sergio Marchionne received no salary from Chrysler last year, but potential shares valued at \$600,000. As CEO of Italy's Fiat, Marchionne also was paid about \$4.8 million last year.

**Based on Ford's \$6.6-billion profit last year, Mulally's pay is not excessive, said Birmingham-based turnaround adviser Van Conway. "When you look at the stock award, it's about 1% of profits," he said.**

Others will say that packages such as Mulally's are conspicuous if not excessive when national unemployment is 8.9% and many people are working for the same or less. It could also cause problems with the UAW.

Mulally has "done a fabulous job, but when they negotiate with the union later in the year it's probably going to come back and bite them in the butt," said Gary Bradshaw, who owns about 100,000 Ford shares as an investment manager in Dallas.

A UAW spokeswoman declined to comment.

One union official, who asked not to be named, said Mulally's pay continues to strain relations. "The membership is upset ... even though he's a good CEO," he said.

Boards of directors that believe in pay-for-performance compensation tend to use stock options and stock awards tied to specific goals over three to five years.

Since taking the helm in 2006, Mulally has received stock options and awards that are now valued at about \$313 million, according to Equilar, a consulting firm that analyzes executive compensation.

The more stock a CEO owns, the closer his or her actions are likely aligned with shareholders. It also encourages the CEO to manage for improved value longer term.

For example, the \$56.5-million award to Mulally last week (\$33.4 million after taxes) represented shares the board gave Mulally in 2008 when Ford lost \$14.7 billion. It was tied to share prices in 2011.

But pay-for-performance, in theory, means that executive pay will fall in years when the company loses money. Chairman Bill Ford, for example, has taken no salary since 2005. But he is beginning to reap incentive awards based on Ford's turnaround. He received \$42.4 million in the most recent stock award, or \$25.1 million after taxes.

Mulally still earned about \$17 million in 2008.

That's where his pay draws critics. There wasn't enough pay lost during bad times.

"That's too big a safety net and you're really not promoting the kind of behavior that truly benefits shareholders over the long haul," said Steve Tobak, a managing partner with Invisor Consulting in Palo Alto, Calif.

Nejat Seyhun, a finance professor at the University of Michigan's Ross School of Business, said research shows that CEOs at large companies are paid about \$2 for every \$1,000 of shareholder value created.

Using that formula, Mulally could expect to receive close to \$100 million for the last two years.

"Did he get precisely what he deserves? Maybe not," Seyhun said. "But is it in the ballpark? Certainly."