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## Big money for the top brass, but less of it

By **TOM FOWLER** ©Copyright 2007 Houston Chronicle

The energy boom gave local executives bigger bonuses last year, but the waning popularity of stock-based pay pulled down the average package for Houston's 100 highest paid by 10 percent.

But don't expect to see the top business brass bargain-hunting at Wal-Mart — the average total pay for the top 100 was still \$6.2 million in 2006.

At the top for the second year in a row was Eugene Isenberg, chairman and CEO of drilling company Nabors Industries, with a total package of \$29.5 million, down from \$45.6 million in 2005.

Anthony Petrello, president of Nabors, was second with an \$18.6 million package, down from \$23.3 million. Two of the next three execs in the top five saw their total pay slip.

"We were surprised by the drop in pay in Houston," said Josh Henke, managing director of Longnecker & Associates, the Houston compensation consulting firm that compiled this list. A survey of top executives in Dallas conducted by the firm showed a similar drop.

The Texas pay dips run counter to trends reported nationally, including a survey of 350 major U.S. corporations done by Mercer Human Resources earlier this year. The study by that company found an 8.9 percent increase in overall pay.

Henke says Texas boards of directors have been a bit more conservative than their peers nationally in recent years. In particular they are reacting to accounting rule changes that make stock options more costly to grant and a spate of stock option backdating investigations in the past year.

As a result, while cash is still flowing in the Houston area — the average bonus was up nearly 50 percent to \$1.7 million — the average stock-based payments were down nearly 28 percent to \$3.4 million.

The pay survey analyzed public reports filed by more than 100 publicly traded companies to generate a list with more than 500 executives.

The top five on the 100 list were rounded out by Plains Exploration & Production Chairman and CEO James Flores (one of five Plains Exploration executives in the top 15) with \$17 million; Halliburton Chairman and CEO Dave Lesar with \$16.4 million; and ConocoPhillips' chairman and CEO James Mulva with nearly \$15 million.

### **Not their favorite thing**

The annual list is not popular with executives, or their public relations staffs, so many have declined to elaborate on the information provided in the filings.

Privately they note the results can be misleading because the totals include shares of stock and the estimated value of stock options, which give executives the right to buy stock at a given price in the future. These options may turn out to be worthless if the company fares poorly or worth far more if it does better than expected.

Nabors officials attributed their company's showing in the pay survey to record profits in 2006 — despite a slip in the stock price from more than \$40 to less than \$30 — and an incentive program started 20 years ago when Isenberg and others took over the small drilling firm that had recently gone through bankruptcy.

Nabors board member Martin Whitman said in a statement that executives who create shareholder wealth from nothing — as he says Isenberg and Petrello have — should be compensated better than managers who take over a healthy concern.

Isenberg said last year's stock price dip, due to the market's perception that Nabors is too heavily tied to the North American natural gas business, has him particularly focused on even better financial results.

"I'm motivated as strongly as ever because I'd like to have a super success in the company and I'd like it to be generally recognized," Isenberg said.

The large pay package doesn't seem to be a deterrent to investors.

"Most investors are very well aware of his pay package when they buy

the stock," said Marshall Adkins, an analyst with Raymond James who follows the drilling industry. "Gene's been exceptionally good at making money for shareholders, so they're not going to complain."

### **More pay details**

New rules that went into effect this year requiring companies to share even more details of executive pay may also be behind the downward movement in pay in Houston.

Among the details revealed this year are what executives will be paid should they retire or the company is taken over, how bonuses are calculated, and the details about what non-cash perks they receive, if they are worth \$10,000 or more.

The new retirement data contain some surprises.

Under certain circumstances, Nabors' Isenberg can walk away from the job with as much as \$525 million in cash and stock, for example.

Petrello can receive a \$188 million severance package and Plains Exploration's Flores could see a \$148 million parting gift.

The disclosures on bonuses aren't quite so dramatic but offer some insight into what executives were shooting for last year.

Independent exploration and production company Anadarko printed a detailed chart to help explain its bonus system and even noted where it came up short of those goals in 2006, such as failing to add enough oil and natural gas reserves. Anadarko Chairman and CEO James Hackett could have earned a bonus of about \$4.5 million if the company hit all its targets, but instead he was paid \$1.9 million cash bonus (and another \$160,000 in stock to push his total bonus close to \$2 million).

Other companies are not so forthcoming.

Natural gas pipeline and storage firm Southern Union paid Chairman and CEO George Lindemann a \$7.5 million cash bonus, making it the third-largest bonus in Houston last year. Vice President Eric Herschmann received a \$5 million bonus. The company's proxy statement says the bonuses were one-time items given at the discretion of the board for "successful completion of a series of transactions critical to the diversification of the company's natural gas assets."

Southern Union wouldn't give more detail on how the bonus figures were reached, but 2006 was a busy year for the company, as it sold off business units, acquired assets and moved its headquarters to Houston.

Likewise, Plains Exploration says little about how it reaches its annual bonus payments, which included \$2 million for CEO Flores and \$1

million each for executives Doss Bourgeois, Winston Talbert and John Wombell. Rather, the company proxy simply says it's based on objectives ranging from "oil and gas production levels, oil and gas reserve additions, achievement of income and/or cash flow targets" and other items.

Plains Exploration officials emphasized the company's performance last year when commenting on the bonuses. For example, the oil and gas company's earnings per share soared from a loss of \$2.75 per share in 2005 to a profit of \$7.64 in 2006.

### **Sporting tickets, luggage**

This year is also the first one that companies must detail non-performance-related items, commonly called perks, that are worth \$10,000 or more.

Companies have long been required to report the total value of perks, but in the past they didn't have to provide details until the value reached a \$50,000 threshold.

Under the new rules, there are more details that reveal a little about life at the top, although these benefits are not always lavish.

Halliburton's Lesar had the benefit of a reserved parking space worth about \$1,153 in 2006. William Schumann and Charles Cannon, the CFO and executive vice president for industrial equipment maker FMC Technologies, each had parking benefits worth \$4,500.

EOG Resources noted that CEO Mark Papa used \$5,546 in company sporting event tickets, received a 25-year service award payment of \$18,077 equal to one week's pay and a luggage set worth \$972.

EOG general counsel Gary Hunsaker was given a \$214 pair of binoculars as a 10-year service gift.

Continental Airlines CEO Larry Kellner received a \$16,788 car allowance, Dresser-Rand Co.'s Vincent Volpe Jr. was given \$16,000 for use of a company car, while Waste Management CEO David Steiner and four other executives there each received a \$12,000 car allowance.

For the most part, however, Houston companies don't seem to go overboard with perks, said Brent Longnecker, head of Longnecker & Associates.

"Perquisites are 'psychic income,' benefits that make executives feel good, but aren't tied to performance," Longnecker said. "It may be the temperament of Texas boards, but a lot of the ones we work with don't buy into that and are more focused on base, bonus and long-term incentives."

## 'Tax gross-up'

The proxies also reveal a widely used but less-known benefit, the so-called "tax gross-up" payment that reimburses executives for taxes they would have to pay on certain benefits.

These payments have shown up in the past to cover taxes on perks with relatively low dollar values, such as personal use of a corporate jet or country club membership fees. But companies have to reveal more of them this year because of the lower perk threshold.

Some executives received tax gross-ups for larger items last year, however.

John Huff, chairman of oil-field-services company Oceaneering International, received \$1.8 million in tax gross-up payments related to the vesting of restricted stock in 2006. CEO Jay Collins received a \$1.1 million tax gross-up payment for the same reason.

"They are technically compensation, but it will probably not be received well by the public," Henke said. "As more light is shed on these gross-ups, we think they will slowly start to fade."

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