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PAGE ONE

No Razor Here: Gillette Chief to Get A Giant Payday

About \$153 Million Awaits
Kilts After P&G Deal,
His Second Merger Score

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James Kilts had millions of reasons to sell **Gillette Co.** to **Procter & Gamble Co.** -- 153 million of them, to be precise.

Mr. Kilts, Gillette's chairman and chief executive, cited the need for more heft in the global personal-care industry in explaining why it made sense to subsume the 104-year-old company in P&G. But he also had a financial incentive to do the deal, which he initiated: Mr. Kilts stands to reap more than \$153 million, including gains on his Gillette stock options and stock rights, a one-time sweetener from P&G valued at an estimated \$23.9 million, plus a "change in control" payment of \$12.6 million.

Mr. Kilts will also stay on at the merged company for a year, as P&G vice chairman, earning what one compensation expert estimated would be about \$8 million.

SOAP AND LATHER



- ¹ • [Graphic: Key brands at Gillette and P&G](#)²
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In an interview, Mr. Kilts said, "I was going to make good money by having Gillette as a stand-alone company, so the motivation wasn't anything to aggrandize management or myself but to do what is right for shareholders and employees in the long term." He said that he didn't "think it's productive to talk about my pay. I'll let the record

speak for itself. ... We saved thousands of manufacturing jobs and more than doubled our shareholder value since" April 2001, in "the dark days at Gillette." A spokesman for Gillette confirmed the basic details of his compensation, which also calls for an eventual \$1.2 million-a-year pension.

While some say Mr. Kilts, 56 years old, deserves every penny for turning Gillette around and adding billions in shareholder value, his big payday after just four years is spotlighting some longstanding issues about CEO pay in general: Are top executives sometimes motivated to do mergers, at least in part, by personal gain? And is it right for the top people to walk away with megamillions while thousands lose their jobs in post-merger downsizing? P&G and Gillette have said 6,000 jobs are likely to be cut in the combined company.

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Mr. Kilts certainly isn't alone, even in Gillette's hometown of Boston. Charles K. Gifford has profited handsomely after twice selling Boston banks he ran, most recently with the sale of FleetBoston Financial Corp. to **Bank of America** Corp. last year. Among features of his recently revealed deal to retire at the end of January: \$16.4 million in severance stemming from an earlier merger, a \$3.1 million annual pension, access to a Bank of America corporate jet and his pick of choice Red Sox baseball tickets. Filings indicate that Mr. Gifford holds Bank of America shares worth about \$120 million.



James Kilts

A Bank of America spokesman said that none of the payments to Mr. Gifford resulted from any agreements struck in relation to the bank's takeover of FleetBoston. The bank also said Mr. Gifford "spent 38 years building FleetBoston into an extremely valuable company." Mr. Gifford was unavailable for comment, a bank spokeswoman said.

Mitchell Marks, a San Francisco strategy consultant and specialist on managing mergers, says he has seen CEO attitudes shift from two decades ago, when most who sold their companies later regretted doing so. Now, he says, many "people see M&A as a game and as a way to buttress their own wealth and their own portfolio." He dislikes the trend, because he says it demoralizes employees: "People think they are joining a company for the long haul and boom, the rug is pulled out from under them because the CEO wants a quick payday."

Once, controversy over CEOs cashing in on mergers focused most heavily on "golden parachutes," one-time payments given to executives whose jobs are lost in a takeover. While chutes continue to be unfurled, today many of the biggest payouts come from stock options, including accelerations of the dates when the options vest and can be exercised.

Corporate-governance specialists generally applaud option grants, which help align top executives' interests with those of shareholders. Without big equity stakes, the theory goes, CEOs could be so enamored of job perks -- big salary, corporate jet, minions scurrying about -- that they might resist a takeover bid that's good for shareholders.

But it's tricky to find just the right pay formula. Some compensation specialists worry that, just as giant option grants can tempt some CEOs to create fraudulent earnings statements to boost the share price -- witness the wave of corporate accounting scandals -- they may also motivate executives to sell a company too cheaply for a quick gain.

A troubling sign, some add, is a merger deal's one-time sweetener for the target company's chief executive. "Many of them really dip in and take an extra bonus, an extra augmentation of their contract at the 11th hour, when there's very little ability of the shareholders or even their own directors to do anything about it," says David Yermack, a New York University associate professor who studies executive pay. "You have to wonder if the deal might have been even more favorable had they been working for shareholders instead of just for themselves."

He was co-author of a paper that looked at this issue in several hundred mergers in the 1990s. In 27% of transactions, the 2004 study found, the CEO got a special lump-sum payment related to the deal, while in 12% an existing golden parachute was augmented. The authors found that CEOs of target companies negotiated slightly lower acquisition premiums for shareholders, on average, when the chief was given extra payments or a position at the acquiring company.

Prof. Yermack says it isn't always clear at the time of the deal that extra benefits are going to the CEO of an acquired company. A common situation, he says, is for the CEO to get a new position of vice chairman at the combined concern. "Vice chairman is usually understood to be a golfing position in most companies," Prof. Yermack says, and besides a big salary, companies often "pay them a fat severance a year or two later. There are all kinds of ways to reward these guys."

Package Deal	
How much Gillette CEO James Kilts would get from the P&G deal, in millions.	
ITEM	VALUE
Paper profit on Gillette options	\$111.6
Gillette stock rights	5.7
Severance payment	12.6
Grant of P&G options	15.8*
Grant of P&G restricted stock	8.1
Total compensation	\$153.8

Note: All calculations made on Friday's closing stock price

*Value as if options were granted Friday, using Black-Scholes data from P&G's most recent proxy.

Source: WSJ research

A Gillette spokesman said both companies understand Mr. Kilts's job will be "a full-time" commitment as Mr. Kilts leads the integration effort and "is charged with delivering the cost savings and revenue improvements from the merger."

Although CEOs sometimes defend big paydays as appropriate in view of the great value they created, some seem to make out well when circumstances are otherwise. AT&T Wireless Services Inc. was sold to Cingular Wireless last year for \$15 a share -- about half its value when it went public as a tracking stock of AT&T Corp. in 2000. Even so, John Zeglis, AT&T Wireless's CEO throughout that period, walked away with more than \$32 million, filings show.

Many of his gains came from options granted when the stock was even lower than the takeover price. But the merger agreement also called for vesting of previously unvested options and stock awards, netting him \$13.4 million. And Mr. Zeglis was entitled to \$7.5 million in severance when he left the company last year.

At the time of the deal, an AT&T Wireless spokeswoman acknowledged Mr. Zeglis and other executives were benefiting but said shareholders also would. She said the deal with Cingular, owned by **SBC Communications** Inc. and **BellSouth** Corp., would result in a more-than-100% premium over the stock price less than two months before. "We have a typical stock-option program. It's a long-term incentive plan designed to increase shareholder value, and it has worked just as it is supposed to work," she said. Mr. Zeglis didn't return a call seeking comment.

For Mr. Kilts, the P&G-Gillette deal wouldn't be the first time he has done well from selling a company he led. A longtime executive of Kraft foods, Mr. Kilts in 1997 took the helm of Nabisco Holdings Corp., which was then part of the RJR Nabisco empire but later became a publicly traded company. In less than three years, Mr. Kilts reinvigorated its brands and boosted profits, and he made a deal to sell the business to Philip Morris Cos. for \$14.9 billion.

Shareholders did very well, and so did Mr. Kilts: He made \$63.4 million in gains on his Nabisco options and restricted stock and was entitled to \$6.6 million in severance, according to filings.

In early 2001, Gillette tapped Mr. Kilts. He never moved his family to Boston. He commuted from his home in Rye, N.Y., usually staying during the week at a company-paid apartment in Boston.

Gillette was floundering then, its stock down by more than half from the 1999 level. Mr. Kilts cut jobs and debt and spent heavily to revitalize some brands. After a long period of stagnation, the

stock started moving up in 2004. Late in the year, Mr. Kilts approached P&G.

With the announcement of a planned sale to P&G, Gillette's stock is up about 61% since Mr. Kilts arrived, adding close to \$20 billion in shareholder value. He couldn't have arranged the sale to P&G without Gillette directors' approval.

"His incentives were based on performance, and he performed," says Steven Kaplan, a University of Chicago finance professor who studies mergers. "Look at his track record. There's a market for CEOs, and he's one of the best."

Mr. Kilts agreed not to sell any P&G stock or exercise any P&G options obtained as part of the merger for two years. He also agreed to extend a noncompete clause for three years following the end of his P&G employment.

"In consideration" of that and other things, Gillette's proxy statement said, P&G agreed to grant Mr. Kilts one million P&G options -- valued at about \$15.8 million using the Black-Scholes valuation method -- plus 150,000 P&G shares in the form of restricted stock, currently valued at about \$8.1 million. He can't sell the restricted stock until three years after leaving the company.

As for the \$12.6 million change-of-control amount, a Gillette spokesman said Mr. Kilts is looking for a way to roll that into P&G stock. The spokesman, who also called the payment severance, said it will be paid because the merger means Mr. Kilts will no longer be a CEO.

--John Hechinger, Joann S. Lublin and Sarah Ellison contributed to this article.

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