

# Ballmer gets less than 'A' grade in compensation

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Microsoft Corp. CEO Steve Ballmer was awarded 79 percent of his target bonus for the company's latest fiscal year, with the software giant citing falling profits for its Windows division and sluggish sales of the Surface tablet.

The \$550,000 award was detailed in a securities filing Thursday and is tiny compared with Ballmer's \$11.3 billion fortune in Microsoft stock. But it reflects the Microsoft board's dissatisfaction at a key turning point in the company's 32-year history as it tries to become a devices and services company, moving beyond mostly software.

Ballmer, 57, said in August that he'd step down within 12 months and Microsoft is searching for a new CEO.

Ballmer has long requested relatively low pay for the CEO of a major U.S. company, mainly because his wealth is already tied to Microsoft's fortunes. Including salary of \$697,500, his total pay for the fiscal year that ended June 30 was valued at nearly \$1.3 million, down 4 percent from the year before.

Over the year, Microsoft's adjusted revenue grew 4 percent to \$77.3 billion but adjusted operating income fell 5 percent to \$26.96 billion and earnings per share dropped 6 percent to \$2.62. Earnings were hit by an 18 percent decline in operating income at its flagship Windows division, despite the launch of Windows 8 last October.

Poor reception of the newest operating system, which attempts to bridge the gap between tablets and PCs, has been cited by some analysts for accelerating the decline of global PC sales. Later this month, Microsoft is releasing a free update called Windows 8.1 that aims to fix some of the problems users have complained about.

The company also launched its first self-made tablet computer, Surface, last October. In July, it booked a \$900 million write-down on excess Surface inventory and slashed prices to stimulate demand. It updated the tablet with Surface 2 models last month.

It also said last month that it would buy Nokia's mobile phone business for \$7.2 billion, pushing it further into the hardware business. Nokia phones account for the vast majority of devices sold that use Microsoft's Windows Phone platform.

Microsoft's stock price rose 13 percent in the fiscal year to \$34.54 on June 28 from \$30.59 a year earlier as investors still valued its steadily profitable enterprise software business and Office suite of software. However, the stock price has been around that level since the early 2000s.

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The company's profitable enterprise software businesses prompted a \$2 billion investment in April by activist investment firm ValueAct Capital, which said Microsoft was undervalued even if one took a very pessimistic view of Windows' decline. In August, Microsoft agreed to give ValueAct a seat on its board starting with the first quarterly board meeting next year.

Compared to Ballmer, other top Microsoft executives were well rewarded, all receiving bonuses that were 100 percent or more than the target, with the exception of outgoing Chief Financial Officer Peter Klein who did not collect a bonus.

Chief Operating Officer Kevin Turner was awarded a total package valued at \$10.4 million; new CFO Amy Hood's was \$7.5 million; Server and Tools president Satya Nadella, now executive vice president of cloud and enterprise, received one worth \$7.7 million; and Office division president Kurt DelBene, who's leaving at the end of the year, received compensation valued at \$7.6 million.

The Associated Press formula calculates an executive's total compensation during the last fiscal year by adding salary, bonuses, perks, above-market interest that the company pays on deferred compensation and the estimated value of stock and stock options awarded during the year. The AP formula does not count changes in the present value of pension benefits. That makes the AP total slightly different in some cases from the total reported by companies to the Securities and Exchange Commission.

The value that a company assigned to an executive's stock and option awards for 2013 was the present value of what the company expected the awards to be worth to the executive over time. Companies use one of several formulas to calculate that value. However, the number is just an estimate, and what an executive ultimately receives will depend on the performance of the company's stock in the years after the awards are granted. Most stock compensation programs require an executive to wait a specified amount of time to receive shares or exercise options.

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