

BNSF executives stand to reap big payoff from company's sale

(The following story by Bob Cox appeared on the Fort Worth Star-Telegram website on November 8, 2009.)

FORT WORTH, Texas — Matt Rose has been well-compensated since taking over as chief executive of Burlington Northern Santa Fe Corp. nine years ago, but he's got a really big payday coming when the company is sold to Warren Buffett early next year.

The deal will increase the value of Rose's BNSF stock holdings in the neighborhood of \$40 million, according to a review of the company's proxy statement filed with the Securities and Exchange Commission.

As of Dec. 31, 2008, Rose owned, controlled or was eligible to exercise options on 1.75 million shares of BNSF. On Monday, the day before the sale was announced, the closing price of BNSF shares was \$76.07, meaning that Rose's holdings were worth about \$133 million.

At the sale price of \$100 a share, Rose's holdings are worth about \$175 million, which will be paid in cash and Berkshire Hathaway stock.

It's hard to say exactly how much Rose and other BNSF executives stand to make from the buyout. Merger documents that will be filed with the SEC will spell out in more detail their stock holdings and options, some of which may be converted to rights to acquire Berkshire shares.

At the end of 2008, Rose owned about 602,000 shares of BNSF that he purchased or received from the company as compensation rather than cash salary or bonus payments.

He also had options to purchase about 1,135,000 shares for \$27.55 to \$111.56 a share.

In March, Rose made \$2.2 million before taxes when he exercised options to buy 326,643 shares of BNSF at an average price of about \$30 a share and immediately sold 73 percent of the shares at \$55.41 each, according to SEC filings.

Other senior executives of the railroad, all executive vice presidents, also stand to benefit handsomely from the sale of BNSF.

Chief Financial Officer Thomas Hund will see the 575,000-plus shares of BNSF he owns or has options on increase by \$13.75 million with the acquisition by Berkshire.

Carl Ice, chief operations officer, held nearly 295,000 shares as of Dec. 31. Their value increased by about \$7.1 million thanks to the 32 percent premium Buffett agreed to pay. John Lanigan, chief marketing officer, stands to reap a \$3.2 million gain based on the nearly 134,000 shares he held as of Dec. 31.

All of the BNSF executives had also been granted stock or options that had not yet matured and could receive benefits from those as well.

"Stock rights and options typically convert into securities with the new company," said Paul Hodgson, senior research associate with The Corporate Library, which tracks and analyzes executive compensation.

The payoff from the sale to Berkshire might have been even more lucrative for BNSF officials, but in 2006 the company changed its rules for executive compensation if the company were bought. The change limited their compensation to modest amounts unless they were terminated by the new owners, in which case they would have gotten far greater payments, equal to two or more years' salary, bonuses and other benefits.

Before that time, BNSF executives, like those at many other companies, would have received hefty sums if the company were sold even if they kept their jobs.

Hodgson said the changes in BNSF's rules are in line with those being made by the best-run corporations.

John Ambler, vice president of corporate relations, said: "BNSF's board and management have gone to great effort to align officers' and employees' interests with those of the company's shareholders.

"We have requirements that officers keep a significant amount of their assets in company stock," Ambler said. "In addition, we have instituted much more restrictive change-of-control provisions that would require a job

loss or a similar event before there is any special benefit to the executive."

Ambler said Rose has agreed to "relinquish his change-of-control rights, which should clarify any question concerning his intentions." With the sale of the company, Rose was due to receive roughly \$7.5 million in stock and supplemental retirement benefits, according to the proxy statement.

BNSF's executives derive much of their annual compensation from payments of stock and options to buy stock at predetermined prices.

In 2008, for example, Rose received \$15.6 million in total compensation, \$11.6 million of it in stock and options. Only \$1.2 million was salary. From 2006 through 2008, Rose received \$39.6 million in total compensation, of which \$28.6 million was in stock and options.