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McDonald's executives rewarded for strong 2004

By Julie Jargon

McDonald's Corp. executives are enjoying the benefits of a good 2004.

Chief executive Jim Skinner received \$4.5 million in salary, bonus, restricted stock and other compensation last year, as well as 125,000 options with a \$25.31 strike price and 250,000 options with a \$31.21 strike price.

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Mr. Skinner's salary increased 8.5% to \$900,344 in 2004 but his bonus rose 171% to \$2.2 million.

Mr. Skinner's predecessor, Charlie Bell, who died in January, received a \$3.2 million bonus. The company also purchased the late Mr. Bell's \$3 million home. And the estate of the late Jim Cantalupo, the CEO before Mr. Bell, received a \$1.8 million bonus, according to a proxy filed Wednesday with the Securities and Exchange Commission.



Other executives likewise had huge bonus increases, including president and chief operating officer Michael Roberts, whose bonus rose 144% to \$1.6 million last year and chief financial officer Matthew Paull, whose bonus increased 129% to \$1 million.

Such rewards are not raising hackles among shareholders.

“That management team started the turnaround. They’ve done a wonderful job for shareholders and did the right thing by scaling back growth, so for them to receive bonuses for that doesn’t sound unreasonable,” says Jeffrey Malcom, portfolio manager at Maryland-based Horan Capital Management LLC, which holds 143,000 McDonald’s shares.

After saturating the U.S. market and watching earnings slide, McDonald’s two years ago decided to focus on improving existing restaurants rather than opening new ones. In 2004, the company increased earnings 55% to \$2.3 billion on \$19 billion in sales. The company last year increased its annual dividend 38% to \$700 million and in 2005 expects to return at least \$1.3 billion to shareholders.

As the rate of same-store sales growth starts to lag after going up against tough comparisons, the company is targeting what shareholders describe as reasonable growth targets going forward. McDonald’s has set a sales growth target of 3% to 5% going forward and income growth of 6% to 7%.

“McDonald’s is a closer to a cash cow at this point than an earnings grower,” Mr. Malcom says.





Also in the proxy filing, McDonald’s disclosed that it purchased \$1.3 million worth of paper products from Schwarz Paper Co., of which McDonald’s director Andrew McKenna is chair and 59% owner.

McDonald’s bought \$4 million worth of packaging from Prairie Packaging Inc., of which board member Roger Stone is a director.

McDonald’s board also is recommending that shareholders vote against a proposal to review the company’s policies for monitoring genetically engineered food.

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