

# Elon Musk's \$56bn Tesla pay package is too much, judge rules

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A Delaware judge has ruled in favor of the Tesla investors who challenged chief executive Elon Musk's \$56bn pay package as excessive. The judge found that Musk's compensation was inappropriately set by the electric-vehicle maker's board and struck down the package. If the decision survives any potential appeal, the Tesla board will have to come up with a new compensation package for Musk. "Never incorporate your company in the state of Delaware," Musk responded on Twitter/X. Tesla shareholder Richard Tormetta filed the lawsuit five years ago, accusing Musk of improperly dictating negotiations around the compensation package, and claimed that the board acted without independence. The court's opinion directed Tormetta to work with Musk's legal team on an order implementing the judge's decision. The ruling can be appealed to the Delaware supreme court. Tesla's agreement with Musk is by far the largest compensation deal ever for an executive and it contributes a significant part of his fortune, which is one of the world's largest. Musk testified during the compensation trial in November 2022 that the money would be used to finance interplanetary travel. "It's a way to get humanity to Mars," he testified. "So Tesla can assist in potentially achieving that." Tesla directors argued during a weeklong trial that the company was paying to ensure that one of the world's most dynamic entrepreneurs continued to dedicate his attention to the electric-vehicle maker. Antonio Gracias, a Tesla director from 2007 to 2021, called the package "a great deal for shareholders" because he said it led to the company's extraordinary success. The judge said the defense was unable to establish that the "historically unprecedented compensation plan" was necessary to ensure Musk remained dedicated to Tesla. She directed parties to confer on a final form of order to implement her decision. "Swept up by the rhetoric of 'all upside', or perhaps starry-eyed by Musk's superstar appeal, the board never asked the \$55.8bn question: was the plan even necessary for Tesla to retain Musk and achieve its goals?" Judge Kathaleen St J McCormick wrote in her decision. Tormetta's lawyers argued the Tesla board never told shareholders that the goals were easier to achieve than the company was acknowledging and that internal projections showed Musk was quickly going to qualify for large portions of the pay package. The plaintiff's legal team also argued the board had a duty to offer a smaller pay package or look for another chief executive and that they should have required Musk to work full-time at Tesla instead of allowing him to focus on other projects. In 2022, he bought the social media company Twitter, which he renamed X, and he has founded several startups, including the brain implant company Neuralink, tunneling enterprise Boring and SpaceX, a rocket venture. The package grants stock option awards allowing Musk to buy Tesla stock at heavily discounted prices as escalating financial and operational goals are met. He must hold the acquired stock for five years. Musk qualified for all 12 tranches or performance targets in the plan. He was not guaranteed any salary. The ruling will put the spotlight on Tesla's next round of compensation negotiations.

with Musk. Tesla's value ballooned to briefly top \$1tn in 2021 from \$50bn when the package was negotiated. The ruling also comes after Musk reiterated his desire for 25% voting control of Tesla. Musk sold a big portion of his Tesla shares in order to buy Twitter but said in a post on X in January that he was uncomfortable leading Tesla unless he had 25% of the voting control. The billionaire owned about 13% of the company at the time. Amit Batish at Equilar, an executive pay research firm, estimated in 2022 that Musk's package was around six times larger than the combined pay of the 200 highest-paid executives in 2021. The structure of the 10-year pay package, agreed to in 2018, entitled Musk to 12 tranches of stock options if Tesla met certain performance targets, which it has. In July, Tesla's directors agreed to return \$735m to the company to settle shareholder allegations brought in a separate lawsuit filed in 2020 that they overpaid themselves. The lawsuit challenged options that were granted to directors starting in June 2017.