Millions Richer, Ex-CEO Departs Delta Payroll

Atlanta Journal-Constitution
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July 27, 2005

One of the highest-paid people at Delta Air Lines is finally leaving the payroll --- eight years after he left the company.

Ronald Allen was forced out as chairman and chief executive in 1997 but has continued to draw $500,000 a year from Delta for consulting services, although neither the company nor Allen will say whether he has provided any.

That fee has made Allen one of the top-paid people at the airline during its financial crisis. Current Chairman and CEO Gerald Grinstein draws a $450,000 salary, and last year he cut it to $250,000.

Now Allen's deal apparently ends. His multimillion-dollar early retirement package called for the consulting fee to last seven years, with an automatic extension to eight. Sunday marks eight years since Allen left.

Delta won't say whether it ever sought, or Allen ever offered, to shrink or curtail the fee to help fight the grinding slump that has forced job and pay cuts throughout the airline.

"The agreement with Mr. Allen ... has been honored and in no way amended or altered," said Delta spokesman Anthony Black, declining further comment.

$10 billion in losses

Allen declined through an assistant to be interviewed.

Since 2000, Delta has lost $10 billion, slashed 23,000 jobs and cut pay for pilots, executives and other employees. Delta also got concessions from lenders and suppliers and is seeking pension relief legislation to help it avoid bankruptcy. Its stock languishes at below $4 a share.

"When the company goes through a rough patch like we are now, it just hurts that much more," said Delta pilot Michael Messmore, who sent a certified letter to Allen in 2002 asking him to consider cuts. He said he got no response.

Even without the consulting fee, Allen, now 65, should have little trouble making ends meet thanks to his Delta deal.

His exit package also included a $4.5 million cash severance payment and a $765,000-a-year pension that continues. He also got 10 years' worth of perks such as a 2,090-square-foot Buckhead office, a car and club memberships provided by Delta.

Delta also immediately vested all of Allen's $19 million worth of restricted stock and stock options as though he hadn't retired early, though their ultimate value depends on when and if he disposed of them.

Low profile

Allen uses his office as a base for RWA Associates, a consulting firm, and he is on the boards of Coca-Cola, Aaron Rents and nonprofit organizations. Otherwise, he's kept a low profile since leaving Delta.

Lucrative "golden parachutes" for executives aren't uncommon, and Allen's package pales compared with some. Earlier this month, 41-year-old Morgan Stanley co-President Stephen Crawford said he was leaving after the board of directors awarded him a $32 million severance package. A month earlier, Morgan Stanley's 61-year-old former CEO, Philip Purcell, left with a $44 million deal.

Ex-Coca-Cola CEO Doug Ivester, prodded into early retirement in 2000, got a multimillion-dollar deal with assorted payouts and perks that included a $675,000 consulting fee from 2002 through 2007.

Consulting fees are an element of "stealth compensation" used to fatten many executives' retirement incomes, said Jesse Fried, a University of California, Berkeley, law professor and co-author of "Pay Without Performance."

"Their intent is clear. It's not to get valuable information from the departing CEO," he said. "It's basically an annuity. It's not about consulting."

Allen's exit deal was disclosed in 1997 regulatory filings by Delta and reported in the media, but it generated little controversy. Delta was flying high financially and attention focused on the transition to his successor, Leo Mullin.

34 years at Delta

In 10 years as CEO, Allen led Delta into and out of a deep financial slump in the early 1990s. His ouster was attributed to disputes with the board and service and morale problems.

When he left, Delta had just logged a record $854 million annual profit and distributed profit-sharing checks to workers. Delta stock traded around $89. Unlike Mullin, who would spend just six years at Delta before leaving with a $16 million retirement package at the end of 2003, Allen worked at Delta for 34 years.

Major elements of Allen's exit deal, including the consulting fee, were mandated by the contract he negotiated when he became CEO in 1987.

Still, Allen's package rankled some people within Delta, and a few tried to do something about it.

In the years after he left, Delta's pilots union --- with which Allen frequently sparred --- backed a shareholder proposal that cited his package as a reason shareholders should have to approve executive parachutes above certain values.

It failed several times, then passed in 2003 following the raging controversy over cash bonuses and pension trust funds doled out to Mullin and his top executives in 2002, amid Delta's post-9/11 job cuts and pleas for federal aid.

The measure was not retroactive and did not affect Allen.

No specific duties

Under terms of his exit deal, Allen did not have to do anything to collect the consulting fee. He was to provide advice to Delta's top executives as long as it didn't require "a major portion" of his time, and only at times of "least inconvenience" to him, according to the contract. Delta was to continue paying the fee to Allen or his dependents even if he died or was incapacitated, a feature Fried termed "very egregious."

The consulting fee was awarded for seven years as long as he didn't work for competitors. It extended to eight as long as he got Delta's permission before working for someone else, other than as a director or in his own firm.

Maurice Worth, a retired Delta executive who worked closely with Allen, said that to his knowledge, Allen didn't provide any post-retirement consulting services during the 2 1/2 years before his own retirement in 1999.

Messmore, the pilot who wrote to Allen, said he also told Grinstein, at the time an influential board member, that Allen should "get on board" with concessions as an example to pilots and other employees. Grinstein --- who was believed to have instigated Allen's ouster and helped negotiate his exit deal --- "didn't indicate that they were going to go after him. I think it's pretty much 'a contract's a contract,' " Messmore said.

Approached this week at a Delta event and asked why the carrier apparently hadn't asked Allen for givebacks, Grinstein responded, "How would you know that we haven't? You wouldn't know that." He declined to elaborate.

Pension at risk

In contrast to Mullin, Allen did not take a bonus when Delta posted the biggest losses of his tenure. Nor did he set up pension trust funds to insulate top executives' benefits from potential bankruptcy claims.

"Ron's pension is at risk like everyone else's," Worth said. Like other Delta executives who retired before 2002 or so, Worth said his and Allen's pensions could shrink dramatically if Delta went into bankruptcy court and dumped its pension liabilities on the federal Pension Benefit Guaranty Corp., which insures benefits up to certain limits.

Fried and co-author Lucian Bebchuk, director of Harvard's corporate governance program, say companies have increasingly relied on huge pensions, deferred compensation, post-retirement consultancies and other perks to fatten executive paychecks without drawing shareholders' notice.

Company boards often sweeten exit packages "even when [CEOs] are pushed out," Bebchuk said. A hefty exit deal can lower some directors' opposition to booting an executive, Bebchuk said.

"They are doing it not with their own money, but the shareholders' money," he said.

RONALD ALLEN'S 'GOLDEN PARACHUTE'

Elements of the 1997 severance package:

• $500,000-per-year consulting contract for up to eight years, paid quarterly in advance ($4 million total).

• $4,586,515 lump-sum cash for severance payment, health benefits and incentive awards that were to be paid for 1997.

• $765,600-per-year pension, starting in 1997.

• Vesting of 298,000 stock options and restricted stock. He netted $6.3 million in the 1997 fiscal year after acquiring 89,000 shares, with remaining stock options then valued at $13 million.

• $210,000 in legal fees to prepare his retirement agreement.

• $25,000 per year fee as "advisory director" on Delta's board.

• Flight privileges for life for Allen and his family.

• An office and a full-time secretary in Buckhead's 24-floor Monarch Tower for 10 years. First-year cost was $91,099.

• $408,766 initial cost to design, construct and furnish the office.

• Membership for 10 years in the Commerce Club of Atlanta.

• Membership for 10 years in the East Lake Golf Club, as long as Delta maintains a corporate membership.

• Company car.

• $25,565 for residential security systems.