Even More Rewarding Golden Parachutes

by Robert W. Wood • San Francisco

We have recently reviewed the tax treatment of golden parachutes, and even more recently so-called golden bungee benefits. Some enormous golden parachute payments are being made under current deals. For example, approximately $20 million in cash, stock and various other perks went to Rand V. Araskog, CEO of ITT Corp., when it was acquired by Starwood Hotels and Resorts. Although Araskog is now gone, in January 1998 he received an option grant of 162,500 shares of Starwood stock in exchange for help during the transition. The arrangement also requires ITT to pay a gross-up of taxes due to the cash severance payment that Araskog has already received. The gross-up is estimated to cost an additional $22.5 million to ITT. See "When Bosses Get Rich From Selling the Company," *Business Week*, March 30, 1998, p. 33.

More Golddiggers?

And Araskog is not the only one to receive such high profile rich benefits. Kent Kresa, the CEO of Northrup Grumman Corp. is to collect a cash payment of $17.8 million and watch his stock rights and stock options grow to $16.1 million on a fully-vested basis, as long as Northrup's merger with Lockheed Martin Corp. goes through.

Still not convinced? The one-time CEO of Tandem Computers, Inc., Roel Pieper, is slated to big time cash, too. Mr. Pieper sold out Compaq Computer Corp. in 1997, walking away with $16 million in cash and 650,000 new Compaq options, plus the conversion of Tandem options into Compaq options.

Noncash deals are also very much in the making. A CEO who stays on after an acquisition may get a special bonus. Take Charles E. Rice, CEO of Barnett Banks, Inc. When they sold out to NationsBank Corp. last year, he agreed to become Nonexecutive Chairman, receiving 250,000 NationsBank shares and options for 400,000 more. The proxy statement stipulates that his annual salary and bonus must be at least $3.5 million (and never less than the comp of NationsBank CEO, Hugh McColl, Jr.).

Retainers, Too

Finally, there have been instances in which a retainer fee is set aside to sweeten the deal. In the acquisition of MCI Communications Corp. by Worldcom, Inc., Burt C. Roberts, Jr. is slated to be chairman. He and other senior executives will reportedly split a "retention/bonus pool" of $170 million. Mr. Roberts' share is to be $10.5 million.

Yet another trend appears to be fat consulting contracts, although this is nothing new. Mr. Kresa of Northrup Grumman, for example, may take as much as $1.4 million in his first consulting year. Louis Gerstner of IBM is to receive a ten year consulting contract upon retirement, based on the daily rate of his final salary. Of course, many consulting contracts do not call for the provision of much in the way of services. See "When Bosses Get Rich From Selling the Company," *Business Week*, March 30, 1998, p. 33.

All in all, most of these parachuting executives are probably not worrying too much about the application of the golden parachute payment rules. Still, it would seem that there is ample room for creative drafting (and some unfortunate compliance) with the golden parachute rules. ■