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Incentive pay flap at United

Union workers denounce \$130 million in stock to reward top management

By Julie Johnsson

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Another pay controversy has erupted at United Airlines, as the carrier prepares to set aside stock worth about \$130 million to fund a new incentive plan for executives.

The pay perk promises to be a flash point at United's annual meeting in June, when shareholders will vote on a proposal to set aside 8 million shares to fund the incentive plan. Chicago-based UAL Corp.'s board approved the measure March 20, according to a Securities and Exchange Commission filing.

The proposal is drawing fire from workers, still deeply unhappy over the roughly \$150 million in stock and options distributed to United executives as the company exited bankruptcy in February 2006.

"It's just another money grab," said Greg Davidowitch, leaders of United's flight attendants union and author of a shareholder proposal to give investors a say in executive pay. "To propose something like this is completely outrageous and can only serve to further erode the already tenuous relationship between flight attendants and management."

United said it wants to replace the original plan, which expires next year, and needs more shares to do so since that plan is tapped out.

"The new incentive plan's 8 million shares will provide the company the opportunity to make awards over the next three to five years, enabling us to attract, retain and reward exceptional senior leaders," said United spokeswoman Jean Medina.

Experts question United's timing in unveiling the new incentives as it explores a potential merger with US Airways Group Inc. United, the nation's second-largest carrier, behind American Airlines, has been beset by troubled employee relations and risks further alienating workers whose cooperation it would need to make a large-scale deal go smoothly.

"You've seen what employees who are at war with their employers can do," said aviation consultant Robert Mann, president of R.W. Mann & Co. "It usually means that customers end up as collateral damage."

Executive compensation remains highly contentious at United and other carriers whose employees agreed to steep pay cuts to help keep their airlines aloft during the downturn that followed the Sept. 11, 2001, attacks.

United said in the filing that it would cap payouts to individuals in a given year at 500,000 shares but provided no further details of how or when it would distribute the new incentives. Any stock, options or other securities distributed under the plan would become fully exercisable and vested if there were a "change of control," an event typically triggered by a merger or acquisition.

It is testament to the airline industry's poisoned worker relations that United's proposal is generating controversy, said Chicago compensation expert Don Delves. It is common for publicly traded companies to set aside stock for incentives, Delves added.

"That's a typical housekeeping thing that companies do. They run out of shares, they ask for more," he said.

United didn't distribute stock or options to top executives last year, aside from a grant of 13,000 shares to Chief Financial Officer Frederic "Jake" Brace for "exceptional contributions during the company's restructuring," according to United's April 25 proxy statement.

As a result, Chief Executive Glenn Tilton's take-home pay was \$1.4 million last year. The larger \$10.3 million reported as Tilton's total 2007 compensation reflects the accounting cost to United of stock and options given to Tilton in 2006, according to the proxy.

But Tilton received \$388,238 under a performance-based plan, even though United failed to meet any quarterly or annual customer-service or financial goals established to determine payouts.

Under its Success Sharing Plan, as the program is known, United provides prorated pay if its performance falls within 50 percent of the target. United paid a total of \$60 million to employees under the program last year, Medina said.

"You could argue that maybe when a company misses every one of its goals that it shouldn't be paying out a bonus," Delves said. "But they set up the rules of the game, they played by the rules, and that's what the calculations came out to."