


## AA executive awards under fire

by: D.R. STEWART World Staff Writer  
Tuesday, April 20, 2010  
4/20/2010 9:32:40 AM

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During a visit to Tulsa several years ago to speak with company mechanics, American Airlines CEO Gerard Arpey was asked whether executive bonuses could endanger the hard-won cooperation — the "shared sacrifices, shared rewards" — between management and labor.

The bonuses, then as now, are given to executives at a time when American's unionized mechanics, ground workers, pilots and flight attendants are working under 30 percent cuts in wages and benefits that they accepted in 2003 to keep the airline out of bankruptcy.

"They're not bonuses," Arpey told his questioner. "It's stock-based compensation."

If it's mid-April, it's bonus/stock-based compensation time again at AMR Corp., American's parent.

AMR is expected to announce the awards Wednesday or Thursday, executives said.

AMR's board of directors award the bonuses to the company's top executives as rewards for the company's stock and financial performance.

During the past five years, AMR's top executives have received more than \$300 million in stock-based compensation, officials said.

In 2008, the latest year for which figures are available, Arpey's total compensation was \$3.42 million, of which \$2.52 million or 73.7 percent was in stock or stock option awards, company records show.

That same year, Chief Financial Officer Thomas Horton received \$2.23 million in total compensation, of which \$1.05 million or 47 percent was in stock or stock option awards, the documents say.

That same year, AMR reported a loss of \$2.1 billion.

Fred Russell, the CEO of Fredric E. Russell Investment Management Co. in Tulsa, called the awards "outrageous, insulting, disgraceful, absurd, excessive and terrible."

He continued, "The last thing any intelligent and rational shareholder would want is his future and health as a shareholder to be linked to these outrageous executive compensation programs."

"With the company's ability to structure any number of executive compensation programs, the unions and shareholders are at the mercy of the board of directors."

In AMR's 2008 proxy filing with the Securities and Exchange Commission, discussion of executive compensation takes up 32 pages of the 91-page report.

AMR executive compensation includes base salary and short-term incentives paid in cash; and long-term incentives paid in the form of performance shares of common stock, stock appreciation rights and deferred shares. Arpey also is eligible for career performance shares, documents show. AMR executives also are eligible for retirement and travel benefits, records show.

AMR's spokesman Andy Backover said the equity or share-based compensation is at risk in that the payout is determined by the company's financial and share performance.

"Performance shares vest after three years, and the value to you is based on the company's share price

performance over three years, measured against a comparison group of other airlines," Backover said.

"Stock appreciation rights become vested in equal installments over five years. Deferred shares become yours at a certain point in time at which you vest and the value is determined.

"The executives don't receive value unless they deliver value to shareholders."

AMR's proxy says the board's compensation committee determines executive compensation by comparing AMR's financial data with those of eight other U.S. airlines — AirTran Airways, Continental Airlines, Delta Air Lines, JetBlue Airways, Northwest Airlines, Southwest Airlines, United Airlines and US Airways — and 26 "comparator" companies.

The committee strives to establish a compensation package for AMR executives that is about "equal to the median total compensation of persons holding comparable positions or responsibilities at the companies comprising the comparator group," AMR's proxy says.

But Russell noted that the "comparator group" includes companies such as 3M, Honeywell and Coca-Cola, "some of which are the most profitable in the history of Western capitalism," he said.

"If you compare the airline industry's cyclical nature and its ability to lose money with Coca-Cola, somebody must be smoking dope," he said.

Mike Boyd, an airline industry analyst with Boyd Group International Inc. in Evergreen, Colo., said he didn't begrudge airline executives their compensation.

"If you're prepared to take on American Airlines, you have to be prepared not to have any personal life," Boyd said.

"I can go skiing tomorrow. Gerard Arpey and (United Airlines CEO) Glenn Tilton cannot. They're on call 24 hours a day.

"You have employee relations you have to work with, vendor relations you have to work with, financing relations you have to work with. You always have constituencies clamoring at you. You can't be home with your kids. You don't have time to take a two-week vacation in the summer.

"There is certain personal satisfaction with running an airline. But there's a hell of a price to pay."

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### AMR's "Comparator Group"

In its determination of total compensation for AMR Corp. executives, AMR's compensation committee considers executive compensation at eight major U.S. airlines and 26 other companies with comparable revenue that have operations in multiple states, similar labor requirements or corporate offices in the Dallas- Fort Worth area. The 26 companies in the "Comparator Group" are:

- 3M Co.
- Alcoa Inc.
- Boeing Co.
- Burlington Northern Santa Fe Corp.
- Caterpillar Inc.
- Coca-Cola Co.

- Deere & Co.
  
- FedEx Corp.
  
- General Dynamics Corp.
  
- Goodyear Tire & Rubber Co.
  
- H.J. Heinz Co.
  
- Honeywell International Inc.
  
- J.C. Penney Co.
  
- Johnson Controls Inc.
  
- Kimberly-Clark Corp.
  
- Lockheed martin Corp.
  
- Motorola Inc.
  
- Northrop Grumman Corp.
  
- Raytheon Co.
  
- Sara Lee Corp.
  
- Target Corp.
  
- United Parcel Service Inc.
  
- United Technologies Corp.
  
- Weyerhaeuser Co.
  
- Whirlpool Corp.
  
- Xerox Corp.

Source: Amr Corp.

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**Associate Images:**



**Gerard Arpey, chairman, president and CEO of AMR Corp., the parent of American Airlines, has received millions of dollars in awards of stock and stock options, while the airline has lost money. Tomohiro Ohsumi / Bloomberg file**

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