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## Viewpoint

## In a bold move, Sharper Image reduces CEO's severance

COMPENSATION experts: Firms have some leverage with CEOs leaving because of performance



RACHEL BECK

SHARPER IMAGE FOUND itself in a distinguished spot recently when the board of the troubled retailer did what most of its counterparts in corporate America have failed to do: It cut its former CEO's severance package.

In an era where bloated payouts are the norm—like the \$210 million that Home Depot Inc.'s Robert Nardelli is expected to get after resigning from the home improvement retailer—few companies are willing to slash the money that they had promised to pay executives when they depart, or in some cases, are shown the door.

Some of that has to do with iron-clad employment contracts that make it hard to recoup a dime. But corporate boards are also to blame for not even trying to negotiate lower payouts when executives' performance disappoints.

Such fat severance agreements are known as "golden parachutes" because they often lavish executives with millions of dollars in cash, pension benefits and perks—from access to corporate jets to dry cleaning services to company cars—upon their departure.

Part of the problem is that the severance deals are made when the executives are being wooed to take the helm.

"It's the 'holy-cow' process," explains Patrick McGurn, executive vice president at the proxy advisory firm Institutional Shareholder Services, who says that boards become so enamored with "can't-miss" executives that they overpromise just to make the hire.

Unfortunately, many boards don't consider what happens when the honeymoon ends. What if the executive doesn't perform as

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ZACHARY D. PORTER/DAILY REPORT

Sweet Auburn resident Uri Vaknin says the area "is on a trajectory of growth" with or without a new civil rights museum.

## As museum chance fades, Auburnites keep building

NEIGHBORS FEEL CIVIL RIGHTS COMPLEX belongs on Auburn Avenue, but development will continue without it—fueled by churches' real estate

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THE KING CENTER and Ebenezer Baptist Church have Auburn Avenue addresses, so to many in the area, it's a no-brainer where Atlanta's proposed civil rights museum should go.

But with no formidable location presented in the Sweet Auburn Historic District, the \$100 million project appears headed for 2.5 acres donated by the Coca-Cola Co. near the Georgia Aquarium and the upcoming Coke museum.

Sweet Auburn resident Uri Vaknin, the director of new business for the Atlanta office of Coldwell Banker The Condo Store, wants the museum to be in the neighborhood. But he added that the museum's absence wouldn't stop a successful comeback for the transitional area, which was called "the richest Negro street in the world" by Fortune magazine in the 1950s.

"The neighborhood is on a trajectory of growth," Vaknin said.

"We are building right now," said Atlanta City Council member Kwanza Hall, who represents the area. "We will keep on building."

While Ebenezer, where the Rev. Martin Luther King Jr. preached, is a key part of the area's civil rights history, other churches are playing a major role in real estate development.

Integral Group and Big Bethel AME Church partnered three years ago to develop Renaissance Walk, a \$48 million mixed-use project that is to include 159 condominiums, 27,000 square feet of ground-level retail space, a five-level secured parking deck, tennis and swimming facilities, and a club room and fitness area. The project, which sits on 2 acres, faces Auburn Avenue and borders Piedmont Avenue, Jesse Hill Drive and Edgewood Avenue. It is set to open this fall.

Directly behind Renaissance Walk will be Edge Lofts, a mixed-use development on Auburn Avenue between Jesse Hill Drive and Bell Street. E.W. Bowen

& Co. partnered with Butler Street CME Church to develop the complex, which is expected to have 36 condo units, 10,000 square feet of retail and a four-level parking deck, according to Edward W. Bowen, principal with E.W. Bowen & Co. The complex will save some of the facade of the existing structure, a building owned by Grady Memorial Hospital that serves as a clinic. Bowen said a start date hadn't been set for the project.

"There is a long, steady need for 'for sale' housing in that area, as well as a need for additional retail space to serve the growing surrounding community," said Rodney Johnson, Integral Group senior vice president and project manager for Renaissance Walk.

Adding to the "for sale" housing stock is The InVision Group's Tribute Lofts, a mixed-use development with 147 units at Freedom Parkway and Boulevard Avenue that is expected to open this spring.

Johnson also pointed to the August opening of Georgia State University's 2,000-bed dormitory at Piedmont Avenue and Ellis Street—a block north of the Sweet Auburn district—as another boost for the area.

"Those students will walk back and forth through Sweet Auburn every day," adding more commerce to the area and increasing the need for more services, Johnson said.

The city of Atlanta has teamed with Central Atlanta Progress, a private, not-for-profit corporation centered on downtown improvement, and members of the community to create the Butler-Auburn redevelopment plan. The plan, in its final revision stages, will focus on restoring the historic neighborhoods, strengthening the commercial corridor, and marketing and branding efforts to promote the area. Also, the Eastside Tax Allocation District provides a significant new source of project-based capital to aid revitalization.

Vaknin credits the Historic District Development

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## 60 seconds

### US Airways ups offer for Delta to \$10.3 billion

US Airways increased the pressure on Delta Air Lines' unsecured creditors to take its buyout offer by raising the bid Wednesday nearly 20 percent to \$10.3 billion. Whether the deal would survive regulatory scrutiny may be the deciding factor.

The Tempe, Ariz.-based company also set a Feb. 1 deadline for certain conditions to be met or its entire bid would be revoked.

The ball is now in the creditors' court. The question is whether they want to take the money US Airways is offering and run the risk of a long regulatory fight, or stick with Delta's plan to emerge from bankruptcy by the middle of this year as a stand-alone company worth \$9.4 billion to \$12 billion.

Daniel Golden, a lawyer for Delta's unsecured creditors committee, did not return several phone calls Wednesday seeking comment. Most of the large creditors on the committee have refused to discuss their position publicly, except Delta's pilots union, which opposes the merger.

The decision to increase the offer was reached over the weekend after US Airways officials met to discuss it. On Monday, the carrier's executives met with Gordon Bethune, the former Continental Airlines chief who is working as a consultant to Delta's creditors committee. Bethune urged US Airways to put its best offer forward, according to an official with knowledge of the meeting who spoke on condition of anonymity because of the sensitivity of the talks.

Delta management has argued that the combination of US Airways and Delta would not receive regulatory approval because of the overlap of the two carriers' routes. US Airways says there wouldn't be any regulatory holdup.

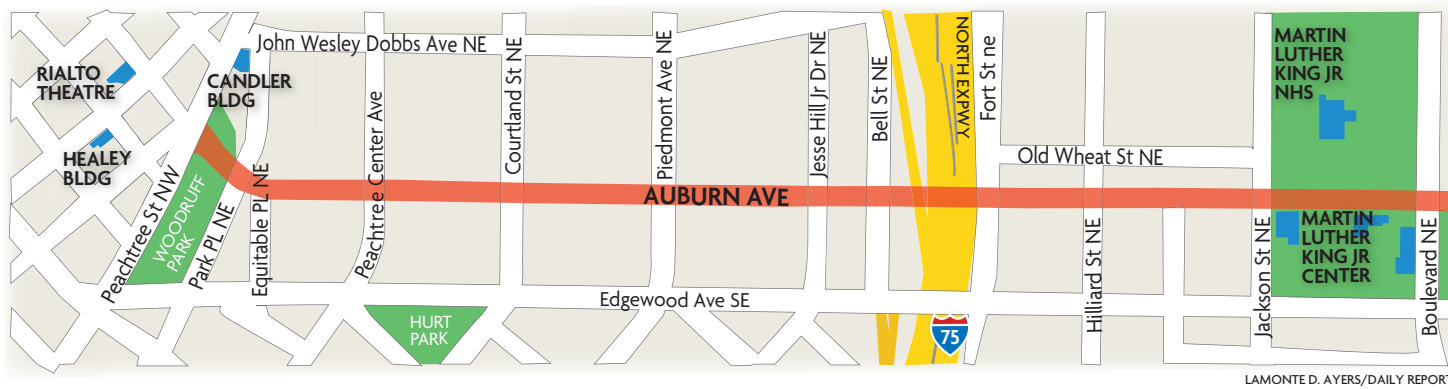
A Jan. 24 hearing has been scheduled by the Senate Committee on Commerce, Science and Transportation on the state of the airline industry and the impact of airline mergers.

US Airways Group Inc. Chief Executive Doug Parker was in Washington on Wednesday to talk to lawmakers.

Delta Air Lines Inc. said in a statement Wednesday that its board will do its duty to review the revised offer but added that the higher offer meant the debt burden of the combined company would increase another \$1 billion.

Added Kelly Collins, a spokeswoman for Delta's pilots union, "We remain entirely committed to defending our airline from this hostile merger attempt."

—The Associated Press



The Interstate 75/85 connector splits Auburn Avenue, home to Ebenezer Baptist Church, where the Rev. Martin Luther King Jr. preached. The area also boasts the King Center, and later this year the Southern Christian Leadership Conference will move there too.

## As chance for civil rights museum fades, Auburn Avenue keeps building

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Corp., a 27-year-old nonprofit organization Coretta Scott King initially created to revitalize the block containing her husband's birth home, with jump-starting the residential development taking place.

The Historic District Development Corp. has rehabbed and constructed more than 200 single-family and multi-family housing units. One project is Studioplex, a former cotton mill transformed into a mixed-use

art complex at Auburn Avenue and Irwin Street that opened in 2000, according to Joan P. Garner, president and chief executive of the Historic District Development Corp.

Aside from the homes that are a part of the Martin Luther King Jr. Historic District, other surrounding institutions are expecting facelifts, such as the Southern Christian Leadership Conference, which long had an Edgewood Avenue address, constructing a new home on Auburn Avenue to be completed later this year. The block designated as the Martin Luther King Jr. Historic District is within Sweet Auburn, which itself lies within the Old

## In a bold corporate move, Sharper Image reduces CEO's severance

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expected? What happens if business crumbles? What happens if the stock price lags?

The way most severance agreements are written, many companies have to pay up unless they can prove an executive deserved to be fired for "cause." That generally means they've broken the law.

It is much more difficult to backtrack if performance is the issue. But it is not impossible, according to compensation experts who say companies have some leverage with executives who are departing for such reasons.

The trouble is that most boards shy away from such battles. That's largely because they worry it could set off costly legal fights and keep the companies' troubles in the headlines.

"A lot of companies think it is just easier to pay the severance," said Jay Warren, counsel in the labor and employment practice at the law firm Bryan Cave. "They want to deal with the bad news and move on."

That's why Sharper Image Corp.'s announcement is worth noting. The San Francisco-based specialty retailer chopped more than \$3 million from the severance packages of Richard Thalheimer, who had founded the company in 1977 and left his post as chief executive officer in September amid questions regarding the timing of certain stock-option grants.

Sharper Image said in a Dec. 29 securities filing that Thalheimer's severance would be \$1.78 million—well below the \$5 million minimum that had been guaranteed to him under a contract signed in 2002. He also will get \$3.9 million in retirement benefits.

The reduction in severance comes amid slumping sales and profits at the retail chain best known for its electronic gadgets. Its shares now trade around \$10 each, just about a quarter of what they were in the

winter of 2004.

The company is also investigating the timing of its past stock-option grants. In its securities filing, Sharper Image said that the severance paid accounted for "certain amounts" of options to Thalheimer that had been "granted to him at exercise prices that were below the fair-market value of the company's stock on the day of the grant."

It was a proactive move by Sharper Image, one that many of the dozens of other companies caught in the stock-option "backdating" mess haven't done.

Included on that list is KB Home, which is also investigating its stock-option grants. That led to departure of CEO Bruce Karatz in November and his repayment of \$13 million to the Los Angeles-based home builder.

But Karatz is still entitled to a severance pay equal to the average of what he earned in salary and incentives over the past three years—which could top \$70 million, according to securities filings. He also could get just over \$1 million a year for up to 25 years from the contract provision that gives him an annual pension equal to his average base salary over this final three years of employment.

KB Home did not return calls requesting comment on the status of his severance.

At Home Depot, Nardelli's pay had been the ire of shareholders. They watched their shares fall more than 3 percent on a split-adjusted basis since Nardelli took over in December 2000, even as he earned \$123.7 million in compensation excluding certain stock option grants through the end of 2005. His compensation for 2006 has not yet been disclosed.


The board had the chance last year to renegotiate his employment contract, which included the generous severance provision, but compensation experts said it choose to not proceed.

As shareholder anger over his pay intensified last summer, the board's compensation committee attempted to scale some of his pay and perks back, asking him to come


Fourth Ward.

Council member Hall, who is a Sweet Auburn resident, acknowledged that a civil rights museum would be a boon to the neighborhood but said he believed too much emphasis was being placed on its location.

"I think it's bigger than a building. ... Before this discussion came up, we were planning on telling our story on Auburn Avenue regardless," said Hall.

He said if the museum is placed on the Coca-Cola land, a shuttle should transport visitors from the museum to Sweet Auburn and then to the Carter Center, which highlights global human rights issues. 

up with potential concessions, according to *The Wall Street Journal*.

The effort didn't get anywhere. Instead of cutting his pay, he resigned from the Atlanta-based company in a surprise move right after the start of the new year. And with him will go \$210 million in severance. 

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