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OBSERVER ANALYSIS

Carolinas execs' personal flights often on shareholders' tab

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Like many retirees, former Bank of America Chairman Chad Gifford did a lot of traveling in his first year out of work. His trips, however, were by corporate jet. Paid for by his former employer.

Gifford in 2005 racked up flights valued at \$655,242, part of a retirement package that included \$16.4 million in severance. His jet perk was the largest of any executive or director at 50 of the Carolinas' biggest public companies, according to an Observer analysis.

Executives get big paychecks, stock options and extras that range from country club memberships to home-security systems. But personal trips on the corporate jet are often the most expensive and exclusive perk disclosed by companies in annual securities filings.

Corporate jets help executives visit far-flung factories, avoid delays at the airport and work while airborne. But shareholder advocates say there's no reason to use company-owned planes for golf vacations or to visit a second home in the mountains.

One study found that companies that allow personal aircraft use underperform the stock market, maybe because of a cavalier attitude toward expenses.

"In my view, it's completely inappropriate to use corporate jets for personal use. Period," said Charles Elson, director of the Weinberg Center for Corporate Governance at the University of Delaware. "It's one of those issues that really raises shareholder ire very quickly."

Now, Congress and regulators are cracking down. After a scolding from the Securities and Exchange Commission, corporate America this year disclosed more information about personal plane use and started calculating the price tag at a higher rate. More disclosure will be required next year. Congress also passed a law in late 2004 that limits tax deductions taken by companies for personal trips by their executives.

Seventeen of the Carolinas' 50 biggest companies allowed some personal jet use by company executives or directors in 2005, the Observer analysis of SEC filings found. Trailing Gifford were executives at two other Charlotte companies -- Frank Harrison of Coca-Cola Bottling Co. Consolidated and Paul Anderson of Duke Energy.

At Charlotte's big banks, Bank of America CEO Ken Lewis and Wachovia counterpart Ken Thompson were among the top dozen fliers. Both companies ask their CEOs to use corporate aircraft for all travel, citing security concerns.

Personal use of aircraft helps companies protect executives, recruit and retain top talent and make the most effective use of their leaders' time, defenders of the practice said.

While a flight might be considered personal for tax purposes, "very often they are working on board the aircraft," said Mike Nichols, an official with the National Business Aviation Association, a trade group that represents companies that operate private aircraft.

When executives or other employees fly corporate aircraft for personal trips, they typically don't pay for the trip. But they do owe income taxes on the estimated value of the flights.

Critics say many firms are undervaluing the true cost of these trips. Often, the cost is calculated using only the direct expenses for the trip, such as the fuel. That doesn't include the cost of owning and maintaining the jets, or wear and tear. And some companies also pay the taxes incurred by the executives.

Flight destinations often secret

While many companies are disclosing more about personal flights, they rarely say where executives are flying. One database service, FlightAware, tracks private plane flights, but after an inquiry from the Observer, Bank of America and Wachovia removed their data from the Web site. Some companies, however, provided examples to the Observer. At Charlotte manufacturer EnPro Industries, Chief Executive Ernest Schaub sometimes visits a second home in Florida at the end of a business trip. The company said this allows him to more effectively use his time.

At Mooresville home improvement retailer Lowe's, CEO Robert Niblock and his wife in January jetted to an industry trade group meeting in Naples, Fla. The company requires Niblock to use corporate aircraft for business and personal trips for "safety and security." The company counts some travel by his wife toward his personal use.

In 2005, about two-thirds of Fortune 100 chief executives received compensation tied to their personal use of corporate aircraft, according to an analysis of filings by Equilar, a compensation research firm in San Mateo, Calif. For these executives, the median value of aircraft perquisites provided in 2005 was \$106,315.

Whether the perk is being used more or less often is difficult to determine because companies are starting to disclose more information than in the past and valuing the trips at higher costs.

Gifford, who became chairman after selling FleetBoston Financial to Bank of America in 2004, received his flight time as part of a retirement package that gives him as much as 120 hours per year on corporate aircraft. Bank of America disclosed his personal jet use because he remains a member of the bank's board.

The bank wouldn't say where he flew, but he has homes in Massachusetts and Key Largo, Fla., property records show. His flights are valued at a higher rate than those of other bank executives because he uses charter planes.

Gifford spent 38 years building FleetBoston into "an extremely valuable company for its customers, employees and shareholders," bank spokesman Terry Francisco said. Gifford played an important role in the integration of the two banks and continues to consult on civic and philanthropic activities in the Northeast, he added.

The second biggest flier in the Observer's analysis was Coke Consolidated's Harrison, whose great-grandfather founded the Southeastern bottler in 1902. He logged flight time valued at \$242,296. All use of company aircraft followed policies set by the board, said Lauren Steele, vice president of corporate affairs, declining further comment. Landing at No. 3 was Anderson, the Duke Energy chairman who ceded his CEO title in April after a merger. He and his wife took flights valued at \$199,246. Duke spokesman Pete Sheffield said an independent security study commissioned by the utility's board in 2004 recommended Anderson travel by chartered or company-owned jets whenever possible. He wouldn't say where Anderson had flown.

Coke Consolidated and Duke, like most companies now do, valued their flights using direct costs such as fuel. Neither company made their executives available for comment.

Watchdogs doubt security concerns

Corporate governance watchdogs applaud increased disclosure but contend executives make enough to pay their own way and that security concerns are overblown.

"I don't think CEOs are in any particular danger unless they're traveling to Pakistan or some other dangerous country," said David Yermack, a professor of finance at New York University's Stern School of Business. "If they were that concerned, they wouldn't put them on a light aircraft. You would put them on a real plane."

In a study of 230 leading companies from 1993 to 2002, Yermack found that the stocks of corporations that allowed personal aircraft use by executives underperformed market benchmarks by more than 4 percent annually. Poor expense control and too much vacationing by CEOs are possible reasons, he said.

Elson, the University of Delaware professor, noted that while companies also use jets for business travel, they may be buying more planes than they need to accommodate personal flights.

Hearing these complaints, lawmakers and regulators have taken steps to make personal use of jets more costly for companies.

Under the 2004 law Congress passed, companies can deduct only the same amount of income attributed to the executive. In the past some had deducted higher costs, even though executives were paying taxes on lower amounts.

Some companies are starting to make changes on their own. Starting this year, Bank of America is calculating the

income attributed to executives based on the cost of chartering the plane from a third party. The change allows the company to take a bigger tax deduction.

In June, Duke started requiring Anderson to pay the cost of personal travel on company planes. He is slated to leave Duke next year when he becomes chairman of a Duke spin-off company. New CEO Jim Rogers will follow the same policy as Anderson.

Of course, some companies don't allow personal use of corporate planes, the best solution in the eyes of corporate governance watchdogs.

For 37 years, Nucor did not own any aircraft, but a few weeks ago the Charlotte steelmaker bought its first plane. Having a corporate jet makes it easier to visit a growing array of mills in mostly rural locations, Chief Executive Dan DiMicco said in an interview. Nucor, however, restricts the plane to business purposes, and executives still fly commercial on "straight-shot" trips to New York and Washington.

"The problem is, you start rationalizing: 'Well, the jet is just sitting there. I could bring the kids or my wife along,'" DiMicco said. "That is unacceptable and will not be allowed."

How Much Does a Flight Cost?

The SEC has told companies to value the cost of personal trips on corporate aircraft using the incremental cost to the company, not a lower Internal Revenue Service formula. Some critics say the flights should be valued at an even higher charter rate. Here is a look at the cost of a sample roundtrip flight from Charlotte to Miami (566.3 nautical miles one way), according to the Conklin & de Decker consulting firm. • **Standard Industry Fare Level:** This is an IRS formula that updates regularly. It's roughly equivalent to a business-class airfare. For a CEO under this formula, the round-trip flight would be worth about **\$840**.

• **Incremental Cost:** This is the variable costs of fuel, maintenance and hourly fees such as catering. For the three-hour round trip, the cost would be about **\$5,100**. By comparison, adding fixed costs such as crew salaries, hangars, insurance and pilot training, the cost would be about **\$8,100**.

• **Charter Rate:** Flying a typical business jet such as a Cessna Citation Excel or a Bombardier Learjet 45, the round-trip charter would cost **\$10,965**, including a 7.5 percent federal excise tax. The cost would be higher if the plane stayed overnight and the crew needed hotel stays and meals.

How Posh are the Planes?

Even on more modestly sized corporate jets, an average person won't have to stoop moving down the center aisle. Amenities can include leather seats and interiors, trimmed in wood veneer. Seats come with their own audio jacks and video monitors, perfect for a DVD business presentation or a movie. Many planes have phone systems, and some now have broadband Internet. Many have stocked bars.

Depending on the model, jets can range from \$4 million for a smaller plane to \$60 million-plus for a Boeing Business Jet. This 737 derivative can seat as many as 25 and fly nonstop more than 6,000 nautical miles.

Who Has the Most Planes?

Here's a look at the big aircraft owners among Charlotte companies. • **Wachovia:** Nine planes, including aircraft obtained in its Golden West Financial deal, according to the company. The bank's fleet includes a Gulfstream V, which can carry eight passengers 7,500 miles close to the speed of sound.

• **Bank of America:** Seven jets, including three Gulfstream V's, according to Federal Aviation Administration records. The company would not confirm the number.

• **Lowe's:** Five Dassault Falcons of varying makes, according to the company.

• **Duke Energy:** Three planes and a fractional ownership interest in another plane that provides the company with flight time, according to the company.

• **Coke Consolidated:** Two jets, according to the company. The planes' tail numbers end in "FH," in honor of CEO Frank Harrison III's late father.

Who Flew the Most?

Here are the top 12 fliers among executives and directors at 50 of the Carolinas' biggest public companies in 2005 or the firm's latest fiscal year. The firms calculate the value of the flights based on the "incremental cost" to the company, but these formulas can vary. The figures can include trips by family members.

Executive	Company	City	Value
1 Chad Gifford, retired chairman	Bank of America	Charlotte	\$655,242
2 Frank Harrison III, chairman and CEO	Coca Cola Bottling Co. Consolidated	Charlotte	\$242,296
3 Paul Anderson, chairman	Duke Energy	Charlotte	\$199,246
4 Al de Molina, chief financial officer	Bank of America	Charlotte	\$151,183
5 Earl Congdon, chairman and CEO	Old Dominion Freight Line	Thomasville	\$106,282
6 Robert Niblock, chairman and CEO	Lowe's Cos.	Mooresville	\$83,332
7 Ken Lewis, chairman and CEO	Bank of America	Charlotte	\$82,798
8 Fredric Eshelman, CEO	Pharmaceutical Product Development	Wilmington	\$72,410
9 Ernest Mario, chairman	Pharmaceutical Product Development	Wilmington	\$47,459
10 Howard Levine, chairman and CEO	Family Dollar Stores	Matthews	\$45,370
11 Brian Moynihan, president, wealth management	Bank of America	Charlotte	\$41,096
12 Ken Thompson, chairman and CEO	Wachovia	Charlotte	\$27,602

Source: Company SEC filings

NOTE: Other Carolinas companies that reported some personal use of corporate aircraft by executives or directors, including travel by spouses on business trips, were Advance America Cash Advance Centers, EnPro Industries, Pike Electric, Progress Energy, Reynolds American, R.H. Donnelley, Sonoco, SPX and The South Financial Group. observer analysis

Staff Writer Stella M. Hopkins contributed.