

Darden's

GOLDEN GOODBYES



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The **Institute for Policy Studies** (www.IPS-dc.org) is a 50-year-old multi-issue research center that has conducted path-breaking research on executive compensation for more than 20 years. Recent related reports include: “[Restaurant Industry Pay: Taxpayers’ Double Burden](#)” (April 2014) and “[Executive Excess 2014: The Obamacare Prescription for Bloated CEO Pay](#)” (August 2014).

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Key Findings

In the face of investor pressure over slumping sales, Darden's corporate board has pushed three top-level executives, including the CEO, to resign.

- As part of "golden goodbye" agreements, these three men will walk away with more than \$53 million combined in the form of cash severance and equity-based awards. Together with their accumulated company retirement funds, the executives are sailing away from the troubled firm with gilded fortunes worth an estimated \$68 million.
- Darden CEO Clarence Otis, Jr., whose resignation announcement on July 28, 2014 sent the company's stock price soaring, will depart with compensation and retirement funds worth an estimated \$36 million.
- Meanwhile, Darden workers face uncertain futures. The company's restaurant servers need to rely on unpredictable income from tips, making it difficult or unlikely to save for retirement. Darden has admitted that it pays at least 20 percent of its U.S. workforce no more than the federal tipped minimum of \$2.13 per hour. And now, as an activist hedge fund investor is calling for deep cost-cutting, workers face additional uncertainty.

"Golden Goodbyes" for Darden Executives

Darden Restaurant Group, the owner of the Olive Garden, LongHorn Steakhouse, Capital Grille, and other chains, is the world's largest full-service restaurant company, with over [150,000 employees](#). Over the past year, as the company has come under increasing fire from activist investors, the Darden corporate board has pushed three top-level executives to resign.¹ The executives include:

- **CEO Clarence Otis, Jr.**, who has agreed to step down on December 31, 2014 or earlier upon the appointment of a successor.
- **Chief Operations Officer Andrew H. Madsen**, who resigned on November 24, 2013.
- **Chief Restaurant Operations Officer David T. Pickens**, who resigned on May 25, 2014.

Documents filed by the company with the U.S. Securities and Exchange Commission (SEC) reveal that each of the executives negotiated generous separation agreements, or "golden goodbyes." Option and stock grants make up the most lucrative component. Under the terms of their separation agreements, these equity-based awards will continue to vest until the end of each executive's severance period. For Otis, this is two years; for Madsen, 21 months; and for Pickens, 18 months.

In addition, the executives will continue receiving their regular base salary during these periods, as well as a host of perks, including financial counseling, outplacement services, and executive health care coverage.

The three men, all long-time Darden employees, have also accumulated a combined total of \$14.3 million in their company retirement accounts.² Like many other large corporations, Darden allows top executives to make unlimited contributions to a special tax-deferred defined contribution plan the company set up for executives. In contrast, ordinary U.S. workers face an annual cap of \$23,000 in tax-deferred contributions to regular 401(k)s. All combined, these three executives are set up to walk away from the troubled company with compensation currently worth more than an estimated \$68 million.

What Darden Executives are Walking Away With

Type of compensation	Otis	Madsen	Pickens	TOTAL
Cash severance	2,422,600	1,515,787	861,900	4,800,287
Option and stock awards – based on current stock value	28,187,234	13,332,363	7,743,785	49,263,381
subtotal	30,609,834	14,848,150	8,605,685	54,063,668
Retirement funds	5,322,180	5,930,612	3,065,339	14,318,131
Grand total	35,932,014	20,778,762	11,671,024	68,381,799
Additional benefits				
Annual bonus	Eligible for FY 2015			
Medical, dental, and vision insurance	2 years	21 months	18 months	
Subsidized medical coverage until age 65	X (he's 58)			
Use of company car	4 weeks	4 weeks	4 weeks	
Discount on purchase of company car from adjusted market rate	48%	40%	90%	
Financial counseling	1 year	13 months	19 months	
Executive physical examination	X	X		
Outplacement benefits	X	X	X	

Sources and methodology: see Appendix 1.

Hard Landing for Darden Workers

While setting top executives up with gilded retirement fortunes, Darden's restaurant workers face extreme economic insecurity. Last year a Darden official revealed that the firm pays at least [20 percent](#) of its U.S. workers only the federal minimum wage for tipped workers, which has remained at \$2.13 an hour for more than 20 years. Under current law, employers are supposed to make up the difference if their employees' total pay (tips plus wages) does not add up to at least the federal minimum wage of \$7.25 per hour. Because of lack of enforcement, however, noncompliance is rampant.³ States with minimum wages for tipped workers that are higher than the federal floor have had above-average employment growth and increases in per capita restaurant sales, according to [Restaurant Opportunities Centers United](#).

As the nation's largest full-service restaurant chain, Darden plays a large role in setting industry standards. Nationwide, 12.8 percent of tipped restaurant workers live in poverty, compared to the 6.5 percent poverty rate for non-tipped workers. The median pay (including tips) for tipped workers is \$10.22 per hour, compared with \$16.48 for all workers, according to the [Economic Policy Institute](#).

It's hardly any wonder that 87 percent of Darden employees who are eligible for the company's 401(k) retirement plan (including management and administrative staff) are not actually participating in it, according to the company's most recent filing.⁴ That places Darden in the bottom 15 percent of all 401(k) plans in terms of participation, according to the financial information firm [BrightScope](#). With such small paychecks, it's nearly impossible to put money aside for retirement.

Darden has been among the most aggressive opponents of improving wages and benefits for restaurant workers. Since 2008, Darden has spent an average of \$1.3 million each year to defeat legislation promoting higher wages and better working conditions. In addition to lobbying against a minimum wage hike, Darden has fought against legislation around the country that would provide paid sick days for restaurant workers. Through its membership in the National Restaurant Association, Darden has supported [preempting local ordinances for paid sick days in 15 states](#).

Currently, Darden workers are facing even greater insecurity. An activist hedge fund, Starboard Value, is battling over control of the company. In a PowerPoint presentation aimed at shareholders, Starboard recently laid out detailed proposals for revamping the company's business model, including cutting labor costs.⁵ The hedge fund also has a [history of takeovers](#) that resulted in downsizing.

Appendix 1: Sources and Methodology

The figures for Darden's "golden goodbyes" are based on the company's proxy statements and separation agreements for the three executives filed with the U.S. Securities and Exchange Commission.

Cash severance (based on gross regular base salary):

Otis: \$23,294.23 per week for 104 weeks

Madsen: \$16,657 per week from Nov. 24, 2013 to August 23, 2015 (91 weeks)

Pickens: \$11,050 per week from May 25, 2014 to November 22, 2015 (78 weeks)

Option and stock awards: The exact amount each executive will pocket will depend on the value of Darden shares at the time options are exercised or shares vest. Since CEO Otis announced on July 28, 2014 his plans to resign by the end of the year, share prices have increased from \$44.92 per share to \$51.90 (as of September 26).

Option awards: Based on the number of securities underlying options held at the end of FY 2014 that were either exercisable on that date or will be exercisable before the end of the executive's severance period, based on grant dates in company proxy statements. Darden executive stock options vest 50 percent on the third and fourth anniversaries. The current value of these awards was calculated based on the closing price of Darden shares on September 26, 2014 (\$51.90 per share).

Stock awards: Based on the number of shares held at the end of FY 2014 that had not vested but will vest by the end of the executive's severance period, based on the vesting schedule reported in company proxy statements. Darden executive restricted stock units (RSUs) were awarded in FY2004-2006 and vest in 10-year cycles. Darden executive performance share units (PSUs) were granted in FY2012-2014 and vest in three-year cycles, conditioned on the company meeting certain benchmarks. The current value of these awards was calculated based on the closing price of Darden shares on September 26, 2014 (\$51.90 per share).

Retirement funds: Aggregate balance at end of FY 2014 of nonqualified deferred compensation through Darden's FlexComp program for executives. Source: [company proxy statement](#).

Discount on purchase of company car: The separation agreements offer the executives the right to buy the car at the adjusted market value, less a percent equal to 10% plus an additional 2% for each year of service. According to Darden's [2013 10-k report](#), Otis joined the company in 1995, Madsen in 1998, and Pickens in 1973 (as a Red Lobster hourly employee).

Darden executive separation agreements:

Otis: <http://www.sec.gov/Archives/edgar/data/940944/000094094414000115/ex101ceoseparationagrmt.htm>

Madsen: <http://www.sec.gov/Archives/edgar/data/940944/000094094413000061/a20131122ex101-01.htm>

Pickens: <http://www.sec.gov/Archives/edgar/data/940944/000094094414000040/agreementmay232014.htm>

Appendix 2: Value of Darden Executives' Stock and Option Awards

OPTION AWARDS				STOCK AWARDS				TOTAL
# of securities underlying unexercised options - exercisable as of end of FY2014	Additional options held at end of FY14 that will be exercisable before end of severance	Option exercise price	Value of options as of Sept. 26, 2014 (closing price: \$51.90 p/share)	RESTRICTED STOCK - # of shares not vested as of end of FY14	PERFORMANCE STOCK (PSUs) - # of shares not vested as of end of FY14	# of PSUs that will not vest before end of severance period	Value on Sept. 26, 2014 of stock awards that will vest before end of severance period	
Clarence Otis, CEO (severance period: 12/31/2014-12/31/2016)								
75,000		27.22	1,851,000					
175,000		33.1	3,290,000					
152,711		35.81	2,457,120					
126,042		42.68	1,162,107					
234,481		33.44	4,328,519					
268,901		32.55	5,203,234					
105,971	105,971	42.58	1,975,299					
	222,138	51.26	142,168					
	229,664	49.05	654,542					
	117,116	48.38	412,248					
subtotal			21,476,239	16,460	113,196	0	6,581,339	28,187,234
Andrew Madsen, COO (severance period: Nov. 24, 2013 - August 23, 2015)								
94,375		33.1	1,774,250					
112,395		35.81	1,808,436					
92,767		42.68	855,312					
129,433		33.44	2,389,333					
134,940		32.55	2,611,089					
53,178	53,179	42.58	991,247					
	111,473	51.26	71,343					
	55,119	49.05	157,089					
subtotal			10,658,099	13,535	55,165	17,718	2,587,846	13,332,363
David Pickens, CROO (severance period: May 25, 2014 - Nov. 22, 2015)								
30,000		27.22	740,400					
66,500		33.1	1,250,200					
59,430		35.81	956,229					
44,692		42.68	412,060					
62,357		33.44	1,151,110					
65,010		32.55	1,257,944					
25,620	25,620	42.58	477,557					
	65,379	51.26	41,843					
	26,556	49.05	75,685					
subtotal			6,363,027	6,333	27,836	7,794	1,338,795	7,743,785
Total								49,263,381

Endnotes

- ¹ Official Darden documents euphemistically describe the decision as designed “to facilitate the company’s organizational redesign and talent planning.”
- ² Otis joined the company in 1995, Madsen in 1998, and Pickens in 1973 (as a Red Lobster hourly employee). Darden 2013 10-K:
<http://www.sec.gov/Archives/edgar/data/940944/000094094413000027/dri-201310xk.htm>
- ³ U.S. Department of Labor investigations between 2010 and 2012 revealed that the restaurant violation rate of this law was nearly 84 percent. http://www.epi.org/blog/dc-minimum-wage-part-2-tipped-minimum-wage/#_note1
- ⁴ Form 5500 report filed with the U.S. Department of Labor.
<https://www.efast.dol.gov/portal/app/disseminate?execution=e1s2#>
- ⁵ Starboard Value, “Transforming Darden,” Sept. 11, 2014. <http://shareholdersfordarden.com/wp-content/uploads/2014/09/Transforming-Darden.pdf>