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# Running a Bankrupt Company May Be Executives' Path to Gold

By GRETCHEN MORGENSON

**A**delphia Communications, the cable company laid low by the excesses of its founding family, is negotiating to hire the former top executives of [AT&T Broadband](#) to bring it out of bankruptcy. And they could enjoy an exceptionally big payday for doing it.

If the terms of the employment contracts are approved at a board meeting today, Adelphia could wind up paying almost \$65 million over two years to the two men, William T. Schleyer and Ronald Cooper. Mr. Schleyer's package alone could be worth nearly twice the \$20 million over three years that was recently awarded to Michael D. Capellas, the new chief executive of [WorldCom](#), which entered bankruptcy listing assets four times those of Adelphia when it collapsed.

The Adelphia contracts underline the increasingly rich payouts being awarded to executives who agree to run bankrupt companies. But the structure of the compensation requested by Mr. Schleyer and Mr. Cooper is also remarkable in several ways, according to Brian Foley, a compensation consultant based in White Plains.

Unlike the package given to Mr. Capellas, the Adelphia contracts are unusually short term, rewarding the executives for propelling the company out of bankruptcy, but not providing an incentive for them to achieve a high level of performance afterward. That makes it likely that one or both of the executives will be back negotiating for more compensation whenever the company emerges from bankruptcy.

Even more significant, the benchmark used for potentially the largest part of their compensation — the company's value at the time it emerges from Chapter 11 protection — seems to be so low that it will be easily exceeded. This sets up the possibility that Mr. Schleyer and Mr. Cooper could receive significant payouts for creating little value at the company.

"The real story here is how much possible hidden value there is in this package," Mr. Foley said. "Whereas the Capellas package looks to establish a value at emergence and hold onto Mike for several years, this appears to be extremely exit-focused." Moreover, Mr. Foley said, Mr. Capellas's package was

at the high end of executive compensation at a bankrupt company, "and this has the potential to dwarf it."

Gone are the days when executives heading troubled companies would agree to nominal pay upfront in the hopes of a higher payout if the company survived and thrived. Recall that in 1979, when Chrysler was on the verge of bankruptcy, Lee A. Iacocca, its chairman, accepted a \$1 salary. (By the time he left in 1992, Mr. Iacocca had made \$90 million, tied to Chrysler's performance.)

The terms of the Schleyer and Cooper employment contracts have not been made public. Copies of the contracts, drawn up for both men by Karen G. Krueger, a lawyer at Wachtell, Lipton, Rosen & Katz in New York, were obtained from someone involved in Adelphia's hiring process.

Under his contract, Mr. Schleyer stands to receive \$3.6 million in a signing bonus, \$900,000 in base salary a year and an incentive bonus with a target of \$900,000, based on whether the company reaches unspecified earnings or subscriber-growth goals. Mr. Cooper will receive a signing bonus of \$2.4 million, a base salary of \$600,000 and an incentive bonus with a target of \$600,000.

None of these payouts is that unusual; it is the success payment that each man can receive that makes the packages stand out. Those payments, several analysts said, are unusual in the corporate-turnaround business. They resemble the compensation of hedge fund managers, who typically receive a management fee comparable to that of other portfolio managers but get an outsize payment when they exceed a specific return in a portfolio.

The success payments are based on the two men's exceeding a \$10.3 billion benchmark of Adelphia's value when the company emerges from bankruptcy, as it hopes to do within two years. The value of the company will include its assets, bank debt and other securities, and will be subject to approval by the bankruptcy court. At \$10.3 billion, the benchmark translates to about \$1,800 for each of Adelphia's roughly 5.7 million subscribers.

Under the contract, Mr. Schleyer would receive 0.9 percent of any Adelphia value over \$10.3 billion, up to \$33 million. Mr. Cooper will receive 0.6 percent of the amount that the company is worth over \$10.3 billion, with a limit of \$22 million. If it takes the company longer than expected to emerge from bankruptcy, the limits on the success payments can be renegotiated higher.

Aryeh B. Bourkoff, a cable debt and equity analyst at UBS Warburg, considers the value of \$1,800 for each subscriber low. "Depending on the time it takes to repair Adelphia's problems in bankruptcy," he said, "we would believe that the company's subscriber base in its entirety could be worth more than \$2,000 per subscriber." Other cable companies have traded at \$2,000 to \$5,000 a subscriber, he added.

How much more the company could be worth is not clear, of course. But at \$2,000 a subscriber, Adelphia would be worth almost \$11.5 billion. Such a value would give Mr. Schleyer roughly one-third of the maximum success payment. To reach his success payment cap of \$33 million, Adelphia's exit value would have to grow to just \$13.9 billion, or \$2,400 a subscriber.

It is intriguing that neither Adelphia nor its creditors, out of whose pockets the compensation to Mr. Schleyer and Mr. Cooper will ultimately come, are unhappy with the generous terms of the executives' contracts. David M. Friedman, a lawyer at Kasowitz, Benson, Torres & Friedman, who represents the creditors' committee, said: "The \$10.3 billion is a generous market valuation of the company. Should the success payment be earned, it would be earned in the context of these two people having performed a remarkable turnaround at the company."

Adelphia, through the law firm of Boies, Schiller & Flexner, declined to comment, as did a spokesman for Leonard Tow, the head of Adelphia's equity committee. A call to Ms. Kreuger, the lawyer representing the executives in their contract negotiations, was not returned.

Mr. Bourkoff said Mr. Schleyer and Mr. Cooper were strong cable property managers who could bring much-needed credibility to the scandal-tainted Adelphia. But neither man will be abandoning a hefty compensation plan at another employer if they join Adelphia. [Comcast](#) agreed to acquire AT&T Broadband in December 2001, and neither Mr. Schleyer nor Mr. Cooper was asked to stay at the company.

Still, the near-term focus of the Adelphia contracts puzzles Mr. Foley, the compensation consultant, because [Mr. Schleyer and Mr. Cooper are experienced in running cable companies but have no expertise in corporate turnarounds.](#)

["Considering Schleyer is not a turnaround guy, it would make you want to ask some questions about whether the company needed to spend this kind of money and who was pushing back on this, if anybody," Mr. Foley said.](#)