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Oregon Steel execs up for big buyout gain

Corporate pay - The company's chief would make $6 million if the sale to a Russian firm goes through

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James Declusin, the chief executive who negotiated the sale of Oregon Steel Mills Inc. to a Russian company, stands to clear more than $6 million if the deal goes through.

Declusin would make about $2.6 million on stock options and would receive more than $3.6 million for performance shares originally awarded as a long-term incentive, the company disclosed. If Declusin quits with good reason during the next three years, new owner Evraz Group would have to pay him three times his salary -- currently $620,000 -- plus three years of bonuses, which have been exceeding his annual pay.

Seven other managers have similar severance agreements predating the deal. Board members also are in line to cash in, with accelerated stock-option and restricted-share payments. Evraz says it plans incentives to retain key employees, such as Declusin and his executives, who manage the steel company from offices in a downtown Portland tower.

The numbers may seem large, but they pale in comparison to executive compensation nationally, and they follow a stunning run-up in Oregon Steel's stock price under Declusin's leadership.

Declusin, 64, a steel industry veteran who became president and chief executive officer in 2003, has not returned phone calls to comment on the deal. But Ray Adams, Oregon Steel chief financial officer, confirmed a portion of management's proceeds, gleaned from the company's U.S. Securities and Exchange Commission filings. "There's no windfall here," Adams said. "We get paid to do a job to increase shareholder value. That's what we did and what we got fairly compensated for."

U.S. authorities could approve the $2.35 billion deal today or Monday. Or they could decide to further examine any national security issues during an additional 45-day review, referring the matter to President Bush. He would have 15 days to decide.

Evraz is backed by Roman Abramovich, Russia's richest man, who made $13 billion last year selling his majority share in an oil company to Gazprom, a state energy monopoly. Under one theory in Moscow -- denied by the billionaire's spokesman -- the Kremlin expects a two-step deal in which Abramovich would use Gazprom proceeds to assemble a Russian steel giant.

"We're basically handing over Oregon Steel to the Russian government in a two-step process, clearly," said Bill Parish, a Portland-based investment manager. Parish, who owns no Oregon Steel shares, said Russian citizens would benefit at the expense of Americans, who would give up a strategic piece of an industry.

Premium for shareholders

Under the offer, Evraz would pay Oregon Steel shareholders $63.25 a share, a 7 percent premium over the price that preceded the deal's Nov. 20 announcement. Stock options, which grant the right to buy stock in the future at the issuing price, would immediately vest and cash out.

Declusin has 46,167 options, about half of which are scheduled to vest on April 29. Declusin is also expected to receive the value of about 57,800 shares, cashing out early on a long-term incentive plan but forfeiting awards he might have earned later. Adams and other executives -- Jennifer Murray, the corporate secretary, and Robert Simon, Rocky Mountain Steel Mills general manager -- have received substantial awards under the 500,000-share incentive plan.

Eight top Oregon Steel managers have golden parachute agreements in case they are terminated without cause or decide to depart "with good reason" after corporate control changes hands.

While "good reason" is specifically defined, experts say it can amount to a loophole allowing executives to cash out. If any of the eight did so within three years of the deal, they could receive lump-sum retirement payments and other benefits in addition to triple salaries and bonuses.

"Doesn't look outrageous"

Parachute agreements are controversial and can be abused. But acquisition benefits can be justified when executives eliminate their own jobs while increasing shareholders' wealth, said Jarrad Harford, a University of Washington Business School finance professor.

Harford describes the Oregon Steel executive package as a far cry from the case of Home Depot Chief Executive Robert Nardelli, for example. Nardelli resigned after failing to lift the company's stock price, but he'll receive about $210 million.

The Oregon Steel package for executives "doesn't look outrageous," Harford said. "It sounds to me pretty reasonable. They kind of turned the company around."

Executives elsewhere have wrung massive payouts from mergers, acquisitions and backdated and reloaded stock options. Options, originally intended to align the interests of managers and shareholders, have accelerated the runaway executive pay they were designed to slow.

Benefits for the board

Oregon Steel, overseen by nine board members, including Declusin, has given directors options that would vest if the deal goes through. Board members Carl Neun, Frank Walker, David Foster, Stephen Reynolds, William Kinnune, Brett Wilcox, David Parkinson and Harry Demorest each would lock in profits on hundreds of options that would have vested in 2008 and 2009.

Board members have received an undisclosed amount of restricted stock, which would cash out under the deal. The most any director has is 2,137 shares, according to the company.

Among Oregon Steel's executives, Adams, the chief financial officer, is second to Declusin in his number of options -- 11,667 -- and also owns 8,600 shares outright. If the deal closes shortly, Adams would exercise his options a few months early and receive payment for his performance shares. But his main benefit would be the stock run-up that other investors have also enjoyed. "It wasn't so enjoyable, though, when it was down to $1," said Adams, an 18-year company veteran, "and you happened to be here."

During a Nov. 19 board meeting before directors voted on the Evraz deal, Murray reviewed the benefits that executives and directors would receive. They considered the extent to which their interests might diverge from those of shareholders.

They decided, according to the tender offer statement, that their judgment "would not be impaired."

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