

Dairy's Most Overpaid "Supernumerary" – DMI CEO Tom Gallagher

by Pete Hardin

In veterinary parlance, a "supernumerary" is an extra appendage — such as an extra nipple on a heifer calf's udder ... best incised.

For the U.S. dairy industry, "supernumeraries" are fat cats sucking the cream. And we need look no further than the national dairy promotion organization to find one of dairy's fattest, cream-sucking, overpaid critters.

For many years, salaries paid to executives of Dairy Management, Inc. (DMI) have been outrageously high. DMI is the organization that coordinates annual spending of about \$150 million of funds collected by USDA from dairy farmers' mandatory promotion check-off fees.

Sitting atop DMI for over 20 years, CEO Tom Gallagher has presided over dairy promotion activities that are long on hype and expenses, but short on measurable results. Gallagher's style is to "run with the big dogs" ... boosting his own ego and financial compensation along the way. Gallagher has made sure that his cadre of loyal senior executives have also been very well paid. It's hard to fathom how devoting so many millions of dollars of dairy promotion check-off funds to retirement accounts of DMI's top executives has boosted dairy consumption.

Here's a summary of Tom Gallagher's total annual compensation for the years 2008-2014, using data gleaned from annual Form 990s submitted to the Internal Revenue Service.

2008\$695,675
2009\$702,655
2010\$912,948
2011\$685,127
2012\$910,786
2013\$1,263,507
2014\$768,643

A full breakdown of Gallagher's total package of annual compensations, from 2008 through 2014, appears in spreadsheet form below. Various ups-and-downs of salary and other forms of compensation are inexplicable. According to sources within DMI, Gallagher's annual salary and compensation packages are determined by the executive committee.

DMI's long history of excessive salaries

DMI's Tom Gallagher cannot be accused of hoarding all the milk promotion "moo-la" in his own pockets. If anything, Gallagher's management style has been to assign high-flying salaries to numerous DMI employees. In fact, in certain years, Gallagher was far from being DMI's highest-paid employee.

In 2010, for example, two DMI employees — Julian Toney and Jeanette Temple — were listed

among the four highest-paid executives among all non-profit agencies registered in the United States:

- That year, DMI's chief operating officer Julian Toney pulled in \$952,033 in total compensation! (That amount put Toney fourth-highest, among the top-paid executives for all U.S. non-profits in 2010.)

- Also in 2010, Jeanette Temple rocketed to the top of DMI's list of salaried executives, pulling in a compensation package totaling \$1,008,790. What's truly amazing about Temple's 2010 compensation package from DMI: Temple left DMI in October of that year — working at most 10 months that year! CEO Gallagher must have thought dearly of Ms. Temple. Her 2010 compensation was "goosed" with a hefty going-away present — \$572,002 in "retirement and deferred compensation." Wonder what might have inspired such a highly-valued employee to depart DMI so abruptly?

"Deferred Compensation"

Over the years, DMI's top executives' annual packages of salary and compensation swayed with the breezes of whatever they could get away with. Two curious items that appeared in earlier years were "Deferred Compensation" and "Nontaxable Benefits."

In 2009 and 2010 — incredibly difficult financial years for U.S. dairy farmers — DMI's top executives reaped in massive increases in their "Deferred Compensation." In 2009, DMI paid out "Deferred Compensation" totaling \$1,278,524 to its seven top executives. (Average: \$182,648 each.) Important to note that Julian Toney received "Deferred Compensation" of \$504,401 for 2009.

Hard to believe, but DMI's "Deferred Compensation" sweetened the pot even more for top executives in 2010. In 2010, DMI paid out "Deferred Compensation" totaling \$1,535,235 to its top seven executives. (Average: \$219,319 each.)

Until 2016 has come along, 2009 and 2010 were two of the worst cash-flow and equity bloodbaths ever for U.S. dairy farmers. Why were dairy farmers' hard-earned milk promotion check-off dollars being siphoned to feather the retirement nests of these dairy promotion executives, when boosting dairy product sales was direly needed? Squirreling away dairy farmers' promotion dollars for milk promotion executives' comfy retirements is no way to sell more dairy products.

"Nontaxable Benefits" — as good as gold

IRS Form 990 also lists a category titled "Nontaxable Benefits." Whatever form those benefits may have taken, in 2008 DMI executives went hogwild in that category. The top seven DMI executives in 2008 garnered a total of \$695,039 in non-taxable

benefits. (Average: \$99,271.) For 2008, DMI's top seven executives' "Nontaxable Benefits" totaled 32% of their "Base Compensation" (i.e., salary). Not a bad scam for a group that funnels its money from a federally dictated program.

Alas, somebody must have become nervous over those huge levels of "Nontaxable Benefits" in 2008. Since that time, such largesse — at least the "nontaxable" kind — has dramatically dissipated. By 2014 — the most recent year for which information on DMI executives' compensation is available — "Nontaxable Benefits" averaged only \$16,565 for DMI's top nine executives.

Where's the Internal Revenue Service???

DMI operates as a 501(c) 6 non-profit organization under rules of the Internal Revenue Service (IRS). Form 990 ("Return of Organization Exempt from Income Tax") is the annual form on which top executives' salaries are listed.

The IRS has specific guidelines for non-profit organizations. Among those guidelines: Non-profits' salaries must be reasonably aligned with similar organizations. That's not the case with salaries and compensation packages for DMI's senior executives. As noted earlier in this article, in 2010, two DMI executives (Julian Toney and Jeanette Temple) were among the four highest-paid executives (of the top 200) working for non-profits in the United States. No other executives at any agricultural commodity promotion group overseen by USDA made that "top 200" list in 2010.

The accompanying story below illustrates just how out-of-bounds the compensation package received by DMI CEO Tom Gallagher really has been over many years.

Worse yet, the compensation largesse enjoyed by DMI executives over many years is just the tip of the iceberg for DMI's wastes and scandal.

DMI's CEO's Compensation Far Higher Than "Comparable" Organizations

General interpretation of Internal Revenue Service guidelines clearly specify that non-profit organizations (such as Dairy Management, Inc.) must address top executives' salaries using data from comparable organizations.

Sources indicate that IRS rules require the following: Review and approval by the non-profit's executive board, no conflicts of interest by board members reviewing executive's salaries, collection of salary data for "similarly qualified persons" in comparable positions at similar organizations, among certain other details.

Given levels of DMI executives' salaries (such as CEO Tom Gallagher), it's hard to imagine what DMI's executive board was collectively smoking when they have set Gallagher's compensation packages in recent years. DMI's salaries are way overboard.

The following are "comparable organizations" CEOs' salaries for 2013 — the year when DMI's Tom Gallagher pulled in a whopping compensation package of \$1,263,507:

Forest L. Roberts, CEO of the National Cattlemen's Beef Assn., had total compensation of \$548,993.

Neil Dierks, Executive Vice President of the National Pork Producers Council, was paid \$304,905.

Richard Totman, CEO of the National Corn Growers Assn., received total compensation of \$427,986.

Other non-profit leaders' salaries for 2013 include:

People for the Ethical Treatment of Animals (PETA) — Ingrid Newkirk (\$40,259).

Humane Society of the United States (HSUS) — Wayne Pacelle (\$400,681).

National Rifle Association — Wayne LaPierre (\$989,182)

Clinton Foundation — Bruce Lindsey (\$394,856).

Total Compensation for DMI CEO Tom Gallagher 2008-2014

(A) Year	(C) Breakdown of W-2 and/or 1099 MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(I)-(D)	
	(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
2008	(I) (II)	\$385,000	\$35,000	\$213,475	\$ —0—	\$62,200	\$695,675
2009	(I) (II)	\$410,000	\$35,000	\$193,079	\$ 52,675	\$11,901	\$702,655
2010	(I) (II)	\$410,000	\$ —0—	\$296,158	\$194,130	\$12,660	\$912,948
2011	(I) (II)	\$410,000	\$ —0—	\$209,557	\$52,675	\$12,895	\$685,675
2012	(I) (II)	\$450,000	\$ —0—	\$294,464	\$106,250	\$10,072	\$910,786
2013	(I) (II)	\$462,500	\$50,000	\$626,891	\$112,569	\$11,547	\$1,263,507
2014	(I) (II)	\$500,000	\$50,000	\$81,410	\$125,757	\$11,476	\$768,643

Source: DMI Form 990, 2008-2014