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Top execs rake in the perks

Region's biggest companies shell out for jet use, security

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By CRAIG HARRIS AND ANDREA JAMES
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Starbucks Corp. recently canceled a leadership conference for its employees in Costa Rica to help pay for raises and cut costs. But when it came to the boss, Howard Schultz, no expense was spared.

Shareholders last year covered \$1.23 million worth of perks, which included a life insurance benefit, security and personal use of the company's aircraft for the billionaire chairman.

Schultz, who made more than \$100 million last year running the Seattle-based coffee chain, received the greatest amount of perks, based on financial value, among the top executives at the 20 largest publicly held companies based in the Puget Sound area, according to a Seattle P-I analysis.

The value of perks for Schultz, who declined to be interviewed, was seven times more than the average per top executive.

Perks at the 20 companies averaged \$169,203 per executive and included common benefits such as life and health insurance, retirement matching and automobile or parking allowances. But the top brass also received a slew of benefits not afforded to the average employee, such as country club memberships, personal security, Internet allowances and personal trips on the corporate jet.

"There seems to be no end to this granting of perquisites to executives," said Alexandra Higgins, a compensation analyst for the Corporate Library, a Maine-based watchdog organization that tracks executive pay and benefits. "They get paid enough. ... It's a waste of shareholder money, and it adds up very quickly."

Though the average salary for a top executive at the Washington companies studied was \$671,502, the executives earned, on average, another \$9.3 million in bonuses, exercised stock options and perks, the P-I found. Stock option grants were not part of the analysis.

The P-I reviewed the most recent Securities and Exchange Commission filings that listed executive compensation for those businesses, which ranged from Microsoft Corp., with a market value of \$290 billion, to Alaska Air Group Inc., valued at \$1.7 billion. The filings were from March 2006 through January.

While Starbucks was the most generous when it came to perks, other companies provided plenty of extravagant benefits to their chief leaders.

- Jeff Bezos, a billionaire, received the second-most-valuable perk; Amazon.com spent \$1.1 million on security for the company founder. His annual salary was \$81,840, and the company reported no other compensation besides the security benefit.

- With \$350,085 in perks, Washington Mutual Inc. CEO Kerry Killinger ranked third among the 20 companies. Among other benefits, WaMu spent \$62,375 for his personal air transportation and gave him \$10,000 to help him with his financial planning. His total compensation was \$13.8 million.
- Alaska Air provided CEO Bill Ayer with \$22,000 for auto expenses. Ayer's total compensation of \$411,282 was the lowest among the 20 companies.

'Nature of the game'

It is difficult to calculate the exact dollar value in compensation that an executive receives because companies record benefits differently. Microsoft, for example, reports only that it spent less than \$50,000 on security for Chairman Bill Gates and CEO Steve Ballmer, whereas Starbucks lists the precise figure for its security expenses for Schultz, CEO James Donald and Martin Coles, president of Starbucks Coffee International.

A new SEC rule requires that companies provide a clearer picture of executive benefits starting this year.

Also, at some companies, thousands of dollars worth of perks were not reported. At Washington Federal Inc., for example, if the company spent less than \$50,000 or 10 percent of the cash compensation on cars, club dues or other benefits, the amount is marked as zero.

In general, executives have to pay taxes on the value of the perks, but many companies provide extra money or a "gross up" benefit to cover the taxes associated with the perk.

Chris Roush, a business journalism professor at the University of North Carolina, said giving perks to company executives is "just the nature of the game." He said if one company refuses to grant a perk, it risks losing top-level executives.

"You have to keep up with everyone else in the neighborhood," said Roush, who studies executive compensation. "The average person who sees these numbers in the press doesn't understand them. ... But the CEO sees it as a perk, and he is making high-pressure and high-stress decisions. A company offers him that to keep him there, but I'm not saying that it's right."

Even President Bush recently waded into the debate over chief executive compensation.

"America's corporate boardrooms must step up to their responsibilities. You need to pay attention to the executive compensation packages that you approve," Bush said in his 2007 State of the Economy speech. "You need to show the world that American businesses are a model of transparency and good corporate governance."

Hard to complain

This may be the year when boards of directors start reining in executive compensation packages, as the topic becomes a hot-button financial issue, said Eric Brewé, a senior vice president at RBC Dain Rauscher in Seattle.

Lately, large mutual funds and hedge funds have become activist shareholders by pressuring boards to keep compensation in line with performance. Brewé said that the most egregious compensation

packages include large stock options grants that dilute the pool for other shareholders.

"As a common shareholder, I would want the board of directors to control that," said Brewe, who added that Costco Wholesale Corp. is a "shining star" of fair compensation for its executives.

Issaquah-based Costco, at the insistence of CEO Jim Sinegal, keeps his salary low compared with other executives.

So who's responsible for the ballooning of perks and bonuses?

"It's not illegal," Brewe said. "The board of directors are approving these things, so the pressure has to come full circle back to the board."

But as long as companies are thriving and stocks are climbing, most shareholders will be hard-pressed to complain.

"Like it or not, Wall Street is based on performance," he said. "If a company is performing well, then the guy who led it to that point probably should be compensated well. If you look at Starbucks, what would it be without Howard Schultz? I would argue probably not a whole lot."

As founder of Starbucks Corp., Schultz has taken a small Seattle-based operation and transformed it into the world's most recognizable coffee business, with more than 12,000 stores in 36 countries.

Since taking the company public June 26, 1992, the total return for Starbucks shareholders has been 4,925 percent -- nearly 15 times more than the Nasdaq stock market composite.

When companies perform well, they create billions of dollars of wealth in the marketplace. When the executive shares in that wealth, it surprises people but maybe isn't out of line, Brewe said.

A Starbucks board member said Schultz's benefits were in line for an executive running a growing global company.

"Clearly, if you are a Starbucks shareholder, ... you have been incredibly well-rewarded. Howard is an asset," board member Craig Weatherup said.

WaMu's board uses an outside consultant to help figure Killinger's compensation so that it is competitive with his national peer group, WaMu spokesman Alan Gulick said.

The company would not elaborate on why Killinger received \$10,000 to manage his finances in 2005, but said that perk was discontinued for 2006.

"We wanted to be transparent in our reporting, so we qualified all elements of Kerry's additional income rather than providing a lump-sum amount," Gulick said.

Protecting the boss

The \$81,840 salary that Bezos receives as Amazon.com's chief executive is a paltry sum when compared



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AP

Starbucks chairman Howard Schultz led the state's executives in shareholder-paid perks -- along with \$3.57 million in salary and bonuses.

with most other CEOs at major public companies.

But what sets Bezos apart from his peers is the \$1.1 million the Seattle-based Internet retail giant spent in fiscal-year 2005 protecting him. The company also spent at least \$1 million on security in 2004 and in 2003. Bezos owns 24 percent of the company.

The company said the money spent on security was at business facilities and for business travel. The company declined to say whether Amazon paid for security at Bezos' home.

"As the company's CEO, we believe his security is ultimately to the company's benefit, and that is why Amazon pays for that," said Patty Smith, a company spokeswoman. "We think the cost is a benefit of the shareholders."

The cost of protecting Bezos is at least 22 times more than what Microsoft spends to protect Gates, the world's richest man. Microsoft's annual revenue is four times that of Amazon's.

At Fortune 100 companies, which include Microsoft but not Amazon, the median cost for personal and home security for CEOs in 2005 was \$37,194, according to Equilar Inc., a California-based compensation-research firm.

The compensation-research firm said the security cost increased 69 percent from 2004 to 2005 at Fortune 100 firms, the largest companies in the United States based on revenue.

At Starbucks, the coffee company spent \$467,759 to protect Schultz, \$9,047 to protect its chief executive and \$4,408 on the president of Starbucks Coffee International.

Weatherup, the Starbucks board member, said Schultz has a "uniquely high profile, and that attracts good things and less desirable things." He did not elaborate, but Weatherup said the safety of executives, specifically Schultz's, is of interest to shareholders.

"He is an important asset," Weatherup said. "I don't think it's a perk."

By comparison, taxpayers spend \$221,000 a year on security for King County Executive Ron Sims and \$270,000 a year on security for Seattle Mayor Greg Nickels, according to their offices.

The state spends \$2.2 million annually to protect Gov. Chris Gregoire and Lt. Gov. Brad Owen and to provide security for 11 legislative buildings in Olympia, said Jeff DeVere, a State Patrol captain.

Minimal benefits

A few companies provided minimal perks to their executives, citing a philosophy of equality.

Seattle-based Nordstrom Inc. gave President Blake Nordstrom \$23,610 in perks, but most of that was in profit sharing and a 401(k) match -- benefits provided to all full-time employees.

Deniz Anders, a Nordstrom spokeswoman, said the company wants to have a competitive compensation and benefits package for its executives, but the clothing retailer tries to "put as many resources as we can to those areas of the business that are taking care of customers."

Seattle-based aQuantive Inc., an online advertising company, said it seeks to "maintain an egalitarian

culture," and executive officers are not provided with automobiles, personal entertainment or family travel.

The perks provided to Costco CEO Sinegal were valued at nearly \$105,000, but the cost would have been higher had he not reimbursed the company \$62,463 for using the company's aircraft for personal use.

Sinegal, whose total compensation was \$13.2 million last year, said paying to use the company plane is "just the way we are."

"I have done very well as founder of this company. There is no reason to chisel," Sinegal said.

P-I reporter Craig Harris can be reached at 206-448-8138 or craigharris@seattlepi.com. P-I reporter Andrea James can be reached at 206-448-8124 or andreajames@seattlepi.com

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