

2006 another lucrative year for top NW execs

By Amy Martinez

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By its own admission, Expeditors International pays its top five executives "modest" salaries that pale in comparison to their competitors'.

But no need to feel sorry for the men who run the Seattle cargo-shipping company. Expeditors more than makes up with bonuses tied to operating income, a key measure of the company's success. After expenses, Expeditors had a record operating profit of \$375 million in 2006. And its top five executives?

They collected bonuses totaling nearly \$19.2 million, more than any other top five executives in the Northwest last year, an analysis by San Mateo, Calif., research firm Equilar shows.

Large cash-compensation packages are just one indication that 2006 turned out to be another very good year for the leaders of the Northwest's publicly traded companies. The companies based in Washington, Oregon and Idaho also handed out more than \$350 million in stock and option awards, plus perks ranging from private jets to home-security systems.

Expeditors' performance-based bonuses — coupled with its relatively small salaries — apparently didn't always go over well with some would-be executive recruits. Some potential hires weren't willing "to take this kind of a chance," said Chief Financial Officer Jordan Gates, who received a \$2.9 million bonus on top of his \$100,000 salary last year. "But those who have come here have done well."

The Securities and Exchange Commission last year adopted new rules changing the way companies report executive pay, promising investors more information about what bosses make and why.

One result is that companies must now disclose pay for CFOs, as well as CEOs and the next three best-paid executives, reflecting the increased role that CFOs play in regulatory matters.

Another is that companies must place a value on stock and option awards, in addition to revealing the number and date.

Previously, analysts did their own math to come up with an estimated value, but "it wasn't the company's, and it was never exact," said Alexander Cwirko-Godycki, research manager at Equilar, an executive-compensation research company in San Mateo, Calif. "Now we have a solid idea about what companies believe they're giving executives."

The increased disclosure requirements don't appear to have deterred companies from including stock or option awards in CEO pay packages — nearly three of every four companies reporting under the new SEC rules did so last year.

Nevertheless, option awards were less prevalent, due to a national outcry over options-backdating and investor concerns about options diluting share values, Cwirko-Godycki said. A little more than 55 percent of Northwest CEOs received option awards, down from 65 percent in 2005. The average award also declined, from \$1 million to about \$850,000.

Options encourage executives to think like investors by giving them the right to purchase shares at a predetermined price later on, or so the thinking goes. In the past year, more than 200 companies have been investigated for potentially moving back the dates of options to when prices were lower, increasing their value to executives in a rising stock market.

Locally, Costco Wholesale in Issaquah said in March that it had been subpoenaed by a federal grand jury in Seattle looking into its option grants. Seattle-based F5 Networks said it would have to restate several years' worth of financial results because of improper accounting for options, and Getty Images said it is facing two shareholder lawsuits challenging its options practices.

Last year Northwest companies gave CEOs more stock awards. The average value rose 22 percent in 2006 to \$956,543, and the prevalence of companies giving stock awards increased 10 percentage points to 36 percent.

Pay to leave

The new rules also require more information about CEO payouts when they're no longer in charge. Public companies previously were required to describe severance packages and pension programs in broad terms only. Now, they must put a price tag on them.

Paula Rosput Reynolds, the new CEO of insurer Safeco, would get nearly \$6.8 million in cash and other compensation, such as attorneys' fees, if control of the Seattle company changes and she's shown the door. Additionally, she'd get \$7.4 million worth of accelerated vesting of stock and option awards based on their Dec. 29 closing price.

All told, that's a little more than the \$13.9 million she received in total pay last year. Safeco hired Reynolds away from an Atlanta utility company after the 2005 departure of former U.S. Senate candidate Mike McGavick.

Steven Rogel, CEO of Weyerhaeuser in Federal Way, also has little to worry about if a change in control results in his ouster. He'd get a \$9.1 million payout, plus more than \$700,000 in other benefits, including \$20,000 worth of outplacement services to help him find another job. His performance equity awards and stock options would accelerate, though their value was not disclosed.

On the other side of the spectrum is retailer Nordstrom. President Blake Nordstrom, whose great-grandfather founded the Seattle company, gets no special guarantees if he's ever handed his walking papers.

That approach pleases Doug Kilgore, executive director of the Worker Owner Council of Washington State, who monitors Northwest companies for building-trade unions with large pension funds. "For one thing, it's more equitable," Kilgore said. "Regular workers, if they get discharged, don't get three times their salary and bonus and vesting of all their stock options."

Perks on the books

Northwest executives also enjoy such perks as health-club memberships and personal financial advice. Investors are learning about some of them for the first time. The new rules require companies to disclose perks worth more than \$10,000; previously, they had to be worth at least \$50,000 to necessitate mention in proxy statements.

Seattle-based Amazon.com spent \$1.2 million on security for CEO Jeff Bezos, accounting for all but \$81,840 of his 2006 compensation. Blake Nordstrom received \$92,585 in merchandise discounts. And CEO Kerry Killinger's personal use of corporate aircraft cost Washington Mutual \$143,972. (WaMu says it stopped offering executive perks Jan. 1.)

"In some cases, companies are eliminating the more offensive perks so they don't have to explain away these things," said Bruce Ellig, a former human-resources director at Pfizer who has written "The Complete Guide to Executive Compensation."

At aQuantive, executives don't get cars, parking spaces or separate dining areas. The company also doesn't pay for their personal entertainment or family travel, or award them with special health-insurance programs. "We expect our officers to be role models," the Seattle company said in its proxy statement.

The same is true for executives at Expeditors. The only perk they get is a \$1,500 annual match for their 401(k)s. "People have the opportunity to make enough money here that they ought to be able to afford their own perks," CFO Gates said.

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