

Capital One Chief Cashes In on Stock

By Alejandro Lazo
Washington Post Staff Writer
Thursday, July 12, 2007; D04

[Capital One](#) chief executive [Richard D. Fairbank](#) has not taken a salary since 1997, but he remains well compensated thanks to stock options.

Fairbank has made about \$29.3 million from selling an estimated 470,000 shares of his company from May through last Friday, according to data compiled by [Thomson Financial](#). The sales come through the exercise of options to acquire shares at a price of \$16.25.

The exercises and subsequent sales were made through a prearranged stock-selling plan. Fairbank has sold the shares for an average price of \$78.56.

The sales come at a challenging time for Capital One, the nation's largest independent credit-card issuer. In April, the company reported a 24 percent drop in first-quarter earnings, a decline driven by the subprime mortgage portfolio it acquired through the 2006 purchase of [North Fork Bancorporation](#). Capital One has said that mortgage industry troubles could put further pressure on its results for the rest of the year.

Two weeks ago, the company announced it was eliminating 2,000 jobs in an effort to save \$700 million.

Although the exercise of options and stock sales are pre-arranged, having the company's chief executive make millions of dollars at a time when some employees face the threat of losing their jobs has the potential to hurt morale, [Ben Silverman](#), a research director for InsiderScore.com, said.

"From the investment standpoint, this is a neutral transaction," Silverman said. "From an internal public relations perspective, it wouldn't look great."

The options that Fairbank is exercising were granted nearly a decade ago -- one batch in December 1997 and the other in June 1998. The options have a lifespan of 10 years, and Fairbank must exercise them before they become worthless, said Julie Rakes, a spokeswoman for the company.

Rakes said Fairbank has given up his salary and bonus in exchange for options and stock grants that are tied to long-term performance.

Fairbank will exercise and sell a total of about 2.1 million shares under a stock trading plan that he entered into in February. Such plans are being used increasingly by executives as a shield from accusations of insider trading.

In 2006, 35 percent of S&P 500 companies had at least one executive officer with an active stock trading plan, known as 10b5-1 plan, according to Equilar, an executive compensation research firm located in [San Mateo, Calif.](#)

Fairbank's plan is set to both exercise and sell the options automatically, Rakes said. His sales will continue through May 2008, she said.

Before Fairbank began selling his shares in May, the last time he sold shares was in August 2005. When Fairbank completes the exercise and sale of the options priced at \$16.25, he will still retain 6.7 million options to buy shares and hold 2.4 million shares of the company outright, Rakes said.

"The 6.7 million options continue to align his salary with the performance of the stock," Rakes said. "He gets paid as the shareholders get paid."

Capital One's shares closed at \$74.63 yesterday.

In 2006, Fairbank received compensation valued at about \$37.4 million. Much of that compensation came in the form of stock options that had been granted in previous years but were counted as an expense to the company in 2006 to conform with new pay disclosure rules.

"He's always taken this kind of strategy," said Graef Crystal, a longtime compensation consultant who now writes a column for [Bloomberg News](#). "Like someone standing at the edge of the freeway holding a sign, 'Will work for stock options.' And he's made an extraordinary amount of money doing so."