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Sunday June 24, 2007

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Executive pay

Despite heat, pay at the top kept going up

By **Amy Martinez**
Seattle Times business reporter

The Northwest's top CEOs saw their pay go way up last year, according to a new analysis for The Seattle Times. More than half of the 20 best-paid CEOs who were in place for both 2005 and 2006 made at least \$4.7 million, a 28 percent increase from the year before.

Kerry Killinger, CEO of Washington Mutual, topped this year's list of publicly traded companies with a pay package valued at \$18.1 million. He was followed by Expedia's Dara Khosrowshahi at \$16.4 million and Safeco's Paula Rosput Reynolds at \$13.9 million, according to the analysis by Equilar, an executive-compensation research firm in San Mateo, Calif.

CEO pay has become a lightning-rod issue for workers frustrated with stagnant wages and investors concerned about sluggish stock prices. Still, few CEOs show any interest in a pay cut.

The median pay for CEOs of the nation's 500 largest companies — meaning half made more, half made less — increased 6 percent last year to \$8.5 million.

Among 113 Northwest CEOs whose pay was disclosed under new Securities and Exchange Commission rules, median pay rose 17 percent to \$1.1 million.

A change in the way that publicly traded companies are required to disclose CEO compensation means that not all of those in the Northwest reported the same information for 2006. A little more

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than 30 companies based in the Northwest — including Costco,

tougher than usual

Microsoft and Starbucks — ended their fiscal years before the rules took effect Dec. 15. They are not among the 113 companies in this year's ranking.

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The expanded disclosure rules offer a much more detailed look at pension benefits, severance agreements and perks for CEOs and other high-ranking executives, including chief financial officers and chief operating officers. They range from multimillion-dollar tax payments made on their behalf to smaller amounts for household bills.

A handful of companies, including WaMu, have stopped offering perks, and pay consultants say more are likely to do so as boards think twice about the repercussions of seeing their largess revealed.

The Northwest's smallest CEO pay package went to Russell Horowitz, who helped form the Seattle-based Internet marketing company Marchex in 2003. He received a total \$50,000. But Horowitz also owned more than \$142 million worth of Marchex stock as of April 4, the company disclosed in its SEC filing.

Board members say they need to keep pay competitive or risk losing talented CEOs to companies that do. The result, says Shivaram Rajgopal, is a "Lake Wobegon kind of thing," a reference to Garrison Keillor's "Prairie Home Companion," the folksy radio show about a place "where all the women are strong, all the men are good-looking, and all the children are above average."

"Every board wants to make sure its CEO is above average," said Rajgopal, an associate professor of accounting at the University of Washington. "Nobody wants to be paid the average, and pay just keeps creeping up."

A proposal that overwhelmingly passed the U.S. House of Representatives in April seeks to give investors a say on executive compensation. The proposal would require the SEC to write rules allowing investors to vote by company-issued ballot on an advisory basis. But it has yet to pass the Senate, and it's far from certain that President Bush would sign it into law.

Exorbitant CEO pay packages have drawn criticism from investors who say they too often coincide with lackluster performance and declining stock prices. They also are a hot-button issue with workers who point to studies showing U.S. income disparity is widening.

The Institute for Policy Studies, a progressive think tank in Washington, D.C., notes that if the minimum wage had risen at the same pace as CEO pay since 1990, it would be worth \$22.61 an hour today. Instead, the federal minimum wage will rise to \$5.85 July 24, the first increase in a decade.

"We'd like to have more of a level playing field," said Washington state Treasurer Michael Murphy. "Yes, we do want to compensate CEOs, but not to the point that it's hundreds or even thousands times more than the rank and file."

Murphy is a member of the Washington State Investment Board, which manages the investments of more than 35 public funds with \$79 billion of assets. He supports the "say-on-pay" proposal as a way "to get back to normalcy."

But Bruce Ellig, a former human-resources director at the pharmaceutical company Pfizer and author of "The Complete Guide to Executive Compensation," cautioned that any effort to curtail CEO pay could backfire.

Ellig was referring to a law that Congress passed in the early 1990s making companies owe taxes on non-performance-based pay over \$1 million. Companies consequently limited salaries to \$1 million and found other ways to reward CEOs, namely with stock-option grants that sent pay skyrocketing during the dot-com boom of the late '90s.

The law "set the floor for executive pay, instead of the ceiling," Ellig said.

Plus, there's always the chance that a CEO who drives a hard bargain on pay might also be a shrewd negotiator with suppliers and vendors. "Hopefully, he's going to be a hard-ass with everyone else, and that's value for the investor," said UW's Rajgopal.

But some CEO pay packages are surprisingly small given their company's size. Jim Sinegal, CEO of Issaquah-based Costco Wholesale, received \$454,629 last year, according to Equilar. (He also owns 2.4 million Costco shares worth about \$1.3 billion.)

"I think we're fairly but not excessively compensated," said Richard Galanti, Costco's chief financial officer. "That's a good message to send our shareholders and employees."

Peter Rose, the head of Seattle-based Expeditors International, said he worries that pay packages worth tens of millions of dollars are giving CEOs a bad name. Expeditors offers executives "modest" salaries and performance-based bonuses on the grounds that it aligns their interests with shareholders and makes pay less arbitrary.

"Boards have been wont to give everything away," said Rose, who received a \$4.6 million bonus and \$110,000 salary.

"Most of us haven't taken a stock option for three years," he said of Expeditors' top executives. "And we don't take big ones when we do get them, because we don't need them. There's only so much crap you can buy."

The Associated Press contributed to this story.

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