What the Boss Makes;

Compensation by the Numbers

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Pay comes in a variety of packages that may be hard to identify, but the bottom line can still shock investors.

The $18.2 million Nike paid William Perez in 2005 made him the highest-paid chief executive in the Northwest last year, according to The Seattle Times' annual calculation of how the region's public companies compensated their leaders.

In Perez's case, it would be hard to argue he earned it.

During his one-year tenure, Nike's stock price fell by more than $7 per share and The Swoosh lost nearly $2 billion in market value.

Nike's board did not demand a refund when it asked the underperforming Perez to leave in January. Just the opposite. On top of his 2005 compensation, Nike gave Perez $8.3 million in severance pay, including $150,000 to cover moving expenses.

"The board thought it was a reasonable accommodation to make his transition out of Nike as smooth as possible," said Shannon Shoul, a Nike spokeswoman.

In this post-Enron era, such excesses have disturbed investors, who may grouse but have failed at curbing pay packages regardless of performance, and federal regulators, who proposed changes in January so investors can get a clearer picture of what CEOs make.

"Over the last decade and a half, the compensation packages awarded to directors and top executives have changed substantially," said Christopher Cox, chairman of the Securities and Exchange Commission. "Our disclosure rules haven't kept pace ... in some cases disclosure obfuscates rather than illuminates the true picture of compensation."

Washington State Treasurer Michael Murphy was among thousands who filed public comments backing the proposed changes, which the SEC plans to finalize by 2007. Murphy is a member of the Washington State Investment Board, which manages the investments of more than 30 public funds with $67 billion of assets.

"Shareholders have been forced to play detective in attempting to piece together an accurate picture of executive compensation," wrote Murphy.

It's complicated

The difficulty of such detective work has been exacerbated by the wide variety of methods used to compensate CEOs, particularly with the proliferation of stock awards, which gained popularity in the 1990s.

Compensation comes in many forms. A salary and a bonus typically provide the base. From there, companies may add:

・Stock options, which give recipients a chance to buy stock at a favorable price at a set time in the future.

Consider the figures for Jonathan Klein, CEO of Getty Images.

Klein received 350,000 options valued at $15.4 million. That was the most valuable option grant received by any Northwest CEO, and it pushed Klein's total compensation last year to $17.1 million, ranking him second only to Perez.

Expeditors International gave CEO Peter Rose a relatively small stock-option grant, worth $237,000. His $110,000 salary was the same it's been since 1988. But Rose earned a $4 million cash bonus the largest of any Northwest CEO that constituted 92 percent of his 2005 pay.

"If we do well, I do well, like everybody else" at the company, said Rose. If Expeditors earns a profit, Rose said, each of the company's divisions, such as air freight, ocean cargo and customs handling, "get 20 percent of the pre-tax bottom line."

Rose has led the shipping-and-logistics company since he helped take the company global in 1981. He is hotly opposed to companies giving out huge stock grants to top executives because he believes it focuses too much of their attention on short-term swings in share prices.

Pay at all levels, Rose said, "should be based on performance, and not on greed and avarice." Expeditors posted a profit of $218.6 million last year, up 40 percent from 2004.

・Restricted stock shares, which vest over time but have little or no cost to the recipient.

Nike's Perez, for example, received 89 percent of his 2005 compensation in the form of options and restricted shares.

・Long-term incentive plan payouts, which often include more cash, stock or both.

Stock comprised just 13 percent of the $5.8 million paid to Plum Creek Timber CEO Richard Holley last year. Payouts from a long-term incentive plan established in 2000 accounted for 58 percent of Holley's pay, or $3.35 million.

"The compensation committee of the board of directors wants a significant portion of Mr. Holley's pay to be at risk and directly tied to the company's ability to create meaningful long-term shareholder value," said Kathy Budinick, a Plum Creek spokeswoman.

Pay for performance?

Investors are less tolerant of CEOs who receive millions even as their companies lose money or eke out miniscule gains, especially if the poor performance decreases the value of their holdings. The biggest Northwest offender in that category: Vahe Sarkissian, who made $1.6 million while his company, FEI, lost $78.2 million a year after recording a $16 million profit.

FEI is in the capital-hungry business of researching and developing cutting-edge tools for nanotechnology, so big losses are not entirely unexpected.

But Wall Street analysts and big stockholders last year expressed increasing frustration with FEI's lackluster earnings and stock performance. FEI shares have been stuck in the low $20s for nearly three years. And the company broke off buyout talks with a German suitor, Carl Zeiss AG, in February, even as it struggled with both sales and operations.

Finally, Sarkissian, who joined FEI in 1998, resigned as CEO in April. But like Nike's Perez, Sarkissian did not leave empty-handed; FEI gave him a $9.3 million severance package when he departed.

"Flawed compensation arrangements have not been limited to a small number of `bad apples'; they have been widespread, persistent and systemic," wrote professors Lucian Bebchuk of Harvard Law School and Jesse Fried of the Boalt Hall School of Law at the University of California, Berkeley, who co-authored "Pay Without Performance: The Unfulfilled Promises of Executive Compensation."

Conversely, Microsoft was far and away the best-performing Northwest company in 2005, with a $12.3 billion profit. Yet Microsoft CEO Steve Ballmer ranked just 82nd among Northwest CEOs, with 2005 compensation of just over $1 million.

Still, few would argue Ballmer is undervalued by Microsoft.

That is because annual pay is virtually meaningless when it comes to CEOs who either founded their companies or are major shareholders.

Ballmer and Amazon.com CEO Jeff Bezos are the Northwest's most striking examples.

Ballmer owns nearly 410 million shares of Microsoft, which were worth $9.4 billion on June 1. Consequently, every 1-cent move in Microsoft is worth more than $4 million to Ballmer or more than four times his annual pay.

Amazon.com paid Bezos just $81,840 in 2005.

Bezos owns 101.3 million shares of Amazon, more than 24 percent of the company's outstanding stock. Those shares were worth $3.6 billion on June 1.

Those massive stock holdings not only put Bezos' wealth in perspective, they also explain why the "other" segment of his compensation soared last year. For the first time, Amazon.com disclosed that it spent more than $1.1 million on "security arrangements" for their founder.

Nike shareholders do not yet know what type of compensation package the company had to craft to induce company veteran Mark Parker to take the top job after Perez's experience, but they will find out soon. Nike's fiscal year concluded at the end of May, so its 2006 proxy will be out this summer.

As for Perez, he has maintained a low profile since departing Nike.

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Compensation by the numbers:

・Total paid to all 160 Northwest CEOs in the 2005 survey: $357.4 million, up $64.3 million from 2004.

・Median pay for Northwest CEOs topped $1 million for the first time in 2005, rising to $1,016,903 from $995,749 in 2004.

・84 CEOs received raises in 2005.

・66 took pay cuts.

・1 had no change in pay.

・9 were new to their jobs.

・96 Northwest CEOs got stock options in 2005.

・The most: 1.5 million shares to Loudeye CEO Michael Brochu.

・The least: 2,048 shares to Heritage Financial CEO Donald Rhodes.

・Oldest Northwest CEOs: Donald Rhodes of Heritage Financial and Chester Paulson of Paulson Capital, 70.

・Youngest Northwest CEOs: Mark Vadon of Blue Nile and Dara Khosrowshahi of Expedia, 36.