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Real estate
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## CEO pay: A look at what the boss makes

By **Brier Dudley**  
*Seattle Times technology reporter*

Public companies do things differently in the Northwest.

They keep giving chief executives fatter stock-option packages, even as the practice slows across the country.

They also gave the richest pay package last year to a woman, making drugstore.com boss Dawn Lepore the first woman to top The Seattle Times annual CEO compensation survey. The survey began in 1994 and had no women included until 1996.

Lepore received a salary, bonus, relocation allowance and stock options worth \$15.2 million when she was hired last September by the unprofitable Bellevue online retailer.

That package made Lepore the highest-paid executive among the Northwest's public companies, according to an analysis of 2004 proxy filings done for The Seattle Times by Equilar, a San Mateo, Calif., compensation analysis and consulting firm. She's also one of just seven female chief executives among more than 180 public companies in the Northwest.

Last year the median pay of Northwest CEOs grew 29.7 percent. That includes a 41.9 percent increase in the median value of their stock options.

The drugstore.com board member who helped recruit Lepore said there's a strong culture of stock options among Northwest companies. He pointed out that half of the 4 million options she received won't vest until the stock reaches a series of price targets. But her contract also stipulates that she'll get the options if she stays on the job four years, "even if such performance objectives are not achieved."

"We think this is incredibly shareholder-friendly and completely aligns the interests of the shareholders with the executive," said Dan Levitan, a Seattle venture capitalist on the board since 2002.

In some ways, Lepore's pay package illustrates the complicated, evolving nature of CEO compensation in the Northwest. It includes a mix of large outright payments — including a \$1 million signing bonus and guaranteed annual bonus her first year — along with stock options linked to performance.

### NW100 Top 1

1. Barrett Bus
2. Schnitzer S
3. Potlatch
4. Flir System
5. LaCrosse F
6. Greenbrier
7. InfoSpace
8. Paccar
9. Paulson Ca
10. Ambassac

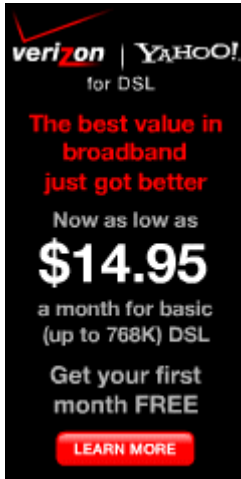
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Some regional companies are moving away from options, but excessive CEO pay and the connection between pay and company performance remains a concern, said Doug Kilgore, who monitors Washington companies on behalf of national pension funds at the Worker Owner Council of Washington State.

"Some are getting better, some are carrying out improvements that they made within the last year or two and others are just as bad as they ever were," he said.

Kilgore said Microsoft's move away from options in mid-2003 may have influenced others. That same year Avista and Safeco also moved from options to performance-based stock awards. He said Nordstrom added performance measures that could mean no equity payout for executives in some situations.

#### The top five

- ▣ 1. Dawn Lepore, drugstore.com
- ▣ 2. Orrin Smith, Starbucks
- ▣ 3. Lawrence Johnston, Albertsons
- ▣ 4. Kerry Killinger, Washington Mutual
- ▣ 5. Mark Suwyn, Louisiana-Pacific

Northwest companies tinkered last year with the composition of executive pay packages. On average, stock options in pay packages declined 1.9 percent, while restricted stock grants increased 1.3 percent, according to the Equilar analysis.

A concern is the amount of information companies share about compensation plans. Kilgore is especially critical of telecommunications companies such as Nextel and AT&T Wireless for limited disclosure.

"It's not a short-term problem. It's still important to us, and we're still not satisfied with the overall level of accountability and disclosure," he said.

### Compensation justified

Levitan shared plenty of information in justifying Lepore's compensation. He said the package was necessary to recruit someone of her caliber. Lepore was previously vice chairman at Charles Schwab in San Francisco, where she became one of the nation's most prominent female executives. She also served on the boards of eBay and Wal-Mart.

To lure her to the small dot-com in Bellevue, drugstore.com offered \$1 million for relocation, the 4 million options and a guaranteed bonus her first year no matter how the company performs. Lepore, who declined to comment for this story, also received the options.

drugstore.com has seen its sales rise steadily over the past four years, but it has not earned a profit since it began in 1999. It lost \$47.7 million last year.

Lepore's options include 2 million that vest over four years, and an additional 2 million shares that vest as the stock price rises. If it reaches \$5 — recently it's been around \$4 — 1 million of them vest and become exercisable. Another 750,000 vest if it reaches \$10 and the rest come when it hits \$20.

"At Schwab she was paid between \$1 million and \$2.3 million annually — not options, just salary and bonus — so she took a pay cut to come to drugstore.com," Levitan said. "I think, and I speak for the board in suggesting that, given what this person has accomplished and given what the challenges were for us, we feel very positive about the hire."



Lepore is in rare company. She's one of seven female CEOs in the Northwest; an eighth resigned last year. She's also one of three that earned more than \$1 million last year. Other top-earning women last year were Janice Anderson at Bellevue's Onyx Software (\$2.7 million) and Christine King at Pocatello's Amis Holdings (\$3.4 million).

But they are still far from the highest-paid women executives nationally. Topping the list of women CEOs running S&P 500 companies last year, according to Equilar research, were eBay's Meg Whitman (\$29.9 million), Avon's Andrea Jung (\$22.1 million) and Lucent's Patricia Russo (\$15.5 million). The seven women running S&P 500 companies last year earned a median salary of \$1.2 million, bonus of \$1.6 million and total compensation of \$14.1 million last year.

The percentage of female corporate officers has risen about 1 percent a year since 1995, but there are still relatively few women chief executives, according to Catalyst, a New York organization that promotes expanded work opportunities for women. Although women comprise about half the U.S. work force, they hold only 8 percent of the upper positions at large U.S. companies and less than 2 percent of the CEO jobs in the Fortune 500.

drugstore.com made a smart move — companies with more women executives perform better financially, said Kara Helander, Catalyst's Western region vice president and a friend of Lepore, who serves on the Catalyst board. She said companies with a higher than average percentage of women executives had a 35 percent higher return on equity and 34 percent higher return to shareholders.

As for Lepore topping The Times list, "that's fabulous news," Helander said.

"I think it just speaks to Dawn's exceptional skills and abilities as a leader and her ability to effectively use technology to open up new business opportunities," she said.

### **Comparable salaries**

Like other Northwest CEOs, Lepore's base salary is relatively small compared to CEOs at large companies across the country. Lepore gets a salary of \$350,000, down from \$600,000 a year at Schwab.

Options and stock grants are where Northwest CEOs get most of their annual compensation. The median package last year was worth \$1,020,736, a 30 percent increase over 2003.

Salaries alone grew 4.5 percent, to a median of \$333,060. That's comparable to the 4.7 percent median raise among executives on the S&P 500 executives, whose median salary was \$991,779.

For perspective, workers in Washington state received an average raise of 0.6 percent last year, to \$39,038.

Equilar's analysis covered pay packages of more than 180 executives running companies in Washington, Oregon and Idaho. It estimated the value of stock options using the widely accepted Black-Scholes approach.

To pinpoint compensation during 2004, the analysis excluded sales of stock granted during previous years and stock sales by company founders. Executives such as Microsoft's Bill Gates and Amazon.com's Jeff Bezos actually took home more cash last year by selling stock, but their annual

compensation was relatively low.

In Lepore's case, most of her compensation came from stock options upon hiring, so she's unlikely to top next year's list.

Shareholder outcry over excessive CEO pay crested after the economic downturn in 2000. That led to regulations requiring more disclosure of compensation details, and starting this year companies must list stock-option costs as an expense on their balance sheets.

Executive compensation has not declined; in general, companies are finding ways other than options to reward their chief executives, said Tim Ranzetta, Equilar president.

"We're not seeing cutbacks in compensation," he said. "What we're seeing is slicing part of the value out of options and putting it into other vehicles, whether it's restricted stock or performance awards."

It's still unclear how much will change from calls for more accountability in executive pay. Ranzetta said the pay increases last year partly reflect strong business performance during the year. "The truest test will come in a market where performance is less strong or more sporadic," he said.

### **Executives rewarded**

But some companies that struggled last year still found ways to reward their executives generously.

Cell Therapeutics, a Seattle biopharmaceutical company, saw its stock fall, its cash dwindle, its drugs fall short in testing and its losses nearly double to \$252.3 million over the past year. Yet Chief Executive James Bianco still received a pay package worth \$1,112,235, including \$70,978 worth of flights for his spouse and guests on the company's leased jet. Bianco received less stock so his total pay package declined 72 percent, to \$1,112,235. But his salary was flat and his bonus grew by \$9,010, to \$306,832.

The largest cash bonus — \$5,508,329 — went to a chief executive who was in jail part of the year. Andrew Wiederhorn of Fog Cutter Capital Group in Portland (operator of the Fatburger restaurant chain, among other companies) also received a \$556,830 salary. After his "leave of absence" began in August 2004, the company changed his title to chief strategic officer.

At the other end of the spectrum is Donald Boone, chief executive at Jewett-Cameron Trading, a Portland-area manufacturer of building materials such as fencing, gates and kennels. Jewett-Cameron sales rose 93 percent last year, but Boone remained the lowest paid CEO in the Northwest — by choice.

Last year his salary was \$36,000 and no bonus, up from \$33,000 the year before. He refused to take any more, according to board member Al Korelin, a Portland business consultant and radio broadcaster.

"He flat does not care," Korelin said. "It's really weird. I'm 61 years old and I've never met anybody like that."

Boone's doing fine. He made a fortune in real estate before co-founding Jewett-Cameron around 20 years ago, and now his company stock is worth a few million dollars. But he's getting by on a monthly salary of \$958, which

is what's left after withholding and a \$1,000 contribution to his 401(k). He said he still has "more money than I can spend in five lifetimes."

What does Boone think of chief executives getting a million a year? "Each to his own."

"I think about the weather a lot more, or hunting season or a lot of other things, more than I do compensation," he said. "I've had a good ride and I've made a few good calls and I'm bloody rich, so what's to complain?"

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