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From the August 13, 2004 print edition

Departing biotech CEOs take big payouts

[Susan L. Thomas](#)

When Stephen Isaacs stepped down as CEO of Cerus Corp. in May, the company was in pretty poor shape. Battered by drug trial failures, layoffs and a lawsuit with one of its key partners, its stock had dropped to less than \$2 a share, well below its dizzying peak of \$81.88 on Dec. 28, 2000.

Isaacs left with a safety net, though. And so did Chief Financial Officer Gregory Schafer, who resigned in late July.

Isaacs will take home his current salary for two years, totaling \$976,364. That's about 5 percent

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companies - and their shareholders - pay to attract executives in a field inherent with risk.

Large Scale Biology Corp., which has had a flurry of executive resignations in the past year and a half, lost \$7.1 million in 2003 on revenue of just \$3.6 million. But it paid handsomely to say goodbye to its executives and make changes at the top.

Departing CEO Robert L. Erwin received a lump sum of \$79,500 and \$238,500 over 12 months, common stock worth \$56,500, accelerated vesting of other shares and health and life insurance when he left in June 2003. He scored a couple of other perks, too: his office computer and cell phone coverage for four months.

That same month, Executive Vice President David McGee left the company with the security of \$198,000 in payments over the next 12 months, shares worth \$42,000, accelerated vesting of shares and an extended exercise period for all of his stocks. McGee also took his computer with him and had company-paid cell phone coverage for a year.

of the \$9.7 million the Concord company produced in revenue in 2003, a year in which Cerus also lost more than \$58 million. Schafer will receive his \$243,000 annual salary for nine months.

The CEO at Calypte Biomedical Corp. in Pleasanton made out well after his departure, too. After just six months at its helm, Jay Oyakawa resigned with a severance package that gives him his \$350,000 salary for a year. That's equal to 10 percent of the firm's 2003 revenue. Calypte has never made a profit. In 2003, it lost \$26.5 million. The company's shares trade at 41 cents.

It's not that these and many of the compensation agreements spelled out in this year's proxy statements from East Bay biotech firms are extraordinary. They reflect the high cost



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And Large Scale Biology President John Fowler received severance of \$229,500, and shares of the company's common stock worth \$55,500 when he left just a month earlier.

Those former executives may make out better than the new CEO who came on board. Kevin Ryan, who's charged with turning the company around, will take home an annual salary of just \$30,000.

More protection

Severance agreements are not the only way biotech executives are looking out for themselves. Companies also are instituting generous change-in-control agreements that give executives and upper management healthy severance packages if they lose their jobs in a takeover or merger.

In an analysis this year of biotech firms with revenue below \$80 million a year, 99 percent of CEOs had severance agreements in place with their employers, said Brooke Green, a principal at Presidio Pay Partners, a consulting firm in San Francisco that specializes in compensation issues.

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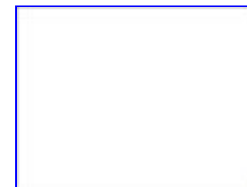
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The agreements typically become effective when an employee terminates the executive other than for "cause," which often means, for example, a criminal act, or when the executive leaves for "good reason," such as when he is demoted.

"Think of it as an insurance policy for the executive, who is presumably taking a big financial risk to come to an early-stage biotech company," Green said. "The company is making a gamble, too, right? In order to be competitive and recruit the type of CEO they need to take them to the next level, beyond zero revenues or zero profits, companies have to offer the CEO some type of contract or they will not be able to compete for top talent.



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about \$3.2 million, excluding options. That would include two years' base salary, currently equal to \$760,000 per year, and two times his targeted bonus in his year of termination or the highest bonus during the previous three years, whichever is higher. His bonus in 2003 was \$850,000.

Biotech firms also are paying to protect their executives in case the companies merge or are acquired. Green said that, generally, companies require both a change in control and the termination of an employee. "Sixty percent of companies require a double trigger, which is scary, because that means 40 percent of the companies do not," she said.

Can make mergers costly

What that means, according to Green, is that some biotech firms are putting provisions in

"Even if that means putting an agreement in place that they might not be able to comfortably afford when the time comes."

CEOs and chief operating officers generally receive one to two years' compensation; only a small percentage of small biotech firms offer bonus payouts as part of their severance agreements, according to Presidio Pay's study. About half of the companies studied offer either partial or full accelerated vesting of options grants, and about half also offer health benefits for the length of time they pay the salary. Three-quarters of the companies also gave executives some type of outplacement service as part of the agreement.

At some of the East Bay's larger firms, the payouts are even more lush. For example, if Chiron Corp. CEO Howard Pien resigned and received severance, he would pocket

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their agreements not simply to protect executives. Instead, she said, they can require stiff payments simply in the case of a merger, a move that could discourage a potential acquirer.

Either way, a merger can be costly if high-level employees lose their jobs. In one highly publicized case, shareholders of a Texas company called Pizza Inn voted to hand over control of the company to an investment firm. Based on long-standing employment agreements, Pizza Inn could have been made to pay more than \$7.4 million in severance payments if its top executives left, according to published reports. That would have been more than double the company's net income in 2003.

Here in the East Bay, Protein Design Labs Inc. of Fremont has instituted some pricey employment policies of its own. If CEO Mark McDade left as part of an acquisition he would take with him - upon signing a release claim - a lump sum payment equal to three years salary, now set at \$500,844 per year, and three years of bonuses of up to 50 percent of base salary. If that were to happen today, that could tally up to about \$2.3 million, excluding options. Likewise, Protein Design Labs' other named executives would receive a total of about \$1.7 million, and six others on the management team also would receive two years' salary.

Protein Design Labs lost \$129.8 million in 2003, up from a loss of \$14.6 million in 2003. It also increased revenue by 44 percent to \$66.7 million.

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