



San Francisco Chronicle

CEOs' options keep them flush Despite the downturn, executives have a ready source of cash

Todd Wallace, Chronicle Staff Writer
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Apple Computer's stock plummeted 79 percent over the past three years as personal computer sales remained sluggish, sending many workers' options underwater.



But don't cry for co-founder and Chief Executive Officer Steven Jobs, who traded in his options for 5 million shares of stock, currently worth about \$66 million. Apple also gave him fresh options to buy 7.5 million shares -- which the company estimated could eventually be worth between \$86 million and \$219 million, depending on how much Apple's stock rises in the future.

Sun Microsystems reported a \$587 million loss last year, prompting the Santa Clara computer-maker to issue thousands of pink slips. Its stock, which traded as high as \$64 per share in August 2000, closed last week at \$3.24.

But don't fret for chief executive Scott McNealy, who received a \$487,000 bonus last year and cashed in options worth \$25 million. He also received fresh options, which Sun estimated could eventually be worth between \$24 million and \$61 million. His modest \$100,000 salary seems irrelevant by comparison.

Despite the angry bluster about overpaid CEOs and the need for reforms, corporate boards in the Bay Area and across the country continued to shower top executives with handsome pay packages last year, according to regulatory filings during the past few

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months.

Although the plunging stock market shrank the value of many CEOs' options, most executives at large corporations actually received fatter salaries and bonuses last year, according to Equilar, a San Mateo company that tracks executive compensation.

Based on a survey of 333 Standard & Poor's 500 companies that have reported their 2002 pay so far, Equilar found the median salary for CEOs at the firms rose 6.1 percent and bonuses swelled 20.6 percent. That means half of the CEOs for the companies actually received a bigger pay raise.

"It's very disappointing," said Ann Yerger, deputy director for the Council of Institutional Investors, a trade group that represents large shareholders. "A lot of folks think there needs to be a ratcheting down of pay."

And while options grants shrank, more CEOs received restricted shares of stock -- which should still be valuable even if the stock price declines. By contrast, options can be worthless if the price falls below the exercise price.

Overall, Equilar calculated that median direct compensation for CEOs in the survey fell 9 percent, to \$7 million. Half of executives received more than that and half received less. Those figures include salaries, bonuses, long-term awards and payouts, restricted stock and options, but exclude money that CEOs earned from cashing in options received in previous years.

Some CEOs, to be sure, decided to give up portions of their gilded paychecks to appease disgruntled investors.

San Francisco's Charles Schwab Corp. said last month that co-chief executives Charles Schwab and David Pottruck refused bonuses last year, gave up 2.6 million stock options in 2002 worth up to \$55.6 million, and canceled options for 2000 and 2001.

Critics sniped that the options were worthless anyway, because the discount brokerage's stock has plummeted. And both CEOs received impressive salary raises. Schwab's rose 36 percent to \$893,584 and Pottruck's soared 58 percent to \$1.04 million.

And even some CEOs who looked as if they were making a sacrifice managed to pull in eight-figure paychecks.

Cisco Systems' chief executive, John Chambers, pledged to give up his bonus or salary as the San Jose communications equipment-maker struggled through the industry's worst downturn on record. Chambers also gave up one-third of his stock options last year. But Chambers held on to options that Cisco estimated could be worth between \$40 million and \$99 million.

Of course, many companies argue that they need to offer such pay packages to hold on to top executives, pointing out that all their competitors offer similarly rich deals. But California Treasurer Phil Angelides said he's worried the CEO packages have become so extreme that it has shaken the confidence of investors.

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To narrow the gap between the CEO and the average worker, Angelides proposed Thursday that investors reject stock options packages that allocate more than 5 percent of options to a company's top five executives and more than 25 percent to all executives and directors.

Currently, fewer than 1 in 4 of the country's largest 250 companies meet that standard, he said. Instead, Angelides praised broad-based options packages, like those used at Intel and Hewlett-Packard, which have enriched thousands of employees, not just the CEO.

Angelides, who sits on the boards for California's two largest pension funds, has urged the funds to adopt the proposal.

And the New York Stock Exchange is considering requiring companies to seek shareholder approval for all their major options packages. "There is going to be real pressure for reform once shareholders can vote (on such proposals)," Yerger said.

Some reformers, however, have proposed that companies record options as an expense -- which would reduce corporate profit and encourage many companies to scale back their options packages or scrap them altogether.

That proposal faces stiff opposition from Silicon Valley companies, which argue they need options to attract employees, and point out that it is difficult to figure out the exact value of options, because it depends on what happens to the stock in the future.

Even if Congress or the Financial Accounting Standards Board force companies to expense options, Angelides warns that it's not certain whether companies would cut back a CEO's pay, or simply stop issuing options to the rank and file. "We don't know the ultimate result," he said.

CEO pay /

Despite hard times, executives are well compensated

Steven Jobs, Apple Computer

Performance: Shares fell 5 percent in 2002. The company earned \$65 million on \$5.7 billion in sales. Sales rose 7 percent to \$5.7 billion. Pay: \$222 million, up 164 percent from 2001.

Scott McNealy, Sun Microsystems

Performance: Stock fell 68 percent in 2002. Company lost \$587 million. Revenue fell 32 percent to \$12.5 billion.

Pay: \$62 million, up 32 percent.

John Chambers, Cisco Systems

Performance: Stock fell 37 percent in 2002. Company earned \$1.9 billion. Sales fell 15 percent to \$18.9 billion.

Pay: \$99 million, down by two-thirds from 2001.

Note: Pay includes salary, bonus, long-term awards, other annual compensation and estimated value of stock options if stock prices appreciates 10 percent a year. Excludes money received from cashing options received in earlier years. Financials and stock price for fiscal year.

Source: Company filings

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