Posted on Sun, May. 21, 2006

$2.6 billion for valley's top execs

STOCK OPTIONS STILL DRIVE PAY PACKAGES, BUT OTHER TOOLS GAIN

By Mark Schwanhausser
Mercury News

Putting the tech bust further in their rear-view mirror, Silicon Valley's top executives notched their third consecutive year of double-digit pay increases by hauling down $2.6 billion in 2005.

That was a 27 percent increase from the year before and lifted total pay in the Mercury News' latest ``What the Boss Makes'' compensation survey 2 1/2 times above the post-bubble low of $1 billion in 2002.

The tally, provided by San Mateo-based Equilar, includes salary, bonuses, stock option gains and other forms of pay for 749 executives who run the 150 largest public companies in Silicon Valley.

Topping the charts is a global salesman who cashed in $288.9 million from options he was awarded after signing on as employee No. 12 at a start-up. Next up is a former Hollywood studio chief who turned around a teetering dot-com and took home $183 million. Then comes the founder of a software giant who added $75 million in pay to a net worth that already ranks him as the 15th-richest man in the world, according to Forbes magazine.

Move over, Horatio Alger. If this generation needs inspiration it can look to those three success stories: Omid Kordestani of Google, Terry Semel of Yahoo and the iconic Larry Ellison of Oracle.

Their pay shows how Silicon Valley compensation is like an inverted iceberg. The 10 highest-paid bosses hauled off $918 million -- or more than a third of the pay for all 749 bosses. A total of 57 bosses took home at least $10 million, compared with 43 the year before. And the top 100 paychecks accounted for 75 percent of executive pay at the largest 150 companies.

The big gains on options might seem perplexing given that valley companies are slowing the flow of stock options to soothe shareholders and to blunt the impact of new accounting rules that force companies to subtract the cost of options from profits. But keep in mind that valley bosses could have been cashing in options awarded as far back as 1995 -- and by year's end the Nasdaq stock market index had doubled since it bottomed out in October 2002.

Besides, neither grumpy shareholders nor accounting rules could alter the valley's options culture overnight. Last year, companies doled out options to 548 executives worth nearly $1.1 billion, Equilar estimates. Fifty-three received options worth at least $5 million, with 15 receiving grants worth at least double that.

``You've got to remember that this place still likes stock options,'' said Tim Sparks, president of Compensia, a San Jose consulting firm. ``There are people who consider it the perfect performance vehicle.''

Yahoo was particularly generous. It gave Semel the valley's biggest award: 2 million options worth an estimated $47.6 million. Since he took the reins in 2001, Semel has cashed in nearly $429 million in options, and he was sitting on $236 million more when Yahoo filed its proxy.

Though options remain the valley's preferred currency, companies are mixing in other types of compensation more. That's largely because of two forces: Shareholders are demanding more performance-based pay, and new rules eliminated the accounting advantage for the type of options favored here.

The most obvious alternative is restricted stock, shares that executives don't officially own until they hit performance targets or stick with the company a number of years.

In 2005, the use of restricted stock set new highs on several fronts: number of companies (52), number of recipients (181) and total value ($212 million).

There is a philosophical divide that could dictate how fast restricted stock is adopted in the valley, however. On one hand, it can be an effective retention tool because it motivates bosses to stick around. Some companies also lift the sales restrictions when bosses hit performance targets.

On the other hand, critics deride restricted stock as ``pay for pulse'' because it's worth something even if bosses do nothing to lift the stock price. Bosses who prefer to be paid mostly in restricted stock signal that they don't expect the company's stock to rise much, critics say.

Though he doesn't see restricted stock playing a lead role in the valley, it can play a supporting role, says Fred Whittlesey, a principal Compensation Venture Group in Seattle.

For example, the semiconductor industry was the heaviest user, handing out one-fifth of the valley's restricted stock. Chip makers and chip-equipment makers awarded $43 million, topped by Linear Technology ($16 million), KLA-Tencor ($10 million) and LSI Logic ($4 million).

``That makes sense,'' Whittlesey said. ``It has been a cyclical industry for over 30 years, and you kind of know when it's the top or bottom of a cycle. It makes no sense to give options to employees when you know you're at the top of a cycle unless you could reprice them.''

Data Manager Jack Davis contributed to this report. Contact Mark Schwanhausser at mschwanhausser@mercurynews.com or (408) 920-5543.
