

[Print This Article](#)

---

## **TOP 100 BAY AREA EXECUTIVES BY COMPENSATION**

### **When Pay Is Optional**

#### **Executive compensation may vary, but stock options are usually part of the package at Bay Area companies**

- [Todd Wallack, Chronicle Staff Writer](#)

Sunday, May 21, 2006



Yahoo executives have tens of millions of reasons to scream "Yahoo!"

For the second consecutive year, the Sunnyvale Internet firm handed more money to its top executives than any other Bay Area public company, according to The Chronicle's annual survey of executive pay at 200 local companies.

Last year, Yahoo Inc.'s top five executives raked in \$135 million (mostly in restricted stock and stock options), down from \$155 million the year before, according to calculations from Equilar, a San Mateo research firm that specializes in executive compensation.

In fact, of the more than 1,000 executives in the survey, four of the seven highest-paid executives worked at Yahoo.

"It sounds like a compensation approach that has gotten out of control," said David Broman, chief executive of Syzygy Consulting Group in Lafayette, which helps design compensation packages. "I can't think of anything that would suggest why they should continue to be No. 1 on the list."

Overall, though, executive compensation dipped at Yahoo and most other Bay Area companies last year, mainly because they doled out less money in stock options. Equilar estimated the median pay for executives in the survey slipped by 18 percent to \$1.3 million each. Even so, 641 executives earned more than \$1 million last year. And 42 earned more than \$10 million.

Some earned even more. Yahoo CEO Terry Semel was the highest-paid executive in 2005, just as he was in 2004. Semel earned \$56.8 million last year in total compensation (including restricted stock and the estimated value of his options), down from \$131.2 million in 2004.

Even with the drop, Semel earned \$16.9 million more than the second-highest paid executive, Genentech CEO Arthur Levinson, who earned close to \$40 million (mostly in options). Thanks to a large recruitment package, new Hewlett-Packard Co. CEO Mark Hurd was third at nearly \$35 million, with Oracle CEO Larry Ellison fourth at \$25 million

(including a \$6.5 million bonus and loads of options).

Much of the executive pay is in the form of stock options and restricted stock rather than actual cash. Usually, executives are prohibited from selling the stock for years. And stock options are tricky to value.

For instance, Equilar estimated that the options Semel received last year were worth \$47.6 million when he received them, using a formula called Black-Scholes and certain assumptions to calculate the theoretical value of what they would be worth if they could be sold on the open market.

In Yahoo's case, the Internet company issued two estimates. It estimated the options would be worth \$43.7 million if Yahoo stock rises 5 percent a year and \$110.7 million if it rises 10 percent a year over the life of the options. (Historically, the stock market has risen by nearly 10 percent a year on average.)

But Semel could wind up earning much more or much less than any of those estimates, depending on how Yahoo's stock actually performs and when he decides to cash in the options and sell the shares.

"Both Equilar and Yahoo's estimates are funny-money numbers," said Fred Whittlesey, principal consultant of the Compensation Venture Group Inc. in Seattle.

None of the estimates includes the 1.3 million options that Semel received in March in lieu of a cash bonus because that is part of this year's compensation.

Yahoo declined to comment on its compensation, but the company has done well since Semel took the CEO job in May 2001. While its stock grew by a slim 4 percent last year, shares have more than doubled during the past five years. By contrast, the Nasdaq and S&P 500 declined from 2000 to 2005.

Proxy Governance, an independent proxy advisory firm in Virginia, recommends shareholders withhold their vote for a director who sits on Yahoo's compensation committee at the company's annual meeting on May 25 as a protest of the compensation package.

Yahoo isn't the only company to shower multiple executives with rich compensation packages. Six other companies -- Cisco Systems Inc., Genentech Inc., eBay Inc., Hewlett-Packard, Oracle Corp. and Wells Fargo & Co. -- each had at least five executives on the payroll who earned more than over \$5 million last year. And 30 firms had at least two executives in the \$5 million club.

But Hewlett-Packard had at least seven executives at that level, more than anyone else, partly because of recruiting Hurd, while doling out a large severance package to former CEO Carly Fiorina (who earned \$22 million overall). HP, one of the largest Bay Area companies, also has five highly paid executive vice presidents, some running large divisions.

Some other notable findings:

-- Wells Fargo CEO Richard Kovacevich received the biggest bonus, \$7 million. But this

isn't unusual for him. It's the fourth straight year his bonus was \$7 million or more.

-- Silicon Image Inc. CEO Steve Tirado got the biggest percentage increase in pay. His pay jumped from \$404,000 to \$6.9 million because he was promoted from a division president to chief executive in January 2005.

Still, one of the biggest shifts in executive compensation has been the gradual move away from stock options in favor of restricted stock and other forms of pay. Nationwide, Equilar found CEOs at S&P 500 firms received 13 percent less in stock options in 2005 than they did in 2004, though CEO pay remained about the same.

Why the drop? Experts say it may be due to shareholder pressure or new accounting rules, which require companies to record the options as an expense that cuts profit. Equilar says some of the drop may also be due to reduced volatility in stock prices, which in turn reduces the theoretical value of options in the Black-Scholes formula.

But stock options remain a crucial portion of pay packages, particularly in Silicon Valley. Overall, about half of Bay Area executives' pay came from stock options last year, Equilar data show. Nationally, less than one-third of CEO pay comes from options.

"Stock options are a very good compensation tool for aligning executives with shareholders' interest," said Whittlesey, the compensation consultant. "The problem is not with options. ... It's that companies have given away too many of them."

Of course, not every top executive earned millions.

-- Steve Jobs earned just \$1 last year as Apple Corp.'s top executive and an additional \$1 a week from his other job, running Pixar, the Emeryville animation company.

-- Salesforce.com Inc. CEO Marc Benioff earned a token \$10 - a raise from his \$1 salary the previous year.

-- The Google Inc. guys, CEO Eric Schmidt and co-founders Larry Page and Sergey Brin, also claimed only \$1 in salary last year, although they earned tens of thousands of dollars in other benefits.

But Jobs, Schmidt, Page and Brin have all become billionaires through their company's stock. And Benioff earned more than \$400 million on paper when Salesforce.com went public two years ago. Plus, they earn millions more on paper whenever their companies' stock value goes up.

For some executives, that's enough.

---

## **CHART:**

How do you stack up?

Executive compensation is many times that of the average working person. Here are examples of salaries paid to some professionals compared with the pay packages of three

high-profile executives.

Biological Technician: \$36,520

Computer Programmer: \$66,480

Systems Software Engineer: \$83,460

President, Hewlett-Packard: \$34,896,918

Chairman And Ceo, Genentech: \$39,980,537

Ceo, Yahoo: \$56,848,880

*E-mail Todd Wallack at [twallack@sfchronicle.com](mailto:twallack@sfchronicle.com).*

Page F - 1

URL: <http://sfgate.com/cgi-bin/article.cgi?file=/c/a/2006/05/21/BUGF3IUCAD1.DTL>

---

[©2006 San Francisco Chronicle](#)