Posted on Sun, May. 22, 2005

Top execs' pay rises 57 percent

GAINS OF VALLEY BRASS NEARLY AT 1999'S LEVEL

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Mercury News

Even though the technology economy continued to struggle last year, Silicon Valley's top bosses collected pay as if they were still in the glory days of the Internet boom.

The valley's top executives saw their pay rise 57 percent last year to a collective $2.1 billion, according to the Mercury News' latest ``What the Boss Makes'' study. The 2004 compensation for 728 senior executives was the highest in three years and approached the $2.3 billion of 1999, when the tech-stock bubble was approaching its peak.

Silicon Valley bosses last year hauled in their riches the old-fashioned way, at least by valley standards: with buckets of stock options.

Although companies are slowing the flow of options to soothe shareholders and to reduce the impact of pending accounting-rule changes, the executives' options gains doubled in the year -- to $1.4 billion. Options gains accounted for a hefty two-thirds of their total pay.

Median pay rises

The rising tide didn't just lift a few boats. The median for all the executives' pay -- including salary, bonus and options gains -- rose 26 percent last year to $758,520.

``The principal driver behind Silicon Valley compensation is still gains from stock options,'' said Tim Ranzetta of Equilar, the San Mateo company that analyzed compensation data in regulatory filings of the valley's 150 largest companies for the Mercury News.

The top brass last year apparently took advantage of an improving stock market and corporate profit outlook to cash in low-cost options they may have gotten well before or just after the tech-stock bubble burst, said Mark Borges, a compensation expert with Mercer Human Resource Consulting.

``If you look back over a longer-term horizon, generally executives tend to sell when things are going well, and 2004 seemed to be a year of improved performance,'' said Borges.

Topping the 2004 list was Yahoo's turnaround kid, Chief Executive Terry Semel, whose $230.6 million in compensation vaulted him into the record books with the third-biggest annual pay package in valley history. Nearly all of his compensation came from exercising options granted when he took over the foundering Internet company in mid-2001.

Semel was one of three Yahooligans in 2004's top 10, each benefiting as Yahoo's revenue and stock price soared on a resurgence in online advertising. Farzad Nazem, Yahoo's chief technology officer since 1997, came in as runner-up to Semel with $63.2 million. And Susan Decker, chief financial officer since mid-2000, ranked No. 8 last year with $31.0 million in pay.

Ellison fourth

In third place with $46.4 million was Maynard Webb, chief operating officer of online auctioneer eBay, another Internet survivor with a winning business model. Oracle's swashbuckling chief executive, Larry Ellison, came in fourth with $45.8 million, including nearly $42 million in option gains and the third-largest bonus of all the executives, $3.2 million. Oracle said the bonus was a reward for improving operating profits.

To come up with its rankings, the Mercury News looked at salary, bonuses, options gains and other forms of pay. Stock-option gains consist of the difference between the grant price of the option and the market price on the day an executive exercises the right to buy the shares -- regardless of whether the stock was sold immediately or held as an investment.

The fact that valley bosses have control over when they exercise options makes the overall compensation of some executives highly unpredictable in the Mercury News rankings.

Cisco CEO John Chambers, for example, has yo-yo'ed up and down the rankings over the years. Chambers' $40.2 million take ranked fifth last year, up from dead last in 2002, when he had only $1 in salary and no options exercises.

At the same time, Google's billionaire founders Larry Page and Sergey Brin ranked near the bottom last year: Neither one held or exercised options, and they each requested in mid-2004 to cut their salaries to a token $1 a year. But they each own more than $8.5 billion worth of company stock, and each made more than $110 million in the last few months of 2004 alone by selling Google stock. If such sales had counted as compensation, the pair might have been ranked as the second- and third-highest-paid executives in the valley last year.

Since 2002, companies have doled out one-third fewer options to all employees in the face of shareholder complaints and pending accounting rules that will force companies to subtract the value of options from corporate profits.

Options, nonetheless, remain the currency of choice in the valley. Two out of three local companies still rely solely on stock options for long-term awards, Equilar found.

But two powerful forces -- shareholders seeking ``pay for performance'' and the new accounting rules -- are pushing more companies to consider different types of stock-based pay for the future.

So far, the top choice at many companies has been greater use of ``restricted stock,'' in which executives are awarded stock that they won't officially own until a later date -- often in three or four years. The theory: Make the executive think about the company from the vantage point of a long-term shareholder, not a short-term opportunist.

Thirty-five companies -- including Sanmina-SCI, Apple Computer, Franklin Resources and Yahoo -- last year paid 118 executives partly with restricted stock, up from 28 companies and 85 executives in 2003.

Apple has become the valley's largest purveyor of restricted stock. A compensation consultant hired by its board last year concluded that the company -- whose stock has tripled in the past year on the iPod's popularity -- hadn't been paying its executives enough to compete with peer companies, Apple said in a regulatory filing. As a result, the company paid some rank-and-file workers bigger cash bonuses, and granted each of its top five executives restricted stock worth $5.1 million to $7.6 million.

CEO Steve Jobs, who recorded only $1 in total pay last year, wasn't part of the compensation catch-up, however. He had received $75 million worth of restricted stock in 2003, which vests in 2006, to replace millions of stock options that had become worthless after Apple's stock price had slumped.

Employment-services company Robert Half International is one of the few local companies that take away stock from executives if they don't meet performance goals. In 2002 and 2003, several Robert Half executives had to forfeit part of the restricted stock they had been granted a few years earlier because earnings hadn't met targets in the weak employment environment. In 2004, however, earnings per share grew twentyfold thanks to a pickup in small-business and accounting hiring, so its top executives did not have to forfeit restricted stock.

Despite the new interest in restricted stock, it still represented only 5 percent of the valley's compensation.

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