

June 15, 2006

Tech CEOs' Pay Falls As Firms Cut Out Options

By PUI-WING TAM
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Not everything in Silicon Valley is recovering. Just look at Rick Belluzzo's pay package.

Mr. Belluzzo is chief executive of **Quantum Corp.**, a storage-technology company in San Jose, Calif. While Quantum's stock rose last year, Mr. Belluzzo's pay didn't. In fiscal 2005, his compensation totaled \$935,919, down 86% from \$6.6 million a year earlier, according to company filings and an analysis of the value of CEO stock options prepared for The Wall Street Journal by compensation-research firm Equilar Inc.

The plunge was driven by a shift in equity compensation. In fiscal 2004, Mr. Belluzzo was awarded stock options valued at \$5.9 million. Last year, however, Quantum gave no stock options to the CEO and dished out restricted stock valued at \$82,250 instead -- not enough to make up for the move away from stock options. A Quantum spokesman says the stock options the CEO received in 2004 were intended to cover him through fiscal 2007. The spokesman adds that Mr. Belluzzo wasn't available to comment on matters relating to this article.

Smaller Rewards

Several of the CEOs awarded restricted stock instead of stock options in fiscal 2005:

CEO/COMPANY	VALUE OF STOCK OPTION GRANT, 2004	RESTRICTED STOCK GRANT, 2005
Rick Belluzzo/ Quantum	\$5.9 million	\$82,250
Peter Van Camp/ Equinix	\$3.85 million	\$2.9 million
Thian Hoo Tan/ Komag	\$541,140	\$90,000
Robert Swanson/ Linear Technology	\$6 million	\$10.2 million

Sources: Equilar; the companies


Mr. Belluzzo has plenty of high-power company to commiserate with in and around San Jose. According to a study by Equilar being released today, CEO pay at Silicon Valley's 150 biggest companies is headed south. In fiscal 2005, the median total compensation of Silicon Valley CEOs dropped to \$2.6 million, down 13% from a year ago. Their pay packages are getting hit even as CEO compensation elsewhere rises. Indeed, median total pay for CEOs of companies in the Standard & Poor's 500-stock index increased 2.2% to \$8.4 million in 2005, Equilar says.

The slide in Silicon Valley CEO compensation is largely a result of the shrinking value of stock-option grants. While the average number of options awarded to tech CEOs has stayed at around 150,000 for the past two years, the value of the grants fell 34.9% in 2005 to

\$1.3 million, Equilar says.

Corporate boards have moved to make up for this falloff by handing out more restricted stock --

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the median value of restricted stock awarded to Silicon Valley CEOs rose 33.5% last year to \$1.1 million. Cash compensation for Silicon Valley CEOs is also going up. Last year the median salary for tech CEOs rose 5.6% to \$465,876 and cash bonuses rose 8.7% to \$295,875, Equilar says.

But those moves haven't been enough to compensate for the declining value of stock options. "We're at the front end of a major shift away from stock options to more balanced pay packages of restricted stock and cash bonuses in Silicon Valley," says Steve Fackler, a compensation and benefits attorney at Gibson, Dunn & Crutcher LLP in Palo Alto, Calif.

Stock options gain value when a company's share price rises above the "strike" or "exercise" price at which the holder has the option to buy the shares (and then, ostensibly, sell them for a profit). Meanwhile, restricted stock retains value even when a stock falls below a certain price.

The falling pay of Silicon Valley CEOs comes as the high-tech region overall is reviving. Following the dot-com bust earlier this decade, Silicon Valley companies laid off thousands of workers, shifted some jobs overseas and grappled with lackluster stock prices and customer demand. Only last year did the area record a net new increase in jobs for the first time in several years, as the stock prices of many tech companies improved.

That Silicon Valley CEO pay is down amid this revitalization is a sign of how the tech industry is maturing, says Equilar CEO David Chun. Many industries -- driven by new accounting rules that count stock options as an expense -- switched over to restricted stock from stock options over the past few years, Mr. Chun says, and the tech industry was a relative laggard until recently. "Though tech companies are still high-growth, they're starting to act more like companies in Middle America," Mr. Chun says.

Last year 37 of Silicon Valley's 150 biggest companies awarded restricted stock to their employees, up from 23 in 2004. Equilar found that the average number of stock options granted to each rank-and-file tech employee totaled just 1,957 in 2005, down 32.1% from 2,881 options in 2003.

The changes notwithstanding, not all Silicon Valley CEOs are making less. Big-name CEOs such as **Yahoo Inc.**'s Terry Semel, **Cisco Systems Inc.**'s John Chambers and **Symantec Corp.**'s John Thompson continue to reap tens of millions of dollars a year. Even some CEOs who got only restricted stock last year and got no stock options are making out better than before. Bob Swanson, CEO of chip maker Linear Technology Corp., Milpitas, Calif., says the company issued restricted stock last year to employees whose stock options were under water because of the tech bust. "We looked at all kinds of compensation to make up for the underwater options," he says. "Restricted stock has been a big help: There's been very little attrition since." Mr. Swanson himself benefited from this change: He got a restricted stock grant of \$10.2 million in fiscal 2005, compared with the stock-option grant of \$6 million in fiscal 2004, according to Equilar.

Thian Hoo Tan, CEO of storage-technology company **Komag Inc.**, is another exception. Mr. Tan got no stock options and just a small restricted-stock award of \$90,000 in fiscal 2005, far less than the stock-option grant of \$541,140 that he received a year earlier, according to company filings and Equilar. But the San Jose company's board also awarded Mr. Tan a bigger cash bonus of \$1.2 million last year, more than three times as much as the cash bonus he received in 2004.

The result: Mr. Tan's compensation last year totaled \$1.8 million, up from \$1.4 million in 2004. Kathy Bayless, Komag's chief financial officer, says the company began switching to restricted

stock from stock options in 2005. She declined to comment on Mr. Tan's pay.

Mr. Tan didn't respond to a request for comment. Earlier this year, he announced he would retire from Komag by late 2006.

Overall, while the shrinkage of CEO pay packages prevails in Silicon Valley, it is hard to argue that the affected CEOs are paid badly. A case in point is Peter Van Camp, CEO of **Equinix** Inc., a company that operates data centers. In fiscal 2004, Mr. Van Camp was awarded \$3.85 million in stock options, according to Equilar.

Last year the Foster City, Calif., company stopped giving out stock options to its executive team, switching to restricted stock. Mr. Van Camp got a restricted-stock grant last year valued at \$2.9 million, far less than the value of the stock options he got a year earlier.

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