
Commentary

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Economic Outlook

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Tech CEOs' Pay Falls as Firms Cut Out Options

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Not everything is recovering in Silicon Valley. The compensation of many tech CEOs fell in fiscal 2005, according to an analysis prepared by the compensation-research firm Equilar, Inc. The plunge was driven primarily by a shift in equity compensation as companies traded stock options for restricted stock.

According to the Equilar study, 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. Median total pay for CEOs of companies in the S&P 500 stock index increased 2.2% to \$8.4 million in 2005, according to Equilar.

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.

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

But those moves haven't been enough to compensate for the declining value of stock options, which only 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 sell them for a profit).

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. Many industries, driven by new accounting rules that count stock options as an expense, switched over to restricted stock from options over the past few years. The tech industry was a relative laggard until recently.

Last year, 37 of Silicon Valley's 150 biggest companies awarded restricted stock to their employees, up from 23 in 2004. The average number of stock options granted to each rank-and-file tech employee totaled just 1,957 in 2005, down 32% from 2,881 options in 2003.

Overall, while the shrinking of CEO pay packages prevails in Silicon Valley, it is hard to argue that the affected CEOs are paid badly. One Silicon Valley CEO received 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. The executive also received a salary and cash bonus totaling \$3.6 million.

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