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## **RICHLY REWARDED**

### **A tide that raises all yachts? Executive pay in the Bay Area finds its level -- ever higher**

- [Todd Wallace, Chronicle Staff Writer](#)  
Sunday, May 22, 2005



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Think the era of the imperial CEO is over? Not quite.

Despite all the talk of reform in the aftermath of scandals at Enron, WorldCom, Tyco and other corporate giants, there's a clear holdover from the heady 1990s: supersize pay packages for top executives.

At least 51 Bay Area senior execs earned more than \$10 million last fiscal year, according to a survey of more than 200 publicly traded companies by Equilar, a San Mateo research firm that specializes in executive compensation. One executive, Yahoo Chief Executive Officer Terry Semel, earned more than \$131 million, including the estimated value of his stock options.

"I don't think there has been any reduction in compensation," said Paul Hodgson, a senior research associate for the Corporate Library, a research firm and corporate watchdog.

Though lavish pay was a key element in some corporate scandals, Hodgson said companies are afraid to start reducing compensation for fear of losing executives to rivals.

"It's the tyranny of the median," Hodgson said. "If anyone does a market comparison ... they desire to be at the median (pay level). No one asks whether we are paying too much for what they are doing."

Indeed, executive pay climbed last year both locally and nationally.

For instance, Equilar found the median pay for CEOs at S&P 500 firms rose an average of 10 percent from the past year to \$8 million. At smaller public firms, it climbed 14 percent, to \$1.5 million.

The median pay for Bay Area chief executives was \$3.3 million, up 33 percent.

Although companies did cut back on the use of stock options around the country, Equilar found that firms more than made up for it by awarding fatter bonuses, handing out more

restricted stock and boosting other compensation, ranging from health insurance to country club memberships.

But no one did as well as Semel.

Semel earned more than three times as much as the region's second-best- paid executive, Cadence Design Systems CEO Michael Fister. He earned 11 times as much as Chevron Chairman David O'Reilly even though Yahoo is a fraction of Chevron's size.

Most of Semel's pay was in stock options. In 2004, Semel received 7.2 million options to buy Yahoo stock, nearly one-fifth of all the options the company granted to its 7,900 employees.

"It's just enormous," said executive compensation expert Graef Crystal.

With so many options, Crystal said, Semel could reap millions of dollars even if Yahoo's stock increases only by pennies and nickels a year.

The exact value of the options, of course, will depend on how fast Yahoo's stock climbs and when Semel exercises the options. But Equilar estimated Semel's options were worth \$130 million using a widely used formula called Black-Scholes. Taking a different approach, Yahoo estimated the options would be worth \$109 million if Yahoo's stock appreciates at a modest 5 percent a year during the 10-year life of the options. Or \$193 million if the stock rises at a more impressive 10 percent a year.

Executive compensation experts said the latest pay package is particularly surprising because in the past, Yahoo gave Semel options with a relatively high strike price -- so Semel would make money only if he substantially improved the company's stock. (Semel wound up hitting the target and earned hundreds of millions.)

"I'm a little disappointed in Yahoo," Hodgson said.

But Yahoo said it wanted to reward Semel for his performance last year and to give him an incentive to remain with the company. Yahoo's stock has more than doubled during the past two years.

"He's done really well at Yahoo," spokeswoman Joanna Stevens said. "When somebody has been as successful as he has been, it would be logical that other companies would start looking at him on their short list" to hire.

Even Graef said it's difficult to criticize Semel because of his strong performance running the firm. "It's like he's holding a crucifix in front of his face, his performance is so good," he said.

Meanwhile, some other executives received tens of millions in their first year.

When Cadence hired Fister to run the company last May, the company gave him a \$1 million signing bonus, \$8 million in restricted stock and 3 million stock options (worth \$26 million according to Equilar's estimate) in addition to an annual salary and bonus. In total, Fister received \$37 million last year.

But company spokesman Adolph Hunter pointed out that Fister can't spend all that money immediately. Fister's restricted stock and options are scheduled to vest over several years. And it's impossible to know for sure how much money Fister will ultimately receive by cashing in the options in the future, he said.

Similarly, Steven Laub received more than \$20 million last year, mostly in stock options, when he joined Silicon Image. That made him the 10th-highest-paid CEO in the Bay Area, even though Silicon Image is ranked just 167th among local companies in revenue and 128th in market value.

But Laub forfeited his stock option package earlier this year when he resigned after just three months on the job.

Not every CEO earned millions of dollars in 2004.

Google CEO Eric Schmidt earned just \$85,608 last year, down 85 percent from the previous year.

Salesforce.com CEO Marc Benioff and Apple Computer Corp. CEO Steve Jobs earned just a \$1 last year. In addition, Jobs picked up another buck a week running Pixar, the Emeryville animation company.

But both Jobs and Benioff have already become wealthy from the firms. Jobs, a billionaire because of his Apple and Pixar stock, received nearly \$75 million in restricted stock in 2003 at Apple, making him one of the top paid local executives that year.

Benioff, who owns more than one-quarter of Salesforce.com, earned more than \$400 million on paper when it went public last year.

But not all the best paid executives are CEOs.

For instance, Thomas Mendoza, president of Network Appliance, earned \$22 million last year, including the estimated value of his stock options, more than triple the pay for Network Appliance's CEO. Mendoza also earned more than all but eight Bay Area CEOs.

But Network Appliance said last year was an anomaly. Network Appliance executive Tara Calhoun said the company gave Mendoza more stock options in 2004 because many of his old options were on the verge of expiring. Calhoun said Network Appliance wanted to reward Mendoza for his work at the company during the past decade and give him an incentive to remain with the firm.

Meanwhile, other companies showered several executives with golden compensation packages. Oracle, Genentech, Electronic Arts, eBay and Wells Fargo & Co. all had at least five executives who earned more than \$5 million last year. Five other Bay Area firms reported they had four executives earning more than \$5 million or more. And four more companies had three people at that pay level.

"Pay tends to be similar across management teams," said Equilar's Nora McCord. "If you have a CEO whose salary is high, the next in line is also going to be high."

And despite the recent scandals, plenty of CEOs are still taking home handsome pay packages.

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Some facts on executive compensation

Biggest annual cash compensation: Richard Kovacevich (Wells Fargo), \$8,495,000 (salary and bonus)

Biggest salary: John Lasseter (Pixar), \$2,862,307

Biggest bonus: Richard Kovacevich (Wells Fargo), \$7.5 million

Most restricted stock: Jure Sola (Sanmina-SCI), \$10,480,000

Biggest stock option package: Terry Semel (Yahoo), \$130,617,840.

Highest-paid CEO for a company you may not have heard of: Steven Laub (Silicon Image), \$20.4 million (company ranked 167 on The Chronicle 200)

Company with most execs earning more than \$10 million: eBay, four

Lowest-paid CEO (tie): Steve Jobs (Apple Computer) and Marc Benioff (Salesforce.com), \$1

Company that paid its top five executives the most: Yahoo, \$155 million

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Anatomy of compensation

Executive pay includes a number of components:

Salary. Base pay. Usually cash paid weekly or biweekly.

Bonus. Cash or stock that varies each year, depending on the executive's performance.

Restricted stock. Stock award designed to give executives an incentive to boost the company's stock price. The stock typically vests over several years, so the executive cannot sell the shares immediately.

Stock options. The right to buy shares at a set price in the future. Like restricted stock, options are designed to give executives an incentive to increase the company's stock price. In many cases, options also vest over a period of several years, so the executive cannot exercise them immediately. In other cases, options may not become valuable until several years later, when the stock price rises.

Other pay. Includes everything from other long-term incentive plans to benefits like 401(k) matching, health insurance payments, country club memberships and free or discounted use of the corporate jet..

Source: Chronicle research

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## Compiling the data

The Chronicle hired Equilar, a San Mateo research firm that specializes in executive compensation, to ascertain the pay for CEOs and other senior executives at more than 200 Bay Area publicly traded companies.

Most of the data came from reports companies file annually with the Securities and Exchange Commission. The figures are based on the most recent filings available as of May 4.

Companies often use different methods, however, to calculate the value of stock options, one of the largest components of executive pay packages, which can make it tricky to compare the pay at one company with another's.

To even out the comparisons, Equilar used a standard formula, called Black-Scholes, to estimate the value of executives' stock options in the same way for every firm. But the amount of money executives will ultimately earn from the options depends on how much the company stock appreciates and when they exercise their options.

To avoid double counting, Equilar also excluded the money executives received from cashing in options awarded in past years.

Some companies contend it's better to count only the money executives actually earn from cashing in their stock options.

But that can skew the pay for any given year, because some executives may trade in all their options from several years at once, while other executives do not exercise all their options that year. And if executives wait to cash in their options until after they leave the firm, the money may never show up in companies' SEC reports.

-- Todd Wallack

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## **CHART:**

1. SEMEL, Yahoo, CEO

\$131.2 million.

2. FISTER, Cadence Design Systems, CEO

\$37.3 million.

3. LEVINSON, Genentech, CEO

\$32.8 million.

4. KOVACEVICH, Wells Fargo, CEO

\$30.3 million.

5. WHITMAN, eBay, CEO

\$30 million.

6. HAMMERGREN, McKesson, CEO

\$23.4 million

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