

Friday, June 23, 2006

## Summit of salaries

Orange County's top executives make millions each year, but some critics wonder if they are worth it.

By **JOHN GITTELSOHN** and **MARY ANN MILBOURN**

The Orange County Register

Did they earn it?

Being the man on top – and the chief executive officers of Orange County's publicly traded companies are all male – paid handsomely.

For 96 reporting Orange County-based companies, the median CEO compensation package was \$1.3 million in 2005, up 2.2 percent over 2004.

The 25 highest-paid CEOs earned a median \$6.5 million – up 22 percent – according to analysis for The Orange County Register by the Center for Corporate Reporting and Governance at Cal State Fullerton.

That compares with a 5 percent increase in total compensation for CEOs of the 350 largest American companies – to a median \$6.8 million in 2005 – according to the Mercer Human Resource Consulting Survey for the Wall Street Journal.

By contrast, the median salary for all Orange County workers in 2005 was \$32,302.

Orange County's highest-paid CEO was Scott McGregor of **Broadcom Corp.**, who started with the Irvine chip maker in January 2005. He received compensation worth \$47.8 million, counting current and future stock options.

"We believe that his compensation package is fair and that the company and shareholders are benefiting substantially from the investment in his leadership," said Broadcom spokeswoman Laura Brandlin.

During McGregor's first year, Broadcom's net income soared 88 percent while its stock climbed 37 percent.

Chiefs of companies that performed poorly paid a price. After revenue and stock declines at **QLogic**, an Aliso Viejo computer networking company, CEO H.K. Desai's compensation fell 38 percent to \$12.3 million.

Last year's hot housing market helped boost pay for some CEOs. Newport Beach-based homebuilder **Standard Pacific Corp.** paid CEO Stephen Scarborough \$21.5 million, a 13 percent raise.

Pay to William Lyon, founder of **William Lyon Homes**, jumped 40 percent to \$20.96 million. Lyon recently spent an estimated \$186.5 million to take his company – and his pay information – private.

Unlike other high-paid CEOs, cash bonuses made up most of the packages of Lyon and Scarborough. Restricted stock and options accounted for 75 percent of compensation to the top 25 CEOs, an effort to tie awards to performance and create long-term incentives.

But critics say the system, which relies on "independent directors" to determine pay, is driving up executives' incomes because most compensation committee members are executives with a stake in the game.

"The market isn't setting pay," said Margarethe Wiersema, a professor of management at UCI's Paul Merage School of Business. "Instead, it's a classic oligopoly. Boards that control pay are comprised of CEOs. They're constantly going above average because no one wants to admit their CEO is average. So the average keeps going up."

Broadcom's compensation committee members were John Major, CEO of privately held **Apacheta Corp.**, a telecommunications company, and Werner Wolfen, president of a private investment firm.

Stock options accounted for \$40.6 million of McGregor's compensation package, according to the Register's analysis, based on information in the company's proxy statement.

Brandlin said McGregor's options were worth about \$21.4 million, using a different method of calculation. She also noted that the shares will be vested over several years.

Whatever the final figure, critics are questioning Broadcom's generosity.

"They're generally more egregious with their stock options than most companies," said Aalok K. Shah, an analyst with the D.A. Davidson & Co., brokerage in Portland, Ore.

This month, Shah downgraded Broadcom from "buy" to "neutral" after the Securities and Exchange Commission launched an informal inquiry into stock options granted before McGregor's arrival. Broadcom said it was cooperating with the SEC.

Reports of skyrocketing executive pay and the stock option investigations have sparked a flood of shareholder challenges. Institutional Shareholder Services, which analyzes proxies of 35,000 companies, compiled a list of 99 challenges so far this year – 15 of which have passed.

"Shareholder angst, anger or concern – whatever you call it – is at an all-time high," said Pat McGurn, special counsel for Institutional Shareholder Services.

**Fluor Corp.**, the engineering giant that relocated this spring from Aliso Viejo to Texas, faced a shareholder challenge on executive compensation reform. It failed. Last year, excessive executive pay led the California Public Employees Retirement System, the state pension fund, to oppose a merger of Cypress-based **PacifiCare Health Systems** and **United HealthGroup Inc.** The merger was approved.

Despite adverse publicity, the challenges have had little, if any, impact on spiraling pay. And Orange County CEOs are compensated relatively modestly compared to, say, **Exxon Mobil's** ex-boss, Lee R. Raymond, who was paid \$49 million last year, not counting \$183 million he accumulated in restricted stock.