

2003 CEO Compensation at Orange County Public Companies

Summary of Key Findings

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Study Overview

A Vivient Consulting study of proxy statement information for Orange County public companies found that chief executive officer (CEO) pay increased significantly in the 2003 fiscal year, which reflects the stock market rebound and improving business environment. Median total CEO compensation increased 66% for the 2003 fiscal year, largely from more CEOs exercising stock options to lock in gains. Wealth from “in-the-money” stock options and unvested restricted stock rebounded in 2003, increasing 300%. This steep increase resulted from more stock options being “in the money” and having larger embedded values. Orange County shareholders also saw their investments rebound in 2003, with a median total shareholder return (TSR) of 44%.

Study Company Profile

The Vivient Consulting study reports CEO pay levels for 55 major Orange County public companies. Vivient looked at companies with revenues of more than \$100 million for the 2003 fiscal year. (Companies with fiscal year ends in January or February 2004 were also included in the study.) Median 2003 fiscal year revenues for companies included in the study are \$435 million (See Exhibit 1), up from a median of \$349 million in the 2002 fiscal year.

All companies in the study are traded on a major stock exchange. Companies were excluded from the study if they had not released their proxy statements or annual reports for the most recent fiscal year as of May 5, 2003.

Vivient evaluated company performance using TSR, which is defined as the change in stock price during the fiscal year, with all dividends reinvested.

TSR increased 44% at median for the study companies (See Exhibit 2) in 2003. In contrast, during 2002 the study companies saw their TSR decline by 16% at median. The median annualized TSR for the study companies was 16% during the two-year period of 2002 and 2003, which indicates that shareholders not only regained value in 2003 that had been lost in the prior year but also gained additional appreciation.

Exhibit 1
Study Company Revenue Summary

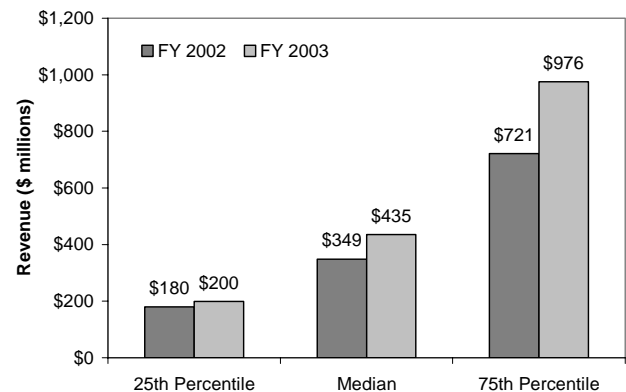
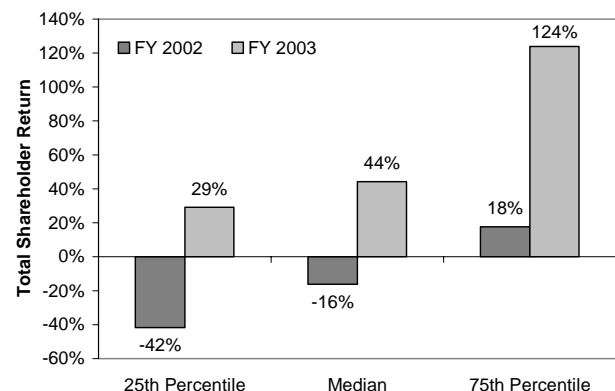


Exhibit 2
Study Company Total Shareholder Return



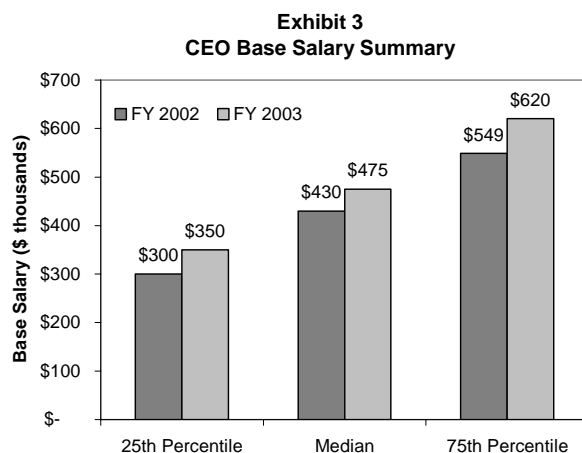
Study Methodology

Vivient collected compensation and financial information from the most recent proxy statements and annual reports of the study companies. Compensation information is reported for 57 CEOs. (Data is reported for both the current and former CEOs of Health Care Property Investors, Inc., and Alliance Imaging, Inc., since each incumbent held the title of CEO during the fiscal year.)

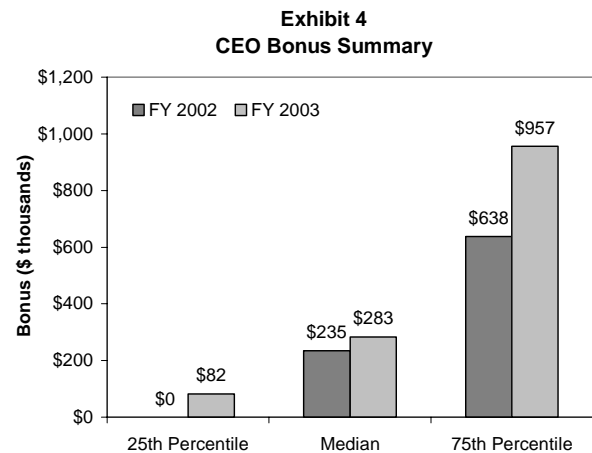
Stock option values reflect real gains, not estimated values based on an option pricing model, such as Black-Scholes. Realized stock option gains are captured in total compensation for the fiscal year. Unrealized gains are captured in aggregate equity values. Key terms used in the study are defined in the Glossary in Appendix 4.

Study Findings

Base Salary Median base salaries for CEOs in the study increased 10% to \$475,000 in fiscal year 2003 (See Exhibit 3). Thirty-four CEOs received an increase in base salary, while only four CEOs saw their salaries decline in 2003.

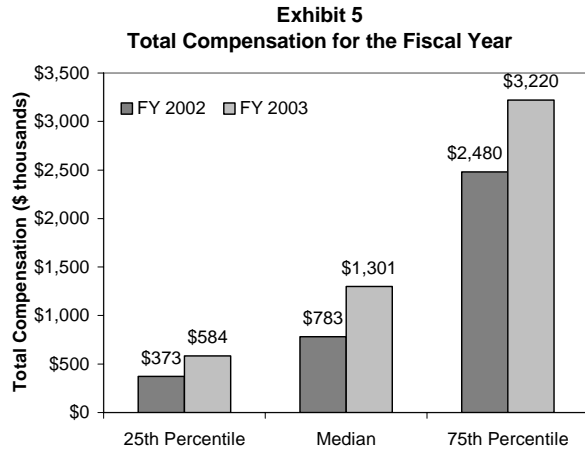


Bonuses Median bonus payments made in fiscal year 2003 increased 20% to \$283,000 (See Exhibit 4), reflecting the study companies' stronger financial performance relative to 2002. Nine CEOs did not receive a bonus in 2003, down from 14 in 2002. Thirty-two CEOs received larger bonuses in 2003, while 13 CEOs received smaller bonuses for the year compared with 2002.

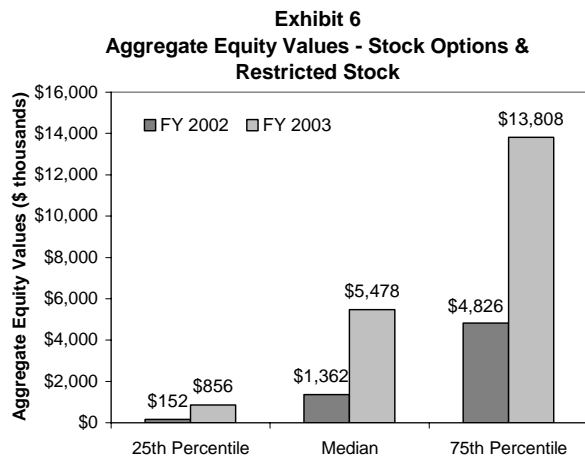


Total Compensation Median total compensation for the fiscal year – which includes base salary, bonus, other compensation, the cash value of long-term incentives and realized stock option gains – increased 66% to \$1,301,000 (See Exhibit 5). The dramatic increase resulted from more CEOs exercising stock options to lock in gains from higher company stock prices.

Thirty-four CEOs saw their total compensation increase for the 2003 fiscal year, while 17 CEOs saw their total compensation decline.



Equity Compensation Orange County public company CEOs saw their wealth from equity compensation increase dramatically in 2003 because of the stock market rebound and the resulting increases in stock option embedded gains. The median aggregate equity value – which includes “in-the-money” stock options and unexercised restricted stock – was \$5.5 million, up more than 300% from the prior year (See Exhibit 6). The steep increase reflects the highly leveraged nature of stock options. As more companies move toward using whole share long-term incentives (e.g., restricted stock), Vivient expects to see less volatility in aggregate equity values in the future.



For 2003, stock options remain the most prevalent form of equity compensation, with all but five companies making option grants to executives in the last three years. Twenty percent of the study companies have used restricted stock as part of their executive long-term incentive approach in the last three years. Long-term incentive plans with cash- or share-based payouts tied to performance are used at 16% of the study companies. Just 11% report using performance-based equity (e.g., options or restricted stock with vesting tied to performance).

While options remained popular in 2003, changes are emerging. Several Orange County companies have modified their long-term incentive approaches given stock option expensing in the future and continued shareholder criticism of the overwhelming reliance on options:

- PacifiCare Health Systems implemented restricted stock grants in 2003 and reduced the number of options granted
- Fluor is eliminating stock options in 2004. In addition, Fluor is increasing the use of restricted stock that vests after 10 years (“career shares”)
- Standard Pacific will grant restricted stock based on return on equity for 2004
- Beckman Coulter is seeking approval for a new long-term incentive plan that limits the term of its stock options to seven years from the typical 10 years
- Apria Healthcare Group implemented stock options with accelerated vesting based on the achievement of performance goals
- FileNET is using performance-vesting restricted stock in 2004

- Health Care Property Investors implemented a long-term plan in 2003 that grants stock performance units based on company financial results

Vivient expects to see the trend toward using alternatives to stock options and variations on traditional stock options (e.g., performance features, shorter terms) continue to gain momentum in 2004.

With the stock market rebound, 2003 was not an active year for stock option exchanges to address underwater options. Only one Orange County company, Broadcom, chose to offer a stock option exchange in 2003. Broadcom exchanged vested stock options for shares of stock and unvested stock options for unvested stock options with new exercise prices. The exchange program was open to all employees, except for the CEO, Chief Technical Officer and directors. Broadcom's 2003 exchange program was the second the company has offered in the past three years.

Pay for Performance in 2003

Vivient evaluated the pay-for-performance link at Orange County public companies by comparing the change in total compensation for the 2003 fiscal year (excluding equity wealth in the form of in-the-money stock options and the aggregate value of unvested restricted stock) with TSR for the fiscal year. Vivient divided the study companies into four groups:

- Pay increase with positive TSR;
- Pay increase with negative TSR;
- Pay decrease with negative TSR;
- and

- Pay decrease with positive TSR.

Vivient found that, for 2003, the overwhelming majority of companies occupy the pay increase/positive TSR quadrant (See Exhibit 7). This reflects the strong stock performance of the study companies and the resulting increases in exercised stock options to lock in gains. Thirteen incumbents occupy the pay decrease/positive TSR quadrant, indicating that a number of executives chose not to exercise their stock options despite significant stock appreciation for the year. Only four incumbents saw both pay decreases and shareholder declines, and only three incumbents occupy the pay increase/negative TSR quadrant.

Exhibit 7
Pay-for-Performance Comparison

		Median TSR	Median CEO Pay Change	Median TSR	Median CEO Pay Change
Pay Increase	31 incumbents	76%	87%	3 incumbents	-23%
Pay Decrease	13 incumbents	44%	-18%	4 incumbents	-13%
	Positive TSR			Negative TSR	

Notes: CEO Pay Change is change in total compensation for the fiscal year
Excludes 7 CEOs because change in pay was n/a or 0%

For a detailed Pay-for-Performance Comparison exhibit, see Appendix 1.

Highest and Lowest Paid Executives

Vivient identified the 10 highest and lowest paid CEOs at Orange County public companies. (See Appendix 2.) The highest paid executives are generally with larger companies, although size mattered less in 2003 than it did in 2002. In addition, the highest paid CEOs tend to have low beneficial ownership stakes. In contrast, the lowest paid CEOs are generally with smaller companies, and they hold higher beneficial ownership stakes. The CEOs

of Ingram Micro, Fluor, First American, Broadcom, and Apria Healthcare, some of the largest companies in the study, did not make the top 10 highest paid list.

The highest paid CEO in Orange County in 2003 is L. George Klaus, chairman, president and CEO of Epicor Software. He earned nearly \$40 million. Mr. Klaus's compensation topped the study because of a \$38 million restricted stock grant. The second highest paid chief executive is Greg Weaver, chairman and CEO of Pacific Sunwear. He earned close to \$18 million in 2003. The largest components of his compensation were \$15 million in stock option gains and a \$1.7 million bonus.

For the second year of Vivient's study, the lowest paid CEO in Orange County is Jim Jannard, chairman and CEO of Oakley, Inc. Mr. Jannard has elected not to receive compensation. He is also the founder of Oakley and a majority equity holder, with a 63% beneficial ownership stake.

Bridgford Foods's President Robert E. Schulze is the second lowest paid chief executive in Orange County. He does not receive long-term incentives as part of his compensation package despite a modest beneficial ownership stake in the company. Last year, Mr. Schulze also made the list of the 10 lowest paid executives in Orange County.

This year, Vivient assessed the top 10 highest paid non-CEOs (See Appendix 3) in Orange County. The highest paid non-CEO is Tim Harmon, president and chief merchandising officer for Pacific Sunwear. Mr. Harmon received \$15 million for 2003, with \$13.6 million in exercised stock option gains. The next highest paid non-CEO is Brad Morrice,

vice chairman, president and chief operating officer of New Century Financial Corp. Mr. Morrice received \$7 million for 2003, with \$4 million in stock option gains and a \$2.4 million bonus.

About Vivient Consulting

Vivient Consulting LLC is an independent provider of compensation and performance measurement consulting services. Based in El Segundo, CA, Vivient serves public and private middle market companies across a broad range of industries, including financial services, high technology, real estate, manufacturing, energy, transportation and consumer products.

Vivient's primary service areas are:

- Compensation strategy development and benchmarking;
- Incentive plan design (e.g., bonus plans, real and phantom equity plans, and long-term cash plans);
- Performance measurement selection;
- Goal-setting; and
- Board of director advisory services.

For more information about this study, visit www.vivient.com, send an email to info@vivient.com or call (310) 426-2340.

Appendices

Appendix 1 Pay-for-Performance Comparison

	Company	TSR	CEO Pay Change	Company	TSR	CEO Pay Change
Pay Increase	Epicor Software Corp.	921%	3114%	Alliance Imaging, Inc.	-30%	203%
	TTM Technologies, Inc.	412%	69%	QLogic Corp.	-23%	419%
	Ceradyne, Inc.	337%	49%	Resources Connection, Inc.	-12%	44%
	Onyx Acceptance Corporation	332%	69%			
	Western Digital Corp.	229%	122%			
	William Lyon Homes	188%	20%			
	United PanAm Financial Corp.	167%	1389%			
	American Vanguard Corp.	155%	563%			
	PacifiCare Health Systems, Inc.	141%	112%			
	New Century Financial Corp.	136%	21%			
	FileNET Corporation	122%	124%			
	WFS Financial, Inc.	103%	19%			
	Standard Pacific Corp.	97%	87%			
	Pacific Sunwear of California, Inc.	90%	745%			
	Sybron Dental Specialties, Inc.	79%	180%			
	Westcorp	76%	81%			
	Impac Mortgage Holdings, Inc.	76%	52%			
	Beckman Coulter, Inc.	74%	193%			
	Calavo Growers, Inc.	48%	1%			
	Fluor Corporation	44%	13%			
	Quiksilver, Inc.	43%	92%			
	Corinthian Colleges, Inc.	43%	33%			
	Nationwide Health Properties, Inc.	41%	24%			
	Health Care Property Investors, Inc.	41%	45%			
	Quest Software, Inc.	38%	738%			
	The First American Corp.	36%	212%			
	Allergan, Inc.	34%	327%			
Newport Corporation	32%	425%				
Universal Electronics, Inc.	31%	125%				
Downey Financial Corp.	27%	57%				
CorVel Corporation	9%	31%				
Pay Decrease	Microsemi Corp.	188%	-18%	Bridgford Foods Corp.	-31%	-14%
	Exult, Inc.	126%	-67%	ICU Medical, Inc.	-8%	-96%
	SimpleTech, Inc.	99%	-2%	Printronix, Inc.	-18%	-2%
	Water Pik Technologies, Inc.	67%	-7%	RemedyTemp, Inc.	-4%	-43%
	Hines Horticulture, Inc.	52%	-14%			
	New Horizons Worldwide, Inc.	44%	-74%			
	Powerwave Technologies, Inc.	44%	-67%			
	Health Care Property Investors, Inc.	41%	-14%			
	Ingram Micro, Inc.	30%	-17%			
	Apria Healthcare Group, Inc.	28%	-55%			
	Edwards Lifesciences Corp.	18%	-11%			
	The TriZetto Group, Inc.	5%	-63%			
	Emulex Corp.	2%	-61%			
	Positive TSR			Negative TSR		

Notes: CEO Pay Change is change in total compensation for the fiscal year

Excludes Advanced Medical Optics, Alliance Imaging's Paul Viviano, Broadcom, Oakley, Valeant Pharmaceuticals and the Wet Seal because change in pay was n/a or 0%

**Appendix 2
The 10 Highest Paid CEOs in Orange County**

Company	CEO	Title	Beneficial Ownership	Compensation for 2003 Fiscal Year				
				Salary (\$000s)	Bonus (\$000s)	Other (\$000s)	Long-Term (\$000s)	Total (\$000s)
1. Epicor Software Corp.	L. George Klaus	Chair., Pres. & CEO	9%	\$668	\$802	\$4	\$38,250	\$39,724
2. Pacific Sunwear of California, Inc.	Greg H. Weaver	Chair. & CEO	4%	\$850	\$1,700	\$55	\$15,243	\$17,848
3. Standard Pacific Corp.	Stephen J. Scarborough	Chair. & CEO	3%	\$804	\$7,540	\$5	\$1,207	\$9,556
4. Allergan, Inc.	David E. I. Pyott	Chair., Pres. & CEO	<1%	\$1,069	\$1,075	\$49	\$6,657	\$8,850
5. Health Care Property Investors, Inc.	Kenneth B. Roath	Chair., Former CEO	<1%	\$423	\$0	\$18	\$6,992	\$7,433
6. Beckman Coulter, Inc.	John P. Wareham	Chair., Pres. & CEO	2%	\$775	\$707	\$91	\$5,563	\$7,136
7. PacifiCare Health Systems, Inc.	Howard G. Phanstiel	Chair. & CEO	2%	\$976	\$2,000	\$404	\$2,998	\$6,378
8. Quiksilver, Inc.	Robert B. McKnight, Jr.	Chair. & CEO	4%	\$750	\$1,875	\$6	\$3,605	\$6,236
9. Western Digital Corp.	Matthew E. Massengill	Chair. & CEO	<1%	\$700	\$1,050	\$3	\$4,132	\$5,885
10. Impac Mortgage Holdings, Inc.	Joseph R. Tomkinson	Chair. & CEO	<1%	\$453	\$4,477	\$516	\$71	\$5,517

The 10 Lowest Paid CEOs in Orange County

Company	CEO	Title	Beneficial Ownership	Compensation for 2003 Fiscal Year				
				Salary (\$000s)	Bonus (\$000s)	Other (\$000s)	Long-Term (\$000s)	Total (\$000s)
1. Oakley, Inc.	Jim Jannard	Chair. & CEO	63%	\$0	\$0	\$0	\$0	\$0
2. Bridgford Foods Corp.	Robert E. Schulze	President	2%	\$238	\$30	\$0	n/a	\$268
3. SimpleTech, Inc.	Manouch Moshayedi	Chair. & CEO	19%	\$250	\$0	\$44	\$0	\$294
4. Quest Software, Inc.	Vincent C. Smith	Chair. & CEO	37%	\$0	\$200	\$127	\$0	\$327
5. New Horizons Worldwide, Inc.	Thomas J. Bresnan	Pres., CEO & Dir.	6%	\$315	\$9	\$0	\$22	\$346
6. Printronix, Inc.	Robert A. Kleist	Pres. & CEO	21%	\$277	\$50	\$22	\$0	\$349
7. CorVel Corporation	V. Gordon Clemons	Chair., Pres. & CEO	10%	\$350	\$0	\$1	\$0	\$351
8. Calavo Growers, Inc.	Lecil E. Cole	Chair., Pres. & CEO	11%	\$273	\$150	\$17	\$0	\$440
9. Hines Horticulture, Inc.	Robert A. Ferguson	CEO, Pres. & Dir.	2%	\$230	\$206	\$7	\$0	\$443
10. Ceradyne, Inc.	Joel P. Moskowitz	Chair., CEO & Pres.	8%	\$321	\$182	\$0	\$0	\$503

**Appendix 3
The 10 Highest Paid Non-CEOs in Orange County**

Company	CEO	Title	Compensation for 2003 Fiscal Year				
			Salary (\$000s)	Bonus (\$000s)	Other (\$000s)	Long-Term (\$000s)	Total (\$000s)
1. Pacific Sunwear of California, Inc.	Tim Harmon	Pres. & Chief Merchandising Officer	\$600	\$804	\$43	\$13,607	\$15,054
2. New Century Financial Corp.	Brad A. Morrice	Vice Chair., Pres. & COO	\$405	\$2,411	\$6	\$4,216	\$7,038
3. Impac Mortgage Holdings, Inc.	William S. Ashmore	Pres. & COO	\$408	\$4,417	\$426	\$655	\$5,906
4. Standard Pacific Corp.	Michael C. Cortney	President	\$606	\$5,026	\$5	\$239	\$5,876
5. PacifiCare Health Systems, Inc.	Bradford A. Bowius	EVP & Pres., & CEO of PacifiCare Health Plans	\$642	\$690	\$92	\$3,599	\$5,023
6. Exult, Inc.	Stephen M. Unterberger	Pres., Bus. Model Architecture	\$400	\$0	\$24	\$4,404	\$4,828
7. Allergan, Inc.	Lester J. Kaplan, Ph.D.	EVP & Pres., R&D	\$491	\$274	\$24	\$4,022	\$4,811
8. New Century Financial Corp.	Patrick J. Flanagan	EVP & Pres of New Century Mortgage	\$405	\$2,411	\$7	\$1,900	\$4,723
9. Quiksilver, Inc.	Harry Hodge	Senior Vice President	\$500	\$1,203	\$8	\$2,789	\$4,500
10. Pacific Sunwear of California, Inc.	Carl Womack	SVP, CFO & Sec.	\$340	\$332	\$24	\$3,705	\$4,401

**Appendix 4
Glossary of Terms**

Term	Definition
Base Salary	Base salary paid during the fiscal year, not adjusted for partial-year employment
Bonus	Bonus paid during the fiscal year
Other	Other compensation paid during the fiscal year; includes both annual (e.g., auto allowance, use of company assets) and long-term (e.g., 401(k) contributions, life insurance premiums) compensation
Long-Term Compensation	Realized gains on exercised stock options + the value of restricted stock grants made during the fiscal year + the value of long-term incentive plan payouts
Total Compensation for the Fiscal Year	Base salary + bonus + other compensation + long-term compensation
Options Granted	The number of options granted during the fiscal year
Aggregate Equity Values	The in-the-money value of unexercised stock options (both exercisable and unexercisable) plus the aggregate value of unvested restricted stock (if reported)
Revenue	Revenue as disclosed in the annual report; for financial services firms that do not disclose a revenue line item, interest income + non-interest income are used
Net Income	Net income available to common shareholders as disclosed in the annual report; includes extraordinary items, the effects of changes in accounting practices and results from discontinued operations
Total Shareholder Return (TSR)	Change in stock price from fiscal year end to fiscal year end + reinvested dividends