

Firms dealing out fewer stock options

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Slowly but steadily, Silicon Valley companies are throwing away the cookie cutter when deciding how much to pay top bosses.

Long known for their dependence on stock options - critics sometimes have called it an addiction - tech companies gradually are mixing in other ingredients and customizing their pay packages.

"It's not a one-size-fits-all world," said Tim Sparks, president of Compensia, a San Jose compensation consulting firm. "We have more tools in the tool chest. Hopefully, we combine the best of each."

Whatever the form, though, one thing remains constant. The boss's pay remains largely tied to the fate of the company's stock.

Three trends are unmistakable, according to data from Equilar, an executive compensation research firm in San Mateo:

Companies are dealing out fewer options.

Just 67 percent of valley executives received stock options in 2006, down sharply from 78 percent the previous year. The median value of option grants dropped 28 percent to about \$1.1 million.

Those numbers can be misleading, however. Options remain a staple, accounting for about one-third of average pay for top valley executives - and as much as 49 percent at biomedical companies.

Option values also are dropping in part because companies are hunting for ways to lower the option price tags that are produced by valuation formulas. Two common methods include making options less valuable (some now expire in seven years rather than the standard 10) and tweaking accounting inputs used in the valuation formulas.

They're substituting restricted stock instead.

Nearly 41 percent of top executives - compared with 24 percent in 2005 - pocketed restricted stock, which are actual shares of stock that recipients can sell only if they remain with the company long enough or meet certain criteria.

Compared with options, companies dish up smaller quantities of restricted stock because it remains valuable even if the stock price sags. But it has rapidly become a valley staple now that options must be expensed just like restricted stock. It's also attractive at more mature companies with slower-growing stocks.

All told, 66 companies handed out a record \$355 million worth to 181 executives - each statistic setting a valley record by a large margin. On average, the value of such awards vaulted 70 percent to more than \$491,000.

Companies are starting to tie performance criteria to option and restricted stock packages.

In the past, executives typically could cash in their options or restricted stock if they simply held their jobs until it "vested," typically over one to four years. Now a handful of companies are starting to stipulate that executives and their companies must attain a variety of financial, stock price or subjective goals before they can cash in.

Valley firms are not the nation's early adopters, however. In 2006, just 10 of the 75 valley companies reporting under the new SEC rules adopted such performance measures. By comparison, 61 percent of companies in the Standard & Poor's 500 index did so.

The idea "that everybody walks in lock-step is history, pretty much," said David Insler, a compensation consultant with Sibson Consulting.

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