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**PORTALS**  
By LEE GOMES



## Tech Companies Give Stock-Options Value, And Actually Survive

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Your favorite stock might not be joining the party, but the Nasdaq composite is up double digits from a year ago. In some parts of technology, notably most things involving the Internet, we are in the midst of what might be termed Bubble II. Venture capitalists continue to find start-up companies they deem worthy of starting up. And the daily papers are full of tales of twentysomethings turned millionaires through acquisitions by companies like Google and Oracle.

If this is the end of the world as we know it, then I feel fine.

The reason for suggesting an apocalypse averted is that we are nearly finished with the first fiscal quarter for which public companies are forced to fully expense the value of the stock options given as incentives to employees.


This is a move the tech industry bitterly fought against for more than a decade, with tech trade groups warning of the consequences in news releases, one more dire than the other. Expensing options "will hurt competitiveness and economic growth," said one; another said it "would seriously undermine the robust health of the U.S. and global economies."

Now that expensing is occurring, the reaction is mostly a shrug. There are, as always, unintended consequences, but life goes on.

For one thing, the venture-capital industry has known for a while that expensing options was going to start this quarter, yet they kept funds flowing to U.S. companies. VentureOne, the Dow Jones unit that tracks venture financing, shows that 2,139 start-ups received some form of venture financing during 2005, compared with 2,120 the year before. The total amount invested, \$22.1 billion, also topped the figure for 2004.

What's more, those start-ups continue to use stock options to recruit employees, despite predictions they'd be forced to abandon the practice. The fact that these start-ups might one day be post-IPO companies, and have lower earnings-per-share figures as they are forced to expense those options, is considered by most struggling start-ups to be the sort of problem you wouldn't mind having one day.

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"When you are a start-up and losing money, it just doesn't enter into your discussions," said Shiv Tasker, CEO of Bluespec, a Waltham, Mass., start-up working on products for the chip-design market.

Even many established tech companies continue to give out options. For instance, every new hire at Cisco gets some options, the company says, with the amount depending on the position. That isn't to say the tech companies as a whole haven't cut back on options. According to the compensation-research firm, Equilar, 3.1% of all outstanding shares belonging to a representative group of 124 tech companies were given out as stock options in 2003. Last year, that figure fell to 2.4%, a 23% decline.

Much of that decrease can be attributed to the fact that companies like Microsoft have switched from giving stock options -- the right to buy a stock, sometimes at a reduced price -- to actually giving out shares. For many rank and file, that latter deal might well be a better one, because even if the stock price falls, it will always be worth something. With options, if the stock's value falls below the "strike price" of your option, you're out of luck.

Another bit of data from Equilar would seem to support the tech industry's arguments that in a post-expensing world, only top executives would get options, on account of the expense that would become associated with them. In 2003, 19.5% of stock options went to top officers; last year, the figure rose to 21.5%, suggesting that fewer secretaries and stock-room employees were getting theirs.

It's hard to tell if there is a trend here; the 2004 figure was 18%. But many studies have noted the extent to which corporate profits are increasingly winding up in the hands of top officers. Pension funds sure aren't getting them. If corporate wealth is indeed being increasingly skewed toward top officers, it's hard to believe the expensing of options is the real culprit.

Of course, expensing options has its downside. Some say it's bringing back the practice from the bad old dot-com days of companies putting out two sets of numbers -- one with their actual financial information, the other with the numbers the way the company itself would like them viewed.

These days, that second number means with the options expensing removed. Indeed, to the extent that Wall Street has yawned about options expensing, it's because investors have learned to simply overlook the expenses associated with options. Then again, determined investors will always find something to overlook when they put their minds to it.

For many years, nearly every visitor to Silicon Valley got a fire-and-brimstone speech from tech leaders about the evils of stock-option expensing. It's now clear the reports of the imminent death of the tech sector were greatly exaggerated. Considering the real problems facing technology in America, like dwindling federal support for research, it's a shame that so much political capital was so badly spent.

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