
Posted on Sun, Sep. 10, 2006

Firms tweaking ways of awarding options

Some companies are tweaking their stock option plans to better peg payoffs to performance, encourage executives to manage with a long-term view and to make it harder to manipulate the pricing of options. Here's a sampler of changes recently disclosed, according to Equilar, a San Mateo provider of information on executive compensation:

Pay-for-performance

- International Business Machines gave "premium-priced" options to 16 executives that can be cashed in profitably only if the stock rises nearly 10 percent from the grant price. At Micrel in San Jose, the stock must rise 23 percent before CEO Raymond Zinn can profit.
- Qwest Communications International gave options to two executives that will vest only if the stock price hits certain targets for 188 consecutive trading days.

The long-term view

- Many companies allow executives to begin exercising options in chunks annually. Intel gave CEO Paul Otellini options that he can't cash in completely for eight years.
- LSI Logic gave CEO Abhijit Talwalkar options that he can cash in over three years if the Milpitas chip maker hits revenue and operating profit goals; otherwise the options will vest over six years.

The timing of grants

- UnitedHealth Group, which is under federal investigation in connection with suspiciously timed options granted to CEO William McGuire, will now issue yearly grants on the day of the shareholder meeting. Grants to new employees or for promotions will coincide with days on which the board's compensation committee meets.
- Netflix of Los Gatos now spreads out option grants in monthly portions rather than serving them up all at once.

-- Mark Schwanhausser