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REUTERS

Lifting the Lid: More execs to get both options, grants

Reuters, 11.13.03, 4:18 PM ET

By Brendan Intindola

NEW YORK (Reuters) - Reports of the death of stock options have been greatly exaggerated.

Options, blamed by many for encouraging short-term management decisions at the expense of the long term in an earlier era of soaring stock prices, will be only partially displaced by in-vogue stock grants. And this hybridization of equity compensation is expected to spread.

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Driving all this are evolving pay philosophies that must respond not only to new accounting rules making options more expensive but also to greater shareholder activism on pay issues and the ever-changing stock market.

"Diversifying the long-term incentives is becoming more the norm than the exception," said Peter Chingos, the top compensation expert at Mercer Human Resources Consulting, based in New York. "A company that has used stock options at the core of long-term incentive is shifting to options in combination with performance shares and restricted stock. It is becoming quite universal," Chingos said.

Indeed, General Electric Co. two months ago introduced "restricted stock units" to its compensation mix, while also retaining stock options. Now, GE grants 60 percent options and 40 percent RSUs. Previously, the equity part of the compensation was entirely options.

Options are the right to buy a set amount of stock in the future at a predetermined price, while grants outright give stock to executives, with ultimate possession often governed by performance requirements to be met or exceeded over time.

For an illustration of how the two types of compensation can blend, take a look at how Jure Sola, chairman and chief executive of

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Sanmina-SCI Corp., amassed and cashed in shares. The company, a contract manufacturer of high-tech products based in San Jose, California, has annual revenue north of \$10 billion.

The tale is told in regulatory filings. Sola was granted 1 million Sanmina shares at no cost on Oct. 10, when the shares were worth about \$10.50 apiece. The grant more than doubled Sola's holding in Sanmina - to 1,618,000 shares.

On the same day, Sola also was awarded options to buy 1 million shares at \$10.48 per share, under the company's 1999 Stock Option Plan. The options vest monthly from the grant date, over the course of 60 months, according to Sanmina's filings.

On Oct. 27, Sola bought nearly 400,000 more shares at a cost of \$1.375 per share. The next day, Sola lightened his position -- which stood at just over 2 million not counting unexercised options -- by 250,000 shares in 14 trades at selling prices ranging between \$9.65 and \$9.84, according to the filings with the U.S. Securities and Exchange Commission.

Calls to Sanmina for comment were not returned.

EMC, PAIRED

At data-storage giant EMC Corp., President and CEO Joseph Tucci in October got both flavors of equity compensation.

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Tucci was granted 280,000 restricted shares under the company's 2003 stock plan at zero cost. The plan subjects the award to performance goals. Tucci also on the same day was granted an option to purchase 1.12 million EMC shares at \$13.18 per share.

A spokeswoman for EMC said shareholders approved the plan to offer restricted stock along with options at the annual meeting in May 2003.

While regulatory filings covering both forms of pay declined last month versus September, there were only 22 fewer filings covering stock grants, a dip of 3.9 percent, according to an analysis of SEC filings by Equilar.

This compares to a month-to-month drop of 345 "Form 4" filings for stock-option grants, a 20.8 percent decline. These documents also are required to be filed with the Securities and Exchange Commission.

"We are at a time in executive compensation where it is an evolving process," said Mercer's Chingos. "There is a strong appetite for restricted stock awards, even at the most senior levels of the company."

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