



**Contact:**  
Michael Sherry  
Steven Hall & Partners  
(212) 488-5400  
[msherry@shallpartners.com](mailto:msherry@shallpartners.com)

PEARL MEYER

STEVEN E. HALL

STEVEN C. ROOT

DIANE D. POSNAK

JOSEPH A. SORRENTINO

SANDRA E. PACE

LAWRENCE G. ROBINSON

### **Technology Executives Drowning in Underwater Options Stock Options Out-of-the-Money at 90% of “Tech 100” Companies**

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NEW YORK, August 25, 2009 – High-tech senior executives, along with employees holding options granted within 10 years of last fall’s market meltdown, are continuing to drown along with their shareholders. A current survey by executive compensation consultants Steven Hall & Partners reveals that, as of this July 31<sup>st</sup>, stock options at 90% of the 100 largest technology corporations are still underwater, leaving many companies to seriously question their sunk cost and retentive hold on key executives and employees. Hamstrung by the inability to reprice options without shareholder approval, many companies may find top talent affecting their own repricing by jumping ship to take advantage of new employer option grants at today’s much lower prices.

The percentage of total outstanding options that are underwater varies widely across the study group, ranging from none at 10 of the 100 companies studied up to 100% of all options being underwater at 21 of the studied companies. For the group as a whole, on average 57% of the options held by these 100 companies’ top five executive officers were underwater by an average 42% based on their options’ exercise price.

Even with the recent run-up in the U.S. equities market, significant stock market recovery of a whopping 73% is still required to bring the average option just back to break-even level.

“Most technology companies find themselves between a rock and a hard place,” said Lawrence Robinson, Managing Director, Steven Hall & Partners. “While it might make sense to award new option tranches at current lower stock prices to retain and focus employees in a challenging business environment, this is tempered by the fact that existing shareholders have also suffered losses in the recent market decline. In addition, granting additional options further dilutes shareholders’ interests and carries an incremental and costly charge to earnings while repricing on a value-to-value basis generally reduces dilution at minimal or no charge to earnings.”

The average “Tech 100” company is currently expensing over \$48 million on its income statement for options held by its top five executive officers, based on an average grant date Black-Scholes value of approximately 42%. While expensing \$48 million, the July 31, 2009 intrinsic value of these options averaged only \$24 million, about 50% of the amount being expensed.

“This is the time when Board Compensation Committees must determine the most effective and cost efficient pay strategy to preserve key talent,” commented Lawrence Robinson. “In some cases, we find that companies apply a selective approach by opting to lock-in a limited number of critical contributors and hoping for the best with the rest.” According to Robinson, immediate solutions for companies in this position include reviewing the corporate succession plan to identify key talent, determining what incentives are needed and redesigning compensation programs accordingly. Boards that fail to act risk opportunistic poaching from their competitors, particularly in the talent-aggressive technology sector.



### **About the Study**

The study included CEOs and other Named Executive Officers at 100 of the largest publicly-traded high-tech firms with average revenues of \$8.65 billion. Calculations are based on closing stock prices on 7/31/09. All option holdings were obtained from the most recent proxy statement available.

**Steven Hall & Partners** is an independent executive compensation consulting firm serving as outside counsel to Boards, Compensation Committees and management. The firm focuses solely on executive compensation, Director remuneration and related corporate governance matters. Prior to forming Steven Hall & Partners in September 2005, the firm's principals, Pearl Meyer, Steven E. Hall and Steven Root, served as Chair, President and Managing Director, respectively, of Pearl Meyer & Partners which they founded in 1989. For more information please visit [www.shallpartners.com](http://www.shallpartners.com).

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