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November 3, 1998

Repriced Options Are Popular In High-Tech, Service Industries

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Staff Reporters of THE WALL STREET JOURNAL

Do repriced stock options really help companies hang on to valued employees?

A flurry of companies, largely in the service and high-tech industries, are lowering the price at which employees can exercise options to buy company shares. Their rationale: Repriced options will help to stanch an exodus of demoralized managers and professionals.



Options become essentially worthless when shares fall below the exercise price. The market's recent volatility has persuaded more businesses than usual to reprice such "underwater" options. Since late August, more than a dozen public U.S. companies have done so, and more are considering the move.

The tactic is hotly debated. Many institutional investors oppose it because the reprieve isn't available to ordinary shareholders. Corporate leaders respond that repricing will improve retention -- a big problem at high-tech companies, where options represent a large portion of total pay and the talent shortage is acute.

"The perception is that this is a life-or-death issue for retention and motivation," says Alan Johnson, managing director of Johnson Associates, a New York compensation-consulting firm. He has helped to design repricing plans for four corporate clients during the past eight weeks.

But no one can prove the tactic really works. "There isn't a lot of track record," Mr. Johnson acknowledges. At **Apple Computer** Inc. and **Borland International** Inc. (now called **Inprise** Corp.), many executives left despite the repricing of options, according to an analysis by Executive Compensation Advisory Services in Springfield, Va. Neither Apple nor Inprise responded to questions about the analysis by press time.

The lack of hard evidence hasn't stopped top executives from trumpeting the retention argument. LAI Ward Howell, the only major executive recruiter that is publicly held, announced its option repricing plan Oct. 9. The company's typical annual turnover rate is 8%, and "we are within that range this year," acknowledges Robert L. Pearson, chairman and chief executive officer.

Then why reprice? "We wanted to make sure that we didn't experience above-normal turnover," he says.

Cendant Corp. also repriced options for top executives in late September, contending it had to stem a

loss of senior management talent. The Parsippany, N.J., franchising and marketing company earlier this year disclosed massive accounting fraud that has badly depressed its stock price. Henry Silverman, Cendant's chairman and CEO, said in a CNBC interview in October that many senior executives had been tempted to go elsewhere because their options were "so far under water that they just [had] no further incentive." Mr. Silverman also benefited from the repricing move, with 25.8 million of his options affected by the repricing. "I think the company thought they wanted to keep my head in the game," he says.

Some major Cendant shareholders agree. "In Henry's business, you can't afford to lose people," says Hans Utsch, president of Kaufmann Fund, which holds about 2%, or 17 million shares, of Cendant.

But the goal of retaining talent through repricing can backfire if employees cash in quickly on suddenly valuable options and then jump ship. Compensation consultants WestWard Pay Strategies Inc. in San Francisco advocates that companies insist on a blackout period before employees can begin to exercise their repriced options.

Cambridge Technology Partners, an information-technology consulting and systems-integration firm in Cambridge, Mass., repriced its options in October for all employees except the CEO and directors, but instituted a six-month moratorium. The repricing could prevent the company from losing 25% of its work force in the next two months, according to Chief Financial Officer Art Toscanini.

-- *Leslie Scism contributed to this article.*

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