The NASPP Advisor

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The topics featured in this issue include:

And as always, our popular Across Our Desk feature and highlights of the important new guidance on Naspp.com.

Read this issue online at http://www.naspp.com/members/advisor/Advisor16-1.htm.

Across Our Desk…

Stock Option Trends and Surveys

Recent surveys show that stock options remain alive and well, though there have been some adjustments in grant sizes and recipients. Radford Advisory's Equity Trends Analysis (November 2007), by Aon's Radford Surveys and Consulting, focuses on the technology and life-sciences industries. A press release about the survey, and our follow-up with the main authors Brett Harsen and Ted Buyniski, disclosed these findings:

- Options remain "the dominant form of equity compensation," still used by 94% of the surveyed companies. They are the predominant type of stock grant at 58% of tech and 75% of life-sciences companies. However, companies continue to decrease grant size and participation rates in response to the accounting expense and shareholder concerns about dilution.

- In the high-tech industry, annual burn rates have fallen from 4.1% in 2003 to 3.2% in 2006, largely from diversification in grant practices.

- Black-Scholes is used at 94% of tech and 98% of life-sciences companies. The median option value as a percentage of stock face value is 48% for tech and 59% for life sciences.

- Use of restricted stock/RSUs has "risen significantly" in the high-tech industry, especially at larger, more established companies. Full-value awards are used at 68% of tech and 54% of life-sciences companies, and are the predominant grant at 21% of tech and 7% of life-sciences companies.

The survey's findings indirectly address the impact of the earnings charges and dilution on grant practices. *The Corporate Executive* reports that Peter Suzman of FAS123 Solutions explained, in his workshop at the 2007 NASPP Conference, that companies and investors "pay attention" to stock plan earnings charges for corporate governance purposes: determining size and allocation between types of grants; measuring shareholder value transferred to employees; and assessing whether the return the company receives is consistent with the perceived "value" of the options ("Does Anyone Really Care About the FAS 123(R) Earnings Charge?—Deep Thoughts II (and Some Shallow Ones, Too)," November–December 2007, page 11).

Professors James Sesil and Maya Kroumova studied labor productivity in companies of various sizes that broadly distributed stock options during recent bull and bear markets ("Broad-Based Stock Options: Before and After the Market Downturn," *The International Journal of Human Resource Management*, August 2007, pages 1471–1485). The authors found greater labor output in both types of market conditions in companies of all sizes, with the exception of small companies in down markets, where productivity is nonetheless greater but the statistical significance of the results are weak.

The annual National Compensation Survey, published by the Bureau of Labor Statistics, found that 8% of all private-sector employees at both public and private companies receive stock options (about 9 million workers). This percentage fell by just 1% from the prior survey's findings. The survey found that, in this group, managers and similar professionals are most likely to receive options (14%), followed by sales and office staff (10%). In the analysis by region, the west coast led the way with 11% of all employees receiving stock options.