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From the January 21, 2005 print edition

Life science execs lose big on incentives

[Susan L. Thomas](#)

Executives at life sciences companies took a big hit to their pocketbooks in 2004, as they watched their total compensation plummet by more than a third.

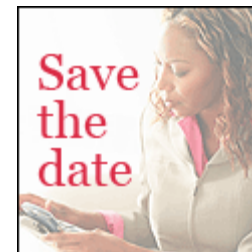
Why such hardship?

According to [Presidio Pay Advisors Inc.](#), executives can blame it on stock options.

A survey of 76 major life sciences firms by the San Francisco compensation consulting company showed that while base pay and bonuses fell just 9 percent, the value of long-

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the firm, Green said.

"Companies are being more cautious with executive compensation," Green added. "We expect that will be a trend that will continue.

"Competitive grant levels have dropped off in all industries."

term incentives, namely stock options, dropped 48 percent in just one year.

In all, salaries, bonuses and long-term incentives fell 34 percent from 2003, when the top nine executives surveyed earned a median of \$10.6 million in total compensation compared with \$7 million in 2004. The median total compensation package for a life sciences CEO, for example, was \$1.9 million in 2003, compared with \$1.6 million in 2004. The survey included firms in the Dow Jones Industrial Average from 17 states, primarily in California.

Brooke Green, a principal at Presidio Pay Advisors, attributed what she considers a surprising decline in long-term incentives to a decrease in competitive stock option grant levels and to a drop in the value of life sciences companies' stocks. Grant levels, for instance, dropped 31 percent from 2003 and exercise prices fell 40 percent. The decline probably meant that companies granted options to key people and high-level executives, rather than employees lower down in



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The trend can be seen in the East Bay, too.

[Applera Corp.](#), the parent company of [Applied Biosystems](#) in Foster City and Pleasanton, for example, decided to slash the number of stock option grants by 42 percent in fiscal year 2004 from the previous year, said Peter Dworkin, director of investor relations and corporate communications at Applera in Foster City. The company's board reduced stock options grants at Celera Genomics, another publicly traded subsidiary, by 22 percent.

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What's more, Applera's management resources committee has adopted a policy to hold increases to its stock option plan to 2 percent of the total issued and outstanding shares at both companies, Dworkin said. At its annual meeting in October, shareholders voted to increase shares by 2 percent.

"Institutional investors scrutinize increases to stock option pools more today than they did in the past, and some observe strict limits," Dworkin said. "While investors often allow more dilution for entrepreneurial life science companies because they understand these companies need equity-based incentives to attract talent and be competitive, they are also more sensitive today than they were when the



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compensation packages, Green added. For instance, she said, stock options used to fall under the purview of the human resources department or maybe investor relations.

"Now what we're seeing is basically what was relegated to the HR team is going straight to the CFO for approval," Green said, adding that CFOs are considering how expensing stock options will reflect on how they are doing their jobs.

Applera, for one, is still uncertain how or whether it will reformulate its stock options

Nasdaq was rising steadily to the effect of stock option dilution on their equity ownership and earnings per share calculations."

Along with taking a harder look at overall compensation packages, companies appear to be paying more attention to how stock options will impact their income statements.

The Financial Accounting Standards Board has issued a ruling that requires companies to begin expensing stock options in June, and opponents have vowed to fight the ruling at the Securities and Exchange Commission. Many opponents in the technology and biotechnology industries have cried that expensing options would make them less competitive.

"A couple of years ago, equity compensation existed in sort of a vacuum," Green said.

Businesses' internal finance groups now are scrutinizing the impact of expensing options and the value of overall

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package. "With expensing of stock options starting in our fiscal 2006 under the recently adopted SEC rules, Applera is analyzing options for alternatives to our current stock option plans," Dworkin said.

One surprise with the survey, Green said, was that companies had not increased the number of restricted stocks they issued in 2004. Restricted stock, unlike options, carries immediate value. In 2003, 30 percent of the companies surveyed issued restricted stock, compared with 13 percent this year. Green said she had expected companies to increase grants of restricted stock, with the expectation that it would provide an alternative to granting options, which would have to be expensed.

"I really feel like everyone sort of pulled back," on everything, Green said.

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"Most companies in some kind of technology will continue to use equity compensation," Green said. "For biotech companies that don't have profits a noncash expense may not have a big impact."

Instead, Green added, offering options for those firms could even give them a competitive advantage over their profit-making counterparts.

Reach Thomas at slthomas@bizjournals.com or 925-598-1432.

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