

Apple Inc. Compensation and Incentive Pay

The failure to include the value of most stock-option grants as employee compensation and, hence, to subtract them from pretax profits, increased reported earnings and affected Apple Inc's (NASDAQ: AAPL) stock prices. A three-month investigation by Apple's board of directors starting July 2006 found that the company had backdated option grants made on 15 dates between 1997 and 2002. The Board's findings raised "serious concerns" about the roles that two former officers had played in the matter. The board of directors also reported that an internal review found two questionable options awarded to Jobs but found no wrongdoing by current management, including Steve Jobs himself. Apple Inc's stock dipped to \$72 in October 2006, reducing "shareholders wealth".

For the short-term Apple Inc. CEO Steve Jobs apologized to shareholders, on October 04, 2006, that he had been aware of the company's practice of backdating employee. "I apologize to Apple's shareholders and employees for these problems, which happened on my watch," Jobs said in a statement. "They are completely out of character for Apple." Apple said in December 2006 that it would take an \$84 million charge for misdating more than 6,400 options. Apple will restate its past Securities and Exchange Commission filings in order to record charges for its option grants. Based on the actions taken by Apple Inc. the company current stock price is \$93.

For the long-term Steve Jobs promised that he is working "to ensure that this never happens again".

The company is strengthening the corporate governance and is implementing measures in order to ensure proper practices with option grants such that backdating cannot occur, such as: Boards set the date and price of all option awards they approve, reflecting this data in the Board meeting minutes. The Board should later receive confirmation that the awards were issued on the date and at the price approved. Boards will ensure the company is filing SEC form 4 filings within 2 business days of option grant (as required by the SEC). Boards will not allow executives to choose the date of their grants, nor there will be flexibility in when the grants are recorded. Boards will clearly communicate the company's policy regarding option dating to all relevant parties such that there can be no confusion regarding what is and is not allowed. Boards will adopt a policy stating that option grants will be made on the same date each year, or divide annual grants into four grants made quarterly.

Companies can learn from this example. The consequences of backdating are serious and expensive, but Board vigilance and the proper controls in companies can ensure that option backdating is one story that should not get attention from "Press and Media" and cause the company to weaken its corporate "branding" or identity.

CITE THIS AS:

YouSigma. (2008). "Apple Inc. Compensation and Incentive Pay." From <http://www.yousigma.com>.