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The Crystal Report on Executive Compensation



Steve Jobs Leaves \$11 Billion on the Table

by Graef Crystal

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Steve Jobs left Apple , the company he co-founded, in 1985. He then turned his talent to Pixar.

He returned to Apple on or about Aug. 6, 1997. Two months before his return, he sold all but one of his 1.5 million Apple shares. *Time* magazine quoted him in August 1997 as saying: “Yes, I pretty much had given up hope that the Apple board was going to do anything. I didn’t think the stock was going up”

As this article will show, Mr. Jobs, though one of the most brilliant CEOs who ever walked the American stage, is not such a hot stock picker.

Between Aug. 6, 1997, the date he returned and January 12, 2000, Apple’s compounded total return was 63.5 percent a year, a figure that exceeded the annual return on the Standard & Poors 500 Index by 44 percentage points.

Between the just-mentioned dates, he was either paid nothing at all or just \$1 a year.

But by the end of that period, Apple’s board was so grateful for what he had done that it rewarded him in two ways:

- He was given a personal Gulfstream jet. The cost of the jet and the taxes on the taxes on the taxes came out to about \$90 million. When some of the Eastern media questioned the company, the Apple spokesperson told them that Mr. Jobs needed the jet to commute between the Apple headquarters in Cupertino, California and the Pixar headquarters in Emeryville, California. The Eastern media dutifully reported this, not knowing that you could probably ride a motor scooter between the two companies faster than saddling up a corporate jet. The two headquarters are a relatively-scant 50 miles apart.

- He was handed what was then – and I still believe is – history’s largest stock option, one covering 40 million split-adjusted shares carrying a strike price of \$21.97 a share and a term of 10 years.

We now segue to Oct. 19, 2001. By that point, Apple’s stock had dropped to a split-adjusted \$9.15 a share. So Mr. Jobs’ ever-grateful board granted him a second stock option, this one covering 15 million shares with a strike price of \$9.15.

Time passed and by March 19, 2003, the stock had dropped further – to \$7.475 a share.

It was at this point that a towel was thrown in. Mr. Jobs voluntarily surrendered all 55 million of his underwater stock options. A contemporary proxy said he was concerned about “overhang”. (At about the same time, a repricing occurred for other employees that gave them less than 1-for-1 in their replacement option grants.)

In return for surrendering these shares, Mr. Jobs was granted 10 million free shares. The grant date value was \$74.8 million. The restrictions on the resale of these shares were set to lapse in three years. The Black-Scholes value of the 55 million underwater option shares was pretty close to the value of the free shares, although to my knowledge, Apple has never acknowledged that it used that model.

When the three-year period ended, the 10 million free shares had risen substantially in value – to \$646.6 million

So that restricted stock grant paid off big-time for him.

Still, as the incessant commercials say: “But wait!”

Suppose Mr. Jobs had not surrendered his two options totaling 55 million shares to receive 10 million free share in return.

- The first option – the one for 40 million shares – would have expired on Jan. 12 of this year. Had he waited until the last day to exercise this option, he would have reaped gains before taxes of \$7.4 billion – that’s BILLION. And had he done so, the State of California would have found itself in a lesser budget hole.
- As for his second option, that doesn’t expire until Oct. 19, 2011. Based on the November 26 close price of \$315.00, that option contains paper profits of a further \$4.9 billion.

So had Mr. Jobs kept his two options, he would have received or would now be sitting on paper profits of \$12 billion. That’s \$11.4 billion more than what he did receive in his restricted stock award.

A piece of advice to Mr. Jobs: If you ever get tired of running Apple, please do not –for your own sake – take a job on Wall Street!

2010 marks Graef Crystal's 51ST anniversary in the executive compensation field. He has been a director of compensation for General Dynamics and Pfizer, worked as a consultant for Booz, Allen & Hamilton, served as worldwide practice director at Towers Perrin for 18 years, was a professor at the University of California at Berkeley's Haas School of Business for 10 years and a syndicated columnist for Bloomberg News for almost nine years. He has written six books and more than 1,600 articles on executive pay.