

Bosses' Pay: How Stock Options Became Part of the Problem

Once Seen as a Reform, They Grew Into Font of Riches And System to Be Gamed

Reload, Reprice, Backdate

By MARK MAREMONT
And CHARLES FORELLE

Eugene Isenberg is the little-known chief executive of a modest-sized oil-services company in Houston. But he stands out in one way: He is among the highest-paid corporate executives in history. In the past 19 years, he has pocketed more than \$450 million.

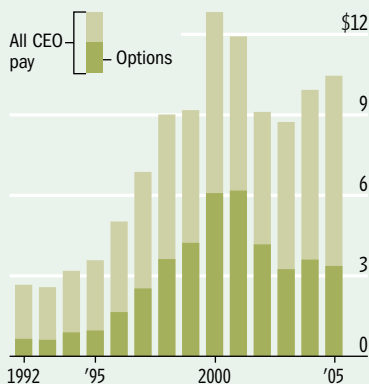
The key to this wealth: stock options, in abundance. His employer, Nabors Industries Ltd., has lavished more than 25 million options on him over the years.

They became lucrative partly because of Nabors's generally rising stock price, but also because of some controversial moves that gave the options more punch. When Nabors's stock fell below the price at which the options could be exercised, temporarily making them worthless, Nabors let him trade in some of his options for new ones with lower exercise prices. And when Mr. Isenberg cashed some options in, Nabors "reloaded" him, replacing those he'd exercised with the same number of new ones.

Stock options were hailed two decades ago as a remedy for runaway executive pay. Academics, politicians and investors, tired of seeing CEOs pocket big money for a so-so job, pushed to have stock options become a primary method of compensating executives. Options—granting the right to buy stock tomorrow at today's price—would pay off only if the company's stock went up. To advocates they were the ideal carrot, an incentive

Larger Slice

Average pay of CEOs of S&P 500 companies and the portion coming from stock-option grants, in millions.



Note: Value of option grants determined by Black-Scholes methodology

Source: Kevin J. Murphy, Univ. of Southern Calif.

for good work that aligned executives' interests with those of shareholders.

That happened—sometimes. But at many companies, options morphed into the biggest executive bonanza yet, pouring out cash like a stuck ATM, and sorely disappointing those who thought options would moderate executive pay.

Instead of replacing big bonuses, options became an additional form of pay slathered on top of already-generous packages. Employers doled out options in ever-growing numbers, in part because, until recently, accounting rules meant companies didn't have to treat this largess to executives as an expense. And like Nabors, some used repricing, reloading and other tactics that made it even easier for executives to score huge hauls.

This year, options practices exploded in one of the biggest corporate-fraud scandals in decades. Some companies

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and executives stole from shareholders, by pretending that options had been issued earlier than they really were, at more favorable prices. At least 130 U.S. corporations are under investigation for possible backdating of option grants. Some have admitted to it. More than 60 executives and directors of public companies have lost their jobs so far, 17 of them chief executive officers. After probable backdating was exposed at giant insurer UnitedHealth Group Inc., the CEO had to resign and give up about \$200 million of stock-options value. The company said it will have to restate past earnings by as much as \$1.7 billion.



Eugene Isenberg

Nabors's Mr. Isenberg offers an example of the huge wealth CEOs have gained through stock options. Now, some of his option grants appear to raise questions about how they were dated. A number came on days when the stock hit its lowest close for the month or the quarter. At other companies, a series of low-price grants has been a pattern that has suggested possible dating problems. At the least, the favorable grant dates added to Mr. Isenberg's mammoth options gains.

A spokesman for Nabors said its legal department did an internal review and found "no irregularities in its grant practices." Nabors showed internal documents to The Wall Street Journal that the company said provide evidence the grants were properly dated. Some of the documents bolster that assertion. The spokesman, citing Mr. Isenberg's record in lifting Nabors from a company in bankruptcy court to one with a market value of more than \$9 billion today, also said that "Nabors strongly believes that Mr. Isenberg is appropriately compensated."

The backdating scandal at scores of companies shows one way stock options, once seen as an executive-pay reform, have often been distorted by corporate officials and their consultants. Nell Minow, a longtime corporate-governance advocate, calls backdating "just another in an endless and unstoppable series of mechanisms to subvert the purpose of stock options." A vocal proponent of options in the early 1990s, Ms. Minow now regrets that stance. "Options became completely disconnected from shareholder interests," she says. "I grossly underestimated the capacity of corporate boards and corporate managers to circumvent the principles we established."

From 1992 to 2001, the average value of option grants to CEOs of S&P 500 companies soared nearly tenfold, according to data compiled by Kevin J. Murphy of the University of Southern California. The result was that options, which in 1992 made up less than a quarter of the average CEO's pay, by 2001 provided more than half of pay packages — packages that were much larger. Companies have started doling out fewer options in the past few

Options Glossary

Some controversial practices:

Backdating: Pretending an option was granted earlier than it was, at a more favorable exercise price, to enhance its potential value.

Repricing: Setting a new, lower exercise price for existing options, because the market price of the stock has fallen since the original award.

Reloading: Automatically granting new options, at current market prices, to replace some or all of those that are being exercised.

Spring-loading: Awarding options just before releasing positive news likely to drive up the stock price.

Bullet-dodging: Waiting to award an option until after bad news has driven down the stock price.

Exercise backdating: Pretending an option was exercised for a profit earlier than it was, when the market price was lower, to reduce the reported gain and cut an executive's personal income taxes.

years, but grants remain far more generous than a decade ago.

In 1985, Miami financier Victor Posner pulled down \$12.7 million, putting him atop lists of best-paid CEOs that year. Last year, 393 executives earned more than that, thanks largely to gains from exercising options, according to Standard & Poor's ExecuComp, which tracks executive pay at about 1,800 public companies. The top 2005 earner was Barry Diller of IAC/InterActiveCorp., with \$295 million, nearly all from options.

Defenders of options, who remain numerous, say options shouldn't be judged by a few giant packages. Many companies have given out options judiciously, say defenders, some of whom attribute rising executive pay to tight competition for top managers. Others say stock options have helped to foster innovation, by giving young but cash-poor companies a currency with which to attract talent.

Some supporters of options even give them partial credit for the long bull market that began in 1982, figuring that options help focus top executives on the key issue for shareholders: the stock price. Frederic W. Cook, a New York compensation consultant, calls the stock option "the most perfect equity derivative that's ever been invented: It's simple, elegant, easily understood, and it gives you a little piece of the action."

Popular Demand

Stock options usually give recipients a 10-year window to buy the company's stock at the price when the options are granted. If someone gets options when the stock trades at \$50 and it goes to \$75, the holder can cash out at the \$50 "exercise price" — also called a "strike price" — and nail a \$25 profit on each option. Options usually don't "vest," or become exercisable, for at least a year after they're granted.

Stock options appeared at least as early as the 1920s, says Carola Frydman, an assistant professor of finance at Massachusetts Institute of Technology who has studied the history of executive pay. The modern era began in

1950, when Congress, reversing a court ruling, gave options substantial tax advantages over ordinary income. By the middle of that decade, they accounted for nearly a third of CEO compensation at large industrial companies.

"In the 1950s, they called it the period of stock-option opulence," says Ms. Frydman. "They didn't know what was coming."

After losing popularity during the weak stock market of the 1970s, options surged back into favor in the late 1980s. One reason was public fury over mammoth executive paydays for bosses with just average performance. In an influential 1990 Harvard Business Review article, Mr. Murphy and Michael C. Jensen said the problem was executives were paid like "bureaucrats" instead of entrepreneurs. They called for giving "big rewards for superior performance and big penalties for poor performance."

"We were suggesting people shift from salaries to stock options to put more pay at risk," Mr. Murphy says today. But "that's not what companies ended up doing. They layered on massive amounts of options on top of the rest."

The bandwagon got two big boosts from an unlikely source: Congress.

First, it passed a law, pushed by President Clinton, seeking to rein in executive pay by limiting the tax break for it. The 1993 law said companies couldn't deduct yearly compensation of more than \$1 million for any one of their top five officers.

But it exempted certain kinds of pay linked to performance, which included stock options. Companies rushed to restructure pay plans to grant more options. In 1994, the first year the law was in effect, the value of option grants to CEOs at S&P 500 firms leapt by 45% on average, according to Mr. Murphy, and nearly doubled again over the next two years.

The 1993 law "deserves pride of place in the Museum of Unintended Consequences," said Christopher Cox, chairman of the Securities and Exchange Commission, this fall.

Then in 1994, Congress helped beat back a

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proposed rule requiring companies to treat a stock-option grant as an expense and deduct it from profits. The plan, backed by the SEC and accounting rule makers, sparked intense corporate opposition. Congress stepped in to fight it, and after a long battle, the accounting rule makers caved. They issued a watered-down rule saying all that companies had to do was disclose in a footnote what options would have done to their profits, had the proposal passed.

Meanwhile, Congress left alone an older law that gave companies a tax deduction whenever stock options were exercised. Under that rule, which applied to the most common type of option given to executives, the employer can deduct a dollar from its income for tax purposes for every dollar of option gains pocketed by employees.

With rules like these, "what wasn't there to like about a stock option?" says Paula Todd, a compensation expert at consulting firm Towers Perrin. "You could grant them in unlimited amounts, with no expense, and claim a tax deduction. [Companies] would pay their dry cleaners if they could with stock options."

Better Than Average

Soon, other forces spurred companies to give executives ever more stock options. One was the "Lake Wobegon effect," named for the mythical Minnesota town in radio host Garrison Keillor's world where all the children are above average. Many boards believed their chiefs should be paid at least as much as the average in their industry, and often more. That attitude had the effect of pushing this average up, year after year.

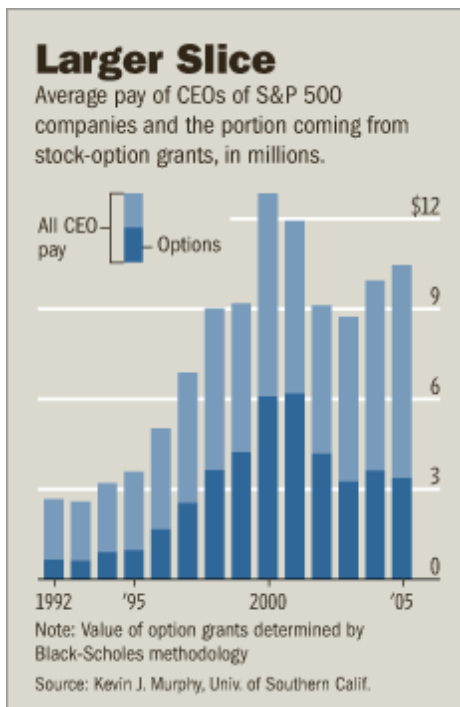
Another force largely escaped notice because it seemed benign. This was a tendency by companies to grant top executives the same number of options each year, or more, even if the stock price had risen. During a bull market, doing so kept raising the value of pay packages.

Consider an executive who is granted a million options when the stock is at \$20. If it's 50% higher a year later, the executive can reap a \$10 profit per option, or \$10 million.

But now the stock is at \$30. If the executive again gets a million options, and the stock again rises 50%, the executive's profit is \$15 million, not \$10 million. In order to give this executive an option grant of merely the same value in year two as in year one, the year-two grant would have to contain far fewer options.

Directors had a hard time telling a CEO they were cutting the number of options because the stock had risen. Ms. Todd says the CEO's reaction would be, "I worked to get the stock price up, and my next grant is smaller and has a higher strike price?"

Exxon awarded CEO Lee Raymond a similar number of options yearly from 1993 through 1999 — 800,000 to 900,000, adjusted for later stock splits. Over that period, the stock rose sharply. The rise meant the value of the 1999 grant was \$8.5 million, or six times that of the



1993 grant, by ExecuComp's tally. The calculation used a standard formula for valuing options known as "Black-Scholes," which sets a value for a grant at the time it's given by estimating how much gain it will someday bring the recipient.

An Exxon Mobil Corp. spokesman said the grants were made by a panel of outside directors and based partly on the size of grants to top executives elsewhere. After 2001, Exxon replaced options grants with restricted stock, a different form of compensation that the board said was "more effective in aligning executives' interests with those of shareholders." Mr. Raymond retired a year ago.

At times, the value of options companies doled out has been equal to a large share of their profits. Retailer Abercrombie & Fitch Co. gave CEO Michael Jeffries 4.66 million options in 1999, a grant ExecuComp valued at \$120 million. The firm's 1999 net income was \$150 million.

Abercrombie didn't actually have to shell out \$120 million when it gave the options to Mr. Jeffries, of course. But it incurred an obligation to issue 4.66 million shares someday at the 1999 price. And this obligation didn't have to be reflected as an expense on the company's income statement.

A spokesman for Abercrombie said the grant had a "delayed vesting" feature "intended to incentivize Mike Jeffries to remain with the company...and to continue to generate exceptional financial results." Under him, the stock has risen more than 750% since it began trading in 1996. Mr. Jeffries is eligible to exercise the big 1999 grant now, and if he did so would reap about a \$120 million profit.

The options-issuing frenzy reached a peak in 1999 and 2000. Dot-com companies, some with little other way to pay employees, handed out options like confetti. Thousands of people

made fortunes on stratospheric rises in the stocks of tech firms, some of which didn't exist a couple of years later. Meanwhile, some "old economy" companies, trying not to lose top people to Silicon Valley, cranked up their own options generators.

In mid-2002, Alan Greenspan testified to Congress about what was then a tech and telecom bust, and about a wave of corporate scandals at firms like Enron, WorldCom and Tyco International. The Federal Reserve's then-chairman spoke of an "infectious greed" that seemed to grip some in business, for which he partly blamed "poorly structured" stock options. Giant grants "perversely created incentives to artificially inflate reported earnings in order to keep stock prices high and rising," he said. "The incentives they created overcame the good judgment of too many corporate managers."

Moving the Goal Post

When stock prices failed to rise, some companies changed the rules. If the share price fell well below stock options' exercise price, they simply lowered that price. Companies defended the move by saying options far "under water" or "out of the money" no longer served as incentives to executives to perform well.

Critics of repricing say it subverts the fundamental options purpose of aligning managers' and shareholders' interests. Since shareholders can't get a refund on a stock they bought that has fallen, the critics say, why should executives be able to do something similar?

Repricings "basically ensure that the manager gets paid no matter what. It takes a lot of risk out of the whole thing," says David Yermack, a New York University professor who studies executive pay.

About 11% of companies repriced options at least once between 1992 and 1997, according to research by Chandra Subramaniam, an associate professor of accounting at the University of Texas at Arlington. Borland Software Corp. did it eight times in the decade ended in 1998. System Software Associates Inc. repriced the same options five times in 1996 and 1997 as its stock kept plunging, Mr. Subramaniam says. In a paper published in 2004, he and his co-authors calculated that repricings padded executives' pay by an average of nearly \$500,000 each.

In 1998, a change in accounting rules crimped repricing somewhat. Companies now had to take a hefty charge against earnings if they put new exercise prices on existing options. But there was a loophole. If they canceled the old options, waited six months and issued new ones at a lower price, there was no penalty.

As tech stocks collapsed in the early 2000s, directors rushed to shore up options stranded out of the money. At computer-chip maker PMC-Sierra Inc., the company stock peaked at \$245 a share in March 2000, then plunged below \$10. Many shareholders fell hard.

The boss had a softer landing. Between

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1920s: Stock options awarded during bull market.

1950: Modern era of options begins when Congress gives them beneficial tax treatment.

1981: First known options backdating, at Home Depot.

1988: First 'reload' plan to replenish exercised options, at Norwest bank.

1991: Requirement to disclose option grants gives firms until early the next year to do so, leaves opportunity to backdate.



1992: Disney CEO Eisner (above) gains \$197 million by exercising options. Primerica (later Citigroup) CEO Weill



(above) is given reload plan, collects first \$64 million of eventual \$964 million total in options gains.

1993: Law caps tax deductions for executives' cash pay; firms react by giving out more options.

1994: Accounting rule makers, opposed by industry and Congress, drop plan to make firms count value of option grants against profits.

1998: Rule makers curb repricing of out-of-the-money options but leave loophole. Eisner gains \$570 million on options in fiscal year.

2000: Oracle CEO Ellison (right) sets one year record of \$706

million in options gains. Options issuance peaks as stock market does; CEO pay hits 550 times worker pay, by one measure.

2002: Sarbanes-Oxley law curbs backdating by requiring prompt reporting of stock-option grants.

2005: IAC/Interactive CEO Diller gains \$290 million on options; 20 others collect \$50 million or more in year.

2006: Backdating scandal puts more than 130 companies under microscope, costs dozens of executives their jobs. New accounting rule requires firms to count value of option grants to employees against profits.

Sources: Standard & Poor's ExecuComp; Company filings; Kevin J. Murphy; WSJ research



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September 2002 and March 2003, the company repriced 1.6 million of CEO Robert Bailey's options, slashing the exercise price on some all the way to \$5.95 from \$52.375. Mr. Bailey has cashed out about a third of the repriced options, for profits of \$4.86 million, more than eight times what he'd have made if they hadn't been repriced. PMC-Sierra confirmed the figures but had no other comment.

Lock and Reload

In the late '80s and early '90s, companies found another way to goose stock-option grants: "Reload" them.

Normally, options disappear when exercised. But with a reload plan, a person who exercises options automatically gets replacements. Typically the replacements number fewer than the options exercised. They carry the same expiration date but a different exercise price — the current market price.

Reload plans are supposed to encourage executives to hold stock in their company, says Mr. Cook, the pay consultant, who invented them. To get a reload, executives exercising options generally must do so not with cash, but with stock. That is, they must hand in existing shares whose value equals the cost of exercising the options. Since executives can't do that unless they own shares, they have an incentive to be shareholders of the company and to hold onto new shares obtained when they exercise options.

Critics decried reloads as abusive, a kind of option replication machine that enriched top managers — while diluting other stockholders' ownership as the number of shares outstanding rose.

The first reload plan appeared in the late 1980s. By 1999, according to Mr. Cook's firm, nearly a fifth of large companies were offering them.

The king of reloads was Sanford Weill, who

retired in April as chairman of Citigroup Inc. with an options fortune largely based on a single grant reloaded many times. In 1992, shareholders of his company, then called Primerica Corp., were asked to approve a reload plan. Deep into the legalese, on page 17, was a clause that would prove extremely lucrative for Mr. Weill: The reload plan applied to previously issued options, including a giant grant Mr. Weill got in 1986.

The plan initially also had an unusual element. Any options issued as a result of reloads wouldn't expire on the options' old expiration date, but could carry a new 10-year term.

Not long after the plan was adopted, Mr. Weill exercised nearly all of his original 1986 options, for a gain of more than \$60 million. He then received replacements for most of them, restarting the clock with 10 more years to run. Year after year Mr. Weill exercised some of the replacements, each time getting more new

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The Richest Paydays

Executives who have profited the most from stock options, 1992-2005; figures in millions of dollars:

EXECUTIVE	COMPANY	REALIZED GAINS FROM OPTIONS	VALUE OF IN-THE-MONEY OPTIONS ¹	TOTAL
William McGuire ²	UnitedHealth Group	\$344	\$1,777	\$2,121
Lawrence Ellison	Oracle	1,031	493	1,524
Sanford Weill	Citigroup	964	15	979
Michael Eisner	Disney	883	37	919
Stephen Hemsley ²	UnitedHealth Group	109	744	853
Richard Fairbank	Capital One Financial	475	306	781
Barry Diller	IAC/InteractiveCorp	530	167	697
Eugene Isenberg	Nabors Industries	412	274	685
Michael Dell	Dell	662	12	675
Terry Semel	Yahoo	429	236	665
John Chambers	Cisco Systems	451	121	572
Irwin Jacobs	Qualcomm	215	354	569
Arthur Levinson	Genentech	212	308	520
Omid Kordestani	Google	288	224	513
Dwight Schar	NVR	251	260	511
Howard Solomon	Forest Laboratories	390	116	506
Henry Silverman	Avis Budget Group	405	83	488
William Greehey	Valero Energy	82	382	464
Howard Schultz	Starbucks	131	308	439
Angelo Mozilo	Countrywide Financial	216	218	434
George David	United Technologies	252	167	419
Edwin Crawford	Caremark Rx	136	269	405
Richard Fuld, Jr.	Lehman Brothers	291	96	388
Kevin Rollins	Dell	268	100	368
Anthony Petrello	Nabors Industries	188	174	362

¹As of most recent proxy, in most cases the end of 2005²Has agreed to return some of the options value

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options — some of which he then exercised, once again getting more replacement options, and so forth.

From 1992 through the end of last year, Mr. Weill racked up total option profits of \$964 million, roughly \$870 million of which came from the original 1986 options and their generations of reloaded progeny. Shareholders did extremely well, too. As of yesterday, the stock of Citigroup and its predecessors was more than 30 times the price in the 1986 public offering of Mr. Weill's original company.

A Citigroup spokesman, Michael Hanretta, said Mr. Weill's options were so valuable because the company "created superior shareholder value." Mr. Hanretta also noted that employees couldn't activate the reload feature unless the stock had risen 20% from the time an option was granted, and at various times Mr. Weill was required by company policy to hold onto all or most of his shares.

Reloads have died out in recent years, after new accounting rules made them too costly to issue. A separate 2000 rule also made it financially prohibitive to add a reload feature retroactively — eight years after Mr. Weill got that benefit.

Other rule changes have also helped slow the options express. Besides a 2002 requirement for prompt disclosure of grants, a new accounting rule means companies must record an expense when they make an options grant, and reduce profits accordingly. Many companies have cut back on options, and some have stopped awarding them at all, often replacing them with grants of shares.

Deep Well

Over the years, few corporate executives have availed themselves more thoroughly of what options have to offer than Nabors's Mr. Isenberg.

Still chief executive at the age of 77, Mr. Isenberg lives in the Breakers resort complex in Palm Beach, Fla., and commutes to Nabors's U.S. headquarters in Houston. A generous donor, he has helped found a school in New York for children with learning disabilities and given millions to the University of Massachusetts at Amherst, which has named its business school after him.

Mr. Isenberg worked at Exxon for 13 years and then headed a small steel company, settling into early retirement after that firm was sold in 1982. He was persuaded to rejoin the business world by his friend Martin Whitman, a prominent New York investor, whose fund had taken control of a troubled oil-services company called Anglo Energy. Mr. Isenberg invested some of his own money and in 1987 took the helm of what was soon renamed Nabors Industries.

Early on, Mr. Isenberg personally lent the company \$5 million when it wanted to make an acquisition but lacked funds, Nabors says. It was the first in a series of deals that "made the company," said the Nabors spokesman, Denny Smith.

From a regional player, Nabors grew into one of the world's largest contract oil and gas drillers, with yearly revenue of \$3.6 billion. Its stock has risen at a lush 21.7% compound annual rate since early 1987, although it has underperformed the Dow Jones Oil Equipment and Services Index in the past five years.

An employment contract Mr. Isenberg got when Nabors emerged from bankruptcy entitled him to an annual bonus equaling a percentage of the company's cash flow above a threshold. Nearly two decades later, Nabors is long out of bankruptcy but has continued to renew this unusual percentage-of-cash-flow deal, albeit with less-generous formulas.

Rather than accept all his bonuses, Mr. Isenberg in many years declined part of them in favor of stock options. By Nabors's reckoning, his option grants were worth tens of millions of dollars in some years. Mr. Smith, the spokesman, said this acceptance of options instead of cash meant Mr. Isenberg was placing a big chunk of already-earned pay "at risk, in alignment with shareholder interests." Mr. Isenberg still received substantial cash bonuses, of as much as \$3 million in a year, and sometimes was given additional options.

For a time, Nabors operated under an options "reload" plan. It was a generous one: Instead of replacing only a portion of options that were exercised, it replaced them one-for-one. Mr. Isenberg could cash in options and take profits yet still have just as many options as before, though with higher exercise prices.

In another atypical feature, the replacement options sometimes had new terms of 10 years, making them even more valuable. Nabors says it stopped reloads before 2000. But in that year it gave Mr. Isenberg a "special award" of 2.4 million options, in lieu of a reload on 4.7 million options that he exercised for a \$122 million gain. (Share figures in this article aren't adjusted for a recent two-for-one stock split.)

In 1998, amid an industry slump, Nabors's stock sank sharply. Some of Mr. Isenberg's options were "under water." The board repriced them. In exchange for giving up a fourth of his old options, he got new ones carrying a more favorable exercise price.

"The repricing was designed to restore incentive value to the option packages," said Nabors's Mr. Smith. He said repricing was widely available to employees. As it happened, Mr. Isenberg made less money by accepting the repricing deal and giving up some of his options than if he had held on, Mr. Smith said.

Following a single grant from its genesis shows how the various maneuvers can pile up profit.

Mr. Isenberg received a grant of 1.8 million options dated in Sept. 23, 1991. He exercised them in 1996 and 1997, pocketing about \$24 million in profits.

Normally, that would have been the end of these options. But Nabors reloaded Mr. Isenberg, replacing his exercised options with a similar number — which had 10 more years

to run.

Then in 1998, amid the stock downturn, Nabors repriced the reload options.

Mr. Isenberg cashed in most of them in 2000 and gave the rest to a family member in 2002. His total profit from a single grant — reloaded, extended and repriced: about \$54 million, not including the gift.

The CEO's overall stock-option gains, both realized and not yet cashed in, came to \$685 million at the end of last year, says S&P ExecuComp — putting him 8th on its list of big winners from 1992 to 2005.

Mr. Isenberg also has benefited from some good timing of his option grants. The Sept. 23, 1991, award was dated on the day Nabors's stock touched its lowest closing price of that month, \$5.

But it isn't clear when the price was actually set. Company documents suggest the grant price may actually have been determined many months earlier, on another day when the stock closed at \$5. Moreover, the grant was contingent on a new Isenberg employment contract — which other documents indicate wasn't signed until well after Sept. 23, when the stock was higher.

For a grant of a million options dated Dec. 4, 1995, another monthly low, Nabors produced no minutes of a compensation-committee meeting. Instead, a memo seven weeks later said there had been a discussion on Dec. 4 of Mr. Isenberg trading in part of his bonus for options. The memo said the idea first would be run by a consultant, suggesting the grant wasn't made final until weeks after the stated Dec. 4 award date.

In all, of 11 new option grants to Mr. Isenberg between 1991 and 2002, two were dated at quarterly lows in the Nabors stock price and five more at monthly lows. The odds against such a fortunate pattern occurring by chance are long.

Nabors's Mr. Smith, in a written reply to questions, rejected any notion that any backdating might have been involved. Nabors let the Journal review dozens of pages of documents at its Houston offices that Nabors says support the conclusion that the low-price grants were actually made on the fortunate dates. For four of the seven grants dated at monthly or quarterly lows, Nabors showed compensation-committee minutes saying that meetings were held on those dates and options granted. For another monthly-low grant, it showed committee minutes saying a meeting was held the day after a grant, with the grant made "effective" the previous day.

In mid-2002, a federal law required executives to report option grants within two days after they're made, instead of having weeks or months to do so, a change that sharply cut the potential for backdating. Since mid-2002, none of Mr. Isenberg's four option grants came at monthly stock lows.

Mr. Smith noted that before June 2002, Nabors was registered in Delaware, and directors could meet on short notice. Nabors

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then became a Bermuda-registered company. Mr. Smith said that since then it has had most board meetings outside the U.S., with options awarded at meetings “scheduled long in advance.”

Mr. Isenberg has received compensation “beyond expectations,” Mr. Smith said, because of Nabors’s prosperity. The spokesman said Nabors is discussing a restructuring of Mr. Isenberg’s future pay arrangement. Meanwhile, he has voluntarily cut the bonus he’s entitled to in half. ❖