

Analysis: Using tech playbook, oil drillers shower employees with stock

By Ernest Scheyder (excerpt)
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NEW YORK, NY- U.S. energy exploration companies leading a domestic oil boom increasingly are using stock options to find and maintain employees, evoking comparisons to the dot-com bubble of the late 1990s.

Some compensation experts and investment analysts worry that employees of small- and medium-sized firms that are still searching for sizeable profits could be lulled by a false sense of financial security.

Options and stock awards can give cash-poor companies a powerful retention tool and foster employee loyalty, but they can also dilute earnings and employees often have to wait years to cash in options. Volatile oil and natural gas prices add an extra layer of risk - and potential reward. ...

...Roughly 88 percent of E&P engineers across the industry are eligible for some type of long-term incentive award, typically restricted stock or options, the Mercer study found. ...

...For companies scrambling to find and keep good employees, stock options are a key tool. ...

...Some 81 energy companies have launched initial public offerings since 2007 as investors steer funds to companies leading the American energy boom. That's 9 percent of all U.S. IPOs in that timeframe, according to Thomson Reuters data, and a 60 percent increase from 2000 to 2006. ...

GOOGLE OR ENRON?

Options give employees the ability to buy stock at a predetermined price. Restricted stock must be held for a period of time, typically four years in the energy industry.

David Kudla, an investment advisor at Mainstay Capital Management, advises employees to not let their company's stock become an outsized part of their portfolio, typically no more than 10 percent.

"If you rely on your company's stock or options, you really are putting all your eggs in one basket," he said...

...While the promise of riches for all echoes dot-com companies of the late 1990s boom, energy firms say their own rise is assured by global demand for their product, especially exports to emerging markets.

"This is a boom time for the energy industry because of technological innovation," said Kudla, the investment advisor, waving away comparisons to dot-bombs like now-defunct Pets.com.

"We're not talking about shipping 50 pounds of dog food ordered on the Internet," he said.