PSR Reviews

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100% Recycled Paper

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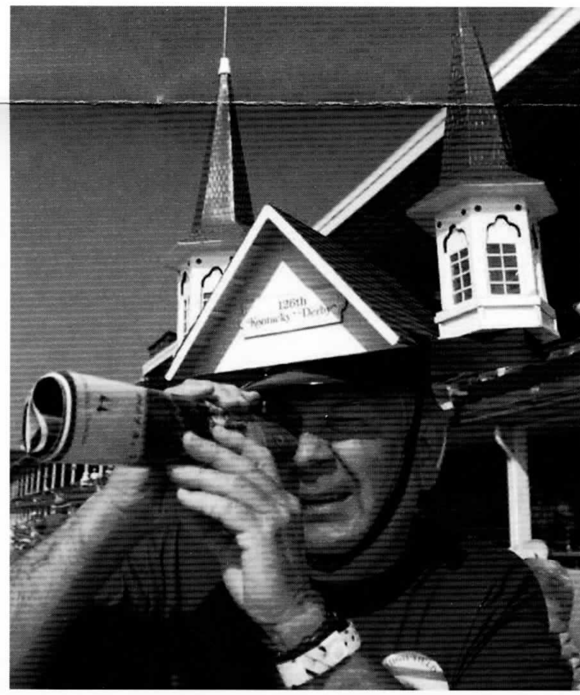
Bearish Market Causes Many To Lose "Cheap" Staff

Not too long ago it was easy for a start up company to wave visions of super wealth in the form of stock options. Many employees were willing to accept meager salaries, not just for the thrill of the hunt, but also for the promise of treasure, as it was assumed Wall Street would assign outrageous values. But Wall Street has sent a new message to the Dot Coms - options are worthless. The downturn in stocks has devalued untold millions in employee stock options, dissipating daydreams of expensive toys, bigger homes and early retirement.



Did you ever notice that web programmers are strange?

NASDQ, has fallen over 35% since its recent high on March 9, many individual dot-com stocks are off much more. e-Stamp, Fogdog, and Webvan, are off roughly 60%, 61% and 52%, respectively, in that time frame.

In addition, plenty of Internet companies that went public in 1999 so far this year are well below their IPO prices. Even in the best-performing sector, information technology services, 68% of the 1999 IPO class is trading below it's offering IPO price.

Analysts and recruiters say employees are starting to abandon public Internet companies. "The mobility of the Internet work force," warns a knowledgeable venture capitalist "is

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Inflation Rears Its Ugly Head As Demand For IT Professionals Increases

Average PSR Benchmark For All IT Professionals Is Almost $100,000

Over just the past six months, the mean salary level for all IT positions has been pushed to just under a hundred thousand dollars topping out at $97,534 in large enterprises and $99,728 in medium sized organizations. This figure includes all forms of compensation comprised of predictable items like bonuses and stock options and other fringe benefits such as special trips. Increases in total compensation have in part been caused by greater competition for IT talent, specifically by medium-sized organizations. However, inflation has taken hold in the economy and is reflected by ever-greater total compensation packages now being offered to new employees.

The PSR study is based upon responses given in extensive Internet polling as well as an analysis of survey data from across the United States and Canada. Over seventy technology positions are covered in the mid-year survey, including two newly added titles of E-Commerce Specialist and Internet Developer.

As skill shortages continue to exist, greater compensation is being paid by mid-sized organizations. As a result, there are bidding wars by companies vying for and attempting to keep key employees. Even large organizations that may have enough talent and are being forced to pay more.

The prospect of keeping IT professionals is affecting virtually every organization. One could

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IPO-Based Companies Face New Risks From A Major Brain Drain

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about to cut the other way." In two months, candidate flow has increased exponentially. People are suddenly returning calls and are willing to talk. One national recruiter told me his firm has doubled its candidate pool.

There are a number of ways that companies can react to this. In the case of Microsoft, they quickly offered new "additional" shares to their employees. From an operational side this will force Microsoft to "buy-back" some of its shares to cover this additional gift. This in essence gave its employee base a free ride by offering a dilution of earnings.

Even with the free ride Microsoft's stock dropped to under $60 per share. In addition there has been talk that if they are broken up, the parts will not be equal to the sum. Now that is not a very promising prospect.

Repricing and the FASB

Another way companies used to react was to "reprice" the employee options. However, a new rule from the Financial Accounting Standards Board makes it increasingly difficult for companies to use this technique.

In March, the FASB issued "FASB Interpretation No. 44 of the Accounting Practices Board Opinion 25." It said that any options repricing since Dec. 15, 1998, would be counted as an expense on the company's income statement starting July 1. That means that earnings-free companies burning cash will lurch even more uncertainty toward profitability. With this rule, a company that might have earned 20 cents in a quarter might earn just a penny. It's going to take longer for these companies to turn the corner to big earnings. What does this mean for Net stocks? Three things:

- First, repricing is out, so some employees will bail. Those who feel they can make more somewhere else will be gone like a shot. In addition as companies need new talent the "golden handcuffs" of restricted non-vested shares will no longer be there.

  In that case companies will have to pay the going rate or be faced with the possibility of not getting the new talent they need.

  Adding to this problem we are now in an environment where loyalty to a company by an employee is nonexistent. In order to keep "key" employees, the employer must be on top of every want and need.

- Second, those brave companies that have repriced, their stocks could be even more out of favor with the Street. If the Street feels there is too much dilution, it will find better investments.

  Already there are pricing trends that automatically "deflate" share prices as companies issue secondary offerings and stocks shares come off of restrictions.

  This also assumes the employee will want to stay. In the back of his/her mind is the question -- Is this a downward spiral?

- Third, the new accounting rules mean that companies will have to spend more to keep talent: They'll have to pay for repriced options, or pay higher salaries to keep their teams together. The cost of doing business has just gotten higher.

  Some companies will not make it because there will not be sufficient value in what they do and what they offer to investors. The operative word for all of these companies is "burn rate". How long can they go before they run out of cash.

Now the stock market seems to be poised for a summer rally. If this happens, does that mean this problem goes away? No it does not. The bell has rung and everyone now has the feeling that what goes up must come down. At the same time the probability of a company making it today is much lower than before.

There are a large number of these talented people who have been "burned" one time and they may not be as willing to be burned a second time. Only those companies that make a profit will prosper. That is where the talented skills will flock to.

Add to that the increased cost of IT talent and it is easy to see the road has become much harder for start up companies. There soon will be a seller's market for this key talent. Cash will be king

In summary, we feel the exodus will continue and even accelerate. Investors will be caught in the middle. They certainly don't want to see their equity interest in these companies diluted by repricing, but it's a double-edged sword; they don't want to see the underlying businesses diluted by a brain drain.

The bottom line is that the next few quarters will be more interesting than the last. Will there be a summer rally? Who knows when we will be out of the woods? Are we having fun now?

Inflation Rears Its Ugly Head As Demand For IT Professionals Increases

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make the case that the cost of keeping technology professionals happy can be viewed as a potential cause of inflation on its own.

PSR's study shows increases in overall compensation ranging from 10% to a whopping 85% depending on the position surveyed. VP's of Technical Services definitely have the hot job, garnering over an 86% increase, while CIO's should look to reshaping their resumes and experience as these positions received the lowest percentage increase of only 10.5%.

In general there has been an increase in demand for "individual contributors" who have cross discipline skills. Individuals who know how it was done yesterday and know how to do it with tools that are available today are the ones who have commanded the greatest increases.

We have not seen any demand for the Year 2000 skill set (COBOL / CICS). To get more details go to our web site **www.psrinc.com** and download the free summary Mid Year Study. The full study includes a brief job description for each position surveyed and can be purchased online for only $99.

Enterprise Size	Position	BenchMark	Pct Up
Medium	***VP - Information Services***	$196,665	14.63%
Large	***VP - Technical Services***	203,155	30.79%
Medium	***VP - Technical Services***	241,666	86.53%
Medium	***Director - Production/Data Center***	175,431	14.34%
Medium	***Manager - Computer Operations***	119,916	28.00%
Large	***Manager - Network Services***	150,198	16.96%
Medium	***Manager - Network Services***	134,587	19.89%
Medium	***Manager - Systems and Programming***	129,255	28.16%
Large	***Database Manager***	109,682	10.87%
Medium	***Database Manager***	135,896	53.68%
Medium	***Lead Customer Service Manager***	118,187	55.76%
Medium	***Project Manager - Applications***	138,868	41.23%
Large	***Project Manager - Distributed Systems***	105,306	14.15%
Medium	***Project Manager - Network Technical Services***	122,646	35.40%
Medium	***Supervisor - Network Services***	97,767	14.58%
Medium	***Change Control Analyst***	62,980	18.93%
Medium	***Data Center Facility Administrator***	64,155	10.98%
Large	***Database Specialist***	123,093	33.30%
Medium	***Database Specialist***	118,931	23.12%
Medium	***IS Planning Analyst***	82,668	13.00%
Large	***Programmer/Analyst***	91,142	16.64%
Medium	***Programmer/Analyst***	133,103	51.15%
Medium	***Software Engineer***	134,917	14.22%
Large	***Systems Analyst***	119,124	17.95%
Medium	***Technical Services Specialist***	69,866	15.56%
Large	***Web Analyst***	102,348	12.95%
Medium	***Web Analyst***	139,778	34.28%

Forecast for the National Information Technology Market

Will There Be A Hard Landing or Will New Productivity Improvements Make the Difference.

by M. Victor Janulaitis
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The last time that Greenspan tried to slow the economy with increased interest rates he caused the George Bush recession. He was only successful in making the "Economy" the reason that George Bush lost. Greenspan may now be working to do the same to the current administration.

Interest rates have now been moving up for the last year. At the same time demand for short term money has been decreased with a pay off of over $300 billion dollars of the national debt. That is a shrinking of the money supply.

This is the exact same thing that happened in 1930. The Feds reduced the money supply and increased interest rates. There is little contrast with what is happening today.

Congress does not want to increase spending so there is a lock on expansion. As the stock markets heave up and down and stocks are bought and sold, taxable income is increasing. Just the capital gains tax on stock market winnings is flooding the Treasury with more money than any tax increase in history. That does not even take into account the increased government revenue from "non-capital" gains.

State revenues are also increasing. The surpluses are so great in the state of California that there is even talk of a general tax refund. Assuming that does not happen, there will be less money to fund the expansion necessary to support our growth.

All of this points to a very strong potential for a "hard landing" of our boom economy.

As we look at this grim prospect, there is still a shortage of IT talent across the nation. A strong push is being made for more H1 visa's just as the first batch of H1 visa workers MUST leave the country.

What I have painted is a grim picture. Will all those bad things happen. No, I do not think so. As our economy begins to slow down the one real competitive advantage we have as a nation will show itself again.

Over the last few years we have created a society that does not need a large labor force to do a lot of the things that a typical business enterprise requires. At the same time the infrastructure to support these tools is almost in place in most of the major cities across the country. For example, high speed access via DSL is now common place in New York, Los Angels, Chicago, Dallas and even Salt Lake City. Companies like e-trade are even giving it away for free to its key customers.

High speed access to the Internet for the common man, along with the Palm Pilots, CE devices, over the air Internet access and new cell phones that will link all of these technologies make the difference.

As a society we can no longer be "controlled" by the Feds. There is a new currency in town and it does not take well to regulation. Just look at the impact of the Microsoft lawsuit on the Dow Jones -- over 200 points down due to it alone.

That single event has impacted more retirement programs than anything that Greenspan could do.

What could bring us down to a hard landing is one more instance of meddling by the government. There has already been talk of doing the same thing to Cisco Systems that has been done to Microsoft.

What a mistake that would be.

Vic

Location	Prospects Short Term	Prospects Long Term
Northeast	Excellent	Good
Mid Atlantic	Good	Good
Southeast	Good	Fair
South	Good	Fair
Midwest	Excellent	Excellent
Southwest	Good	Good
West	Good	Good
Pacific Northwest	Excellent	Good

Best Location	Northeast	Midwest

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