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### **Tech Lobby Fails to Derail Move to Expense Options**

U.S. accounting rule-makers rebuffed the technology industry Wednesday when they moved closer toward requiring companies to subtract the cost of stock options from corporate profits.

Renewing a political battle that Silicon Valley lobbyists thought they had won years ago, the Financial Accounting Standards Board brushed aside two of the tech industry's main arguments. First, the board refused to waver in its stance that options are a corporate expense. Second, it dismissed warnings that companies will dole out fewer options to rank-and-file workers if options must be reported as expenses.

"It's a turning point," said Robert E. Litan, the director of economic studies at the Brookings Institution. "The FASB is like an oil tanker. . . . It is moving slowly and inexorably toward some form of expensing."

Options give employees the right to buy stock at a set price, typically for up to 10 years. Across Silicon Valley, employees from the executive suite to the loading dock pocketed millions of dollars by cashing in options during the tech boom. Forcing companies to report options as an expense would claw into -- or even erase -- profits at many Silicon Valley companies.

The FASB voted 7-0 Wednesday to address whether to require companies to report option as expenses in their profit-and-loss statements; currently companies may choose to estimate those costs only in footnotes of financial reports. The FASB's project also would home in on the vexing issue of how to estimate that price tag in the first place.

The board hopes to complete its project by year's end and implement any rules in 2004, a timetable designed to keep the FASB on the same pace as the International Accounting Standards Board, which is writing similar global accounting rules.

Citing "daily love notes" from investors who demand that options be reported as an expense, FASB Chairman Robert Herz said urgent action was necessary to restore public confidence in the stock markets.

"I think we need to put the pedal to the metal and see if we can do it . . . so it can be effective for next year," Herz said. "I'm asking for doing the right thing, but doing it quickly."

Just as the high-tech industry fought a similar proposal in the early 1990s, industry leaders have engaged in an intense lobbying campaign to fend off accounting rule changes. Last week, Silicon Valley heavyweights -- including Netscape founder Jim Barksdale and venture capitalists Floyd Kvamme and John Doerr -- led a lobbying blitz in Washington to rouse political allies to the cause.

But because the tech industry is wobbling economically and stock options are now linked in the public's mind with executive excess and corporate scandal, it's unclear that the tech industry can ward off accounting rule-makers yet again.

The industry has some allies that oppose the board plan. On Monday, 15 U.S. senators chastised the FASB for a deliberation process that's "basically flawed" because the agency has ignored "the threshold question" of whether options should be reported as a cost at all. The senators added that forcing companies to report the cost of options could "eviscerate" plans that share company stock with rank-and-file workers.

Among the co-signers were Sen. Barbara Boxer, D-Calif., and Sen. Joseph Lieberman, the Connecticut Democrat who led the effort to strip the FASB of its powers and forced it to back down on expensing in 1995.

Board members were not swayed by such arguments Wednesday, however. They did not even recognize the question of whether options should be reported as a cost. And the board's unanimous vote underscored that its goal is to examine nuts-and-bolts issues such as how to measure the cost of options, not whether options are socially desirable.

"It's not an issue of good or evil," said board member Neel Foster.

Some tech lobbyists had worried Wednesday's outcome could have been worse. The board considered a harsher plan -- which high-tech lobbyist Mark Nebergall called a "doomsday scenario" -- that would have eliminated the current right of companies to disclose the cost of their options in footnotes rather than in the profit-and-loss statement. Instead, the board left open the footnote-reporting alternative.

As such, Nebergall remained optimistic that course of the FASB's project still can be redirected. "The train is on the track, but there's still a crew out ahead laying track," said Nebergall, president of the Software Finance and Tax Executives Council in Washington. "The end of the track hasn't been laid yet."

The Brookings Institution's Litan, an advocate of expensing, downplayed such hopefulness, however. "It's just a stay of execution," said Litan, who co-wrote the just-released book, "Following the Money: The State of Corporate Disclosure After Enron." Still, he added, "This gives them another year, and a lot can happen in a year."