

# Tech Firms' Options Fight Loses Steam

Microsoft Move May Doom Attack on Rule

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Three months ago, the high-tech lobby was pumped. It had signed on big industry players such as Intel Corp. and Sun Microsystems Inc. to help fight new accounting rules for stock options.

Sympathetic legislators with heavy concentrations of technology firms in their districts and states introduced legislation aimed at heading off rules requiring companies to count options as an expense against earnings.

But the legislative effort quickly stalled in the post-Enron environment with its widespread calls for accounting reforms. Then, on Tuesday, Microsoft Corp. dealt the political effort another crushing blow. The influential technology company announced it will no longer offer stock options and will count options issued earlier as expenses in its financial statements.

Yesterday, lawmakers and technology companies attempted to regroup, but some lobbyists on both sides and others following the debate said those efforts were probably futile.

"It's dead," said Patrick S. McGurn, special counsel for the Institutional Shareholders Services Inc., a Maryland firm that provides proxy research and corporate governance services. "I can't see anything changing."

The Financial Accounting Standards Board (FASB), the private group that writes U.S. accounting rules, is considering whether to require companies to treat stock options as expenses, a possible change prompted by the recent corporate accounting scandals. Options give employees the right to buy a company's shares at a predetermined price during a specified period. If the market price of the shares rises above that option price, the employee could sell the shares for a profit.

Current rules do not require companies to count options as expenses, only that they disclose -- in the footnotes to financial statements -- what earnings would have been had options been an expense item. Microsoft said earnings in its last fiscal year would have been reduced about 32 percent if it had to expense options.

Supporters of requiring companies to treat options as expenses say the change would provide a more accurate picture of a company's financial position. Opponents of expensing argue that it is impossible to value options, making the financial statements of firms that do so no more accurate than if options had not been counted against the bottom line.

The technology industry has been pushing Congress to block FASB from creating an expensing requirement. The firms have already had one success in doing so: In 1993, FASB backed down after some lawmakers threatened to strip the board of its powers.

Some members of Congress -- those with large technology constituencies -- have rallied around the latest effort. "It's one of the most valuable tools for start-ups and smaller ventures," said Rep. Anna G. Eshoo (D-Calif.). "What has absolutely been disturbing to me is the FASB doesn't and won't take into account the economic impact."

Eshoo co-sponsored legislation with Rep. David Dreier (R-Calif.) that would prohibit the Securities and Exchange Commission from enforcing a new expensing rule until it has studied the issue for three years. Sens. John Ensign (R-Nev.) and Barbara Boxer (D-Calif.) introduced a similar bill in the Senate.

But neither bill has been scheduled for committee votes. Lobbyists and aides close to the Financial Services Committee said its chairman, Rep. Michael G. Oxley (R-Ohio), has no plans to take up the bill. Sen. Richard C. Shelby (R-Ala.), chairman of the Senate Banking Committee, said he does not either. "I'd be concerned about legislation to intervene or interfere with the direction of what FASB would do," he said.

Sponsors could try to get around the committees by getting the restriction attached to other legislation. But congressional aides said that tactic would be a long shot. Lobbyists said they could also shift their focus to trying to influence FASB itself, although the board has already decided that, in principle, options are expenses.

Many people in corporate America, meanwhile, are moving ahead on the assumption that the political effort to stop the rule change will fail. An official at German automaker DaimlerChrysler AG, which employs 365,000 people worldwide, was quoted yesterday in a German newspaper, *Allgemeine Zeitung*, as saying the company was considering dropping employee stock options. "We are reviewing it, but no decision has been made," said Trevor Hale, a DaimlerChrysler spokesman in New York.

Richard L. Trumka, the AFL-CIO's secretary-treasurer, urged AOL Time Warner Inc. to "follow Microsoft's example and reform [its] executive compensation practices."

In a letter sent yesterday to Richards D. Parsons, AOL Time Warner's chairman and chief executive, Trumka said the accounting scandals at Enron and WorldCom Inc. had highlighted the role of stock options in creating what he called "a powerful incentive for executives to manipulate earnings or engage in accounting fraud."

Several compensation consultants said yesterday that they had been retained to work with companies to find ways to minimize the role of stock options in their employee incentive packages, focusing instead on giving workers and executives stock in ways they hope will enhance long-term corporate performance.

"Options dominated the landscape in the 1990s, as everyone knows," said Mark Killian, a Norwalk, Conn.-based senior consultant and executive compensation practice leader at the Hay Group. "We're going to see a big pull-back from that."

Killian said most companies are not dropping stock options outright, as Microsoft did, but are changing the makeup of their stock compensation programs to give workers stock when they meet certain performance goals.

"We had this obsession with options largely because they were free from an accounting perspective," said compensation consultant Alan Johnson, managing director of Johnson Associates, a compensation consulting group based in New York City.

Now companies and employees view stock options differently, he said. "Stock options have always been a lottery ticket, and to have a huge percentage of your pay based on the lottery doesn't make any sense."