

Congress of the United States
House of Representatives
Washington, DC 20515-0514

**Testimony before the Financial Services Subcommittee on
Capital Markets, Insurance, and Government Sponsored Enterprises**
“The Accounting Treatment of Employee Stock Options”

June 3, 2003

Thank you Chairmen Baker and Oxley and Ranking Members Frank and Kanjorski for inviting me to testify before you and my colleagues on the issue of expensing stock options.

The term stock options and what people instantly think of when the term is stated has become sullied.

Stock options have become associated with corporate scandals and excessive executive compensation and I believe these events have led to a call for expensing, leading many to believe this is the ultimate prescription for what is ailing us.

Congress responded by closing loopholes that were used by the Enron's and their ilk and passed the Sarbanes/Oxley bill passed in the last Congress.

What expensing stock options will not do.

Expensing stock options will not reign in excessive executive compensation in corporate America.

It is relatively easy for companies like GE and Coca-Cola to expense stock options – they provide stock options only to a small number of senior executives and managers.

Companies in my district, mostly in the high technology and biotechnology sectors, use stock options very differently than the companies that became poster children for corporate fraud.

Rather than handing out options only to senior executives, New Economy companies offer them broadly, turning their entire employee base into corporate partners who have a stake in the future success of their company.

Recent research indicates that at the top 100 technology companies, 80% of the stock options granted were given to rank and file employees, not senior executives. In the last decade over 10 million employees have received stock options.

Yet, who loses if stock options are required to be expensed? Not senior executives, who will be compensated in one way or another. These rank and file employees would be the ones who lose out on this benefit.

Why? Because, faced with the prospect of taking a huge charge against their bottom line in accounting statements, most companies would drop broad-based option plans – eliminating this benefit to all but senior executives.

Protecting broad-based stock options does benefit rank-and-file workers.

Broad-based stock option plans have turned employees into corporate partners by tying the interest of the employee together with the company and its shareholders.

Small, entrepreneurial companies with little or no capital use stock options to attract and retain bright and talented employees critical to that company's success.

We have one of those bright and talented employees with us today...Debbie Nightingale of Sun Microsystems, who you will hear from in a moment, who in addition to working at Sun serves part-time as a Lieutenant Colonel in the Army Reserves.

Ms. Nightingale represents thousands of employees in Silicon Valley who join with her in calling for the preservation of broad-based stock option plans.

I've received hundreds of statements from Debbie's colleagues that describe how important stock options are to them. I've selected a few of those statements that, with your permission Mr. Chairman, I'd like to add to the record.

In each of these statements you'll find the eloquent story of an American rank-and-file employee who has been rewarded for their hard work and dedication to their company with stock options.

These employees used their options to purchase their first homes, send their kids to college, finance their retirements, donate to and sometimes begin charities – contributing to our economy every step of the way.

Congress' does have a critical role in protecting our economic vitality

Unfortunately FASB has indicated it will only focus on accounting standards and not economic factors when it rules whether to require stock option expensing.

While I agree that accounting standards are best left to FASB, promoting job growth and economic viability is a responsibility of the Congress.

And while FASB says it won't look at the economic impact its decision will have, we have the responsibility to look at these factors and ensure that our national policies foster economic growth.

Investors and shareholder access to information on how companies use stock options can and should be bolstered without throwing the baby out with the bathwater, as expensing would accomplish.

The legislation I've introduced with Chairman Dreier strikes an appropriate balance by requiring companies who offer stock options to disclose additional information to every shareholder and potential investor.

- Our bill requires includes plain-English descriptions of share value dilution,
- expanded and more prominent disclosure of stock option-related information,
- and a summary of stock options granted to the five most highly compensated officers.

The bill also directs the SEC to monitor the effectiveness for investors of the enhanced disclosure requirements and report its findings back to this Committee.

And during that time frame, the SEC would be prohibited from recognizing as a generally accepted accounting principle any new accounting standard on stock options.

Our legislation does not set accounting standards.

Some have criticized this provision as a mandate on FASB - nothing in our bill requires Congress to get into the standard-setting business.

The legislation directs the SEC to exert its appropriate role in maintaining the integrity of our markets and to ensure that our economic policies foster growth.

Forcing companies to expense options at some arbitrary value, as FASB's decision is likely to require, would be misleading to both investors and shareholders.

Our legislation provides greater transparency about the use of stock options without unfairly penalizing the innovative employees building America's high technology future.

Thank you once again for the opportunity to testify before you.