

## Stock Options Said Not to Be as Widespread as Backers Say

By David Leonhardt  
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Campaigning against legislation that would force companies to account for the cost of stock options, corporate executives, lobbyists and sympathetic lawmakers have proclaimed options to be a pillar of the middle class.

In reality, however, the defenders appear to have greatly exaggerated the spread of options. The overwhelming number of stock options go to top executives, who are the primary ones likely to be affected by any legislation, according to researchers, including those whose work corporate lobbyists have cited.

In defending stock options, some supporters have contended that as many as 10 million Americans received them last year, often citing the National Center for Employee Ownership, a nonprofit group based in Oakland, Calif. But the center's executive director, in an interview this week, said that his organization believes that only about three million people actually received options in 2001. A recent government study suggested the number could be even lower.

Moreover, even among the lower-level employees receiving stock options, many have only a few hundred, according to surveys and company documents. Top executives typically receive tens or hundreds of thousands of options.

"We talk about deceptive accounting practices," said Senator Carl Levin, Democrat of Michigan, in an interview yesterday. "These are deceptive numbers."

On Monday, the Senate blocked two amendments — one from Senator Levin — that could have required companies to deduct the estimated cost of stock options from their reported profits. Currently, accounting rules consider most options to be free as far as the bottom line is concerned.

"More than six million nonexecutive workers in America receive stock options every year," Senator Phil Gramm, Republican of Texas, said in opposing the amendments during the Senate debate Monday. "We want to be sure that we are not endangering their ability to own a piece of America."

Changing the accounting rule governing options, which analysts say could cut the reported profits of large companies on average by 10 percent or more, has gained some political support since the collapse of Enron/>, Global Crossing and [WorldCom](#) in rapid succession. At those companies, executives made millions of dollars selling stock before acknowledging that they had overstated earnings and revenue.

(A typical stock option gives its holder the right to buy a share of a stock in the future at a fixed price, often the market price at the time the option was issued.)

Supporters of a rule change, including Alan Greenspan, the chairman of the Federal Reserve, say it would create more accurate financial statements. Accounting regulators generally support a change and are considering imposing one if Congress does not.

**Defenders of options say that there is no reliable way to value them accurately. In speeches, newspaper articles and discussions with members of Congress, the defenders also insist that any change would hurt hourly workers more than executives.**

"Companies are going to find a way to compensate their high-level executives they need to run their companies regardless of what happens with accounting rules," said Kim Marie Boylan, a lawyer at Mayer, Brown, Rowe & Maw in Washington, who has lobbied against the bill. "But if it gets too complicated and too burdensome, the companies just won't give stock options to rank-and-file employees anymore."

The claims have helped shape the debate about stock options.

**"A lot of average people are getting a lot of stock options," Senator Joseph I. Lieberman, Democrat of Connecticut and a longtime opponent of any accounting change, said last week. The options, he said, allow people to "buy a house and send their kids to college."**

But the two statistics cited most often by those who want to leave options alone are badly inflated, according to the organizations cited as the sources for the data. Other numbers — like how many workers are eligible for options — say little about who actually receives them, researchers said.

Frederick W. Smith, the chief executive of the [FedEx Corporation](#), and John Doerr, one of the nation's best-known venture capitalists, made the claims about the broad allocation of options in an Op-Ed article in The New York Times in April. Anna G. Eshoo, a Democrat who represents Silicon Valley in the House of Representatives, repeated them in The San Francisco Chronicle this month. Lobbying groups like the American Benefits Council and TechNet, whose members include some of the nation's biggest companies, have flooded Capitol Hill with press releases mentioning the numbers.

But the actual numbers do not support those contentions, researchers say.

**The National Center for Employee Ownership, for example, estimates that 7 million to 10 million Americans hold options but that fewer people actually receive them each year. A study by the Department of Labor found that about two million people received options in 1999.**

Of the oft-repeated 10 million number, the executive director of the center, Corey Rosen — while opposing many proposals to require companies to account for their options as an expense — said simply, "That's not true."

Angela de Rocha, a spokeswoman for Senator Gramm, said that many workers receive stock options, even if the number he used was incorrect. A spokeswoman for Mr. Smith of FedEx referred questions to Mr. Doerr, who did not return calls and e-mail messages.

According to the second contention that proponents of options often make, about half the companies that award options give them to all of their employees.

The 2000 survey they cite as the source actually found that 44 percent of companies that grant options give them to all employee groups — not to all employees. Many companies, including FedEx, give options to a small portion of lower-level workers as a reward for outstanding work. These companies would qualify as a company that grants options to all employee groups.

**"Companies are much more discriminating at the lower levels of the organization in terms of who actually gets options," said a project manager at Buck Consultants, which conducted the 2000 survey.**

Roger McArt, a senior consultant at Buck, confirmed that the study's findings had been exaggerated.

Barbara Feinstein, a spokeswoman for Representative Eshoo, said that her claim about the study was based on an incorrect sentence in it.

FedEx's stock option program is far closer to typical than the picture that Mr. Smith has painted.

Every year or two, FedEx grants options to its executives, a group of fewer than 1,000 people. It also grants options to about 1,800 managers, though the people in this group can change from year to year. In 2001, management began choosing about 500 employees from the company's remaining 200,000 and gave each a few hundred options to recognize the work they had done.

Mr. Smith received 300,000 options in FedEx's most recent fiscal year.

For most employees, however, options are not part of compensation.

"I have never heard of anyone among my fellow workers at FedEx talk about stock options — owning them, wanting them, never," said a technical analyst who makes \$50,000 to \$75,000 a year and who spoke on condition of anonymity.

Elsewhere, the distribution of options is even more heavily weighted toward top executives. At some companies, including the [MBNA Corporation](#), the nation's largest credit card issuer, and the [Gillette Company](#), the chief executives alone received more than 10 percent of all their company's options last year.

**Even at companies that give stock options to all employees, the awards are often meant to change people's attitudes about work, rather than to be a big chunk of somebody's pay.**

"We give a very minimal number" of options to most employees, said Archie W. Dunham, chief executive of [Conoco Inc.](#), the oil company, which has given options to all of its 20,000 employees at some point over the last few years. "The theory is that they are now interested in the stock price."

To be sure, stock options have become more widespread in the last decade. Last year, 22 percent of big companies made "broad based" grants, according to William M. Mercer, a consulting firm. That is up from 6 percent in 1993, although the category does not have a specific definition.

"More companies are indeed trying to distribute options more widely," said Senator Peter Fitzgerald, an Illinois Republican, who favors the expensing of stock options, "but they're doing it mainly as a cover so senior executives can continue to gorge themselves.

"A janitor may get 10 options on the anniversary of his or her employment," he added, "while the senior executives get several hundreds of thousands each year."