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Westly Opposes Proposed Accounting Standards

Expensing Employee Stock Options Threatens Job Growth

Sacramento, CA – State Controller Steve Westly today sent a letter to the Financial Accounting Standards Board (FASB) opposing its proposed rule to require expensing of employee stock options on corporate income statements.

“The FASB proposal threatens the vitality of California’s economy,” Westly said. “Broad-based stock option plans play a key role in the formation and growth of the innovative companies that fuel California’s economic engine.”

Westly has expressed support for an alternative to FASB’s proposal, contained in federal legislation co-sponsored by Rep. Anna Eshoo (H.R. 3574). The legislation would require stock option expensing for a company’s top executives while protecting the broad-based stock options plans that reward rank-and-file workers.

Text of the letter follows.

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STEVE WESTLY
California State Controller

June 30, 2004

Ms. Suzanne Q. Bielstein
Director of Major Projects
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Ms. Bielstein:

Re: Expensing of Employee Stock Options – File Reference No. 1102-100

As California's Chief Financial Officer and board member of the California Public Employees' Retirement System and California State Teachers' Retirement System, I write to oppose the Financial Accounting Standards Board ("FASB") proposal to require expensing of employee stock options.

The FASB proposal would mandate the expensing of employee stock options on income statements – a requirement that would threaten the vitality of California's economy. Broad-based stock option plans play a key role in the formation and growth of the innovative companies that fuel California's economic engine.

I strongly support thoughtful regulatory measures that promote accountability and transparency to investors, especially in the wake of recent corporate scandals where executives received excessive compensation. However, I believe that we should focus regulations on the top corporate executives where we have seen egregious pay problems, and not on incentives provided to rank-and-file workers.

Many start-up companies, especially in innovation-based sectors like information technology and biotechnology, offer broad-based stock options programs. Giving workers an ownership stake in their companies aligns incentives for all employees, from entry-level staff all the way up to the CEO. In addition, stock options have proven an excellent tool for start-up businesses to recruit and retain talented workers and allow them to compete with larger companies.

I am gravely concerned that the FASB proposal would force many California companies to curtail, or even eliminate, the broad-based stock options programs. To move forward with this proposal would impair California's most innovative companies from leading the nation toward more productivity, jobs and economic growth.

Unlike most elected officials, I have served as a senior executive of a number of technology companies, including eBay. There is no way that eBay or any other similar company could have attracted the talent necessary to succeed if they had been required to fully expense options. Part of my job as State Controller is to make certain that the next generation of successful technology companies is headquartered in the United States and not offshore. There is no way to ensure this if the FASB requires companies to fully expense stock options.

I respectfully urge the FASB to reconsider its approach and instead focus on regulations that would mandate expensing for a company's top executives. Thank you for your time and consideration.

Sincerely,

Original signed by:

STEVE WESTLY
California State Controller