

American Shareholders Association

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ASA RATINGS ALERT: H.R. 3574 Stock Option Accounting Reform Act

American Shareholders Association (ASA) fully supports the Stock Option Accounting Reform Act, which will be voted on Tuesday, July 20. A vote for H.R. 3574 is a vote for shareholders.

H.R. 3574 requires companies to report as an expense stock options granted to the CEO and the next four highest paid employees – small businesses would be exempt from expensing options, and newly public companies can delay expensing in the first three years.

This legislation preserves broad based employee stock ownership plans, which ASA considers to be vital. The issuance of stock options to employees aligns the interest of corporate management with shareholders. The refocusing of management on company share prices improves shareholder value – and as a result studies demonstrate that companies with broad-based stock options plans boost a company's productivity and shareholder value compared to non-employee owned companies.

Mandatory expensing of stock options is a thinly veiled agenda to eliminate stock options altogether and thus will remove the incentives for employees' to focus on shareholder value, which in turn reduces productivity and the company's value for shareholders. H.R. 3574 ensures this does occurrence does not take place. Given the importance of this legislation to shareholders and the US economy, ASA will rate this vote in our annual congressional ratings.

ASA WILL RATE H.R. 3574

The American Shareholders Association is a non-partisan, not-for-profit organization dedicated to analyzing legislation affecting shareholders. To educate U.S. investors, ASA reports the public positions of elected representatives on these issues to its members. For more information please contact Daniel Clifton at (202) 549-7803 or by email at dclifton@americanshareholders.com



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What Best Buy Teaches About Stock Options

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Tech Central Station

<http://www.techcentralstation.org/062804F.html>

Last month, Best Buy Co. Inc. CEO Brad Anderson declined 200,000 stock options worth \$7.5 million and instead awarded the options to non-executive employees who are helping the company thrive in the face of heavy competition. This bold decision by Mr. Anderson underscores the importance of stock options to companies, employees, shareholders, and the U.S. economy at a time when the Financial Standards Accounting Board (FASB) is seeking to end the use of stock options.

FASB has waged a war on stock options by seeking to require all companies to place a hypothetical future value on employee stock options. Although there is absolutely no way to determine the value of the options and wide disagreement exists on the issue, FASB is set to make the rule final. The rule, guised as a reform designed to help individual investors, will have the likely effect of ending the use of such options.

The facts, however, show ending stock options will hurt individual shareholders more than benefit them; and Mr. Anderson's action last month demonstrates why.

Best Buy, which is the nation's largest electronics retailer, is under heavy competitive pressures from non-traditional electronics retailers such as Wal-Mart, eBay, Dell others. To preempt the competitive challenge and ensure the company remains profitable for shareholders, the company has revamped its marketing strategy, authorized \$50 million to redesign its stores, and has developed a strategy to retain its best workers.

The decision to redirect 200,000 options to employees helps to retain the best employees and aligns their interests with company shareholders. According to company documents, Best Buy first launched the program in August 2003 as "a new long-term incentive program for approximately 2,300 U.S. employees designed to help us attract and retain the best employees and to better align employee interests with those of our shareholders."

Empirical evidence backs up Best Buy's justification for the program: Companies with broad-based stock option plans boost a company's productivity compared to non-employee-owned companies, which in turn, boosts shareholder value on average by 2 percent.

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Due to recent changes in public policy many companies have already moved to issuing restricted stock dividends for employees due to the significant reduction on the double tax on dividends signed into law by President Bush last year. However, the companies using dividends are already established major companies, while new start ups and growing companies depend on options.

The FASB rule is a one size fits all policy that treats the newest technology start up, the growing retail electronics store, and large Fortune 100 companies the same. These companies are clearly different in their means to raise capital and recruit employees.

Best Buy's announcement last week demonstrated a "one size fits all requirement" on American companies is imprudent. The use of options allows Best Buy to meet growing competition entering the industry. If the FASB rule was already in place, that flexibility would have been lost.

It is time for Congress and the Bush Administration to step in and block FASB's overbearing power grab. The benefits of stock options are undeniable, and Best Buy's actions symbolize the considerable opportunity cost that will be placed on the American economy, shareholders, and workers if FASB's rule becomes implemented.

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