



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

## MEMORANDUM

To: Reporters and Editors  
Re: Backdating of stock options  
Da: Tuesday, June 13, 2006

There have been a number of recent stories in the newspapers, especially The Wall Street Journal, about corporate executives backdating their stock options. Essentially, the reports say, the executives are waiting until after the fact to pick a date for their stock options, then picking the low point of the stock during the year to maximize their profit. The tax code governs certain aspects of executive compensation and imposes a tax unless the pay (over \$1 million) is performance-based compensation. In response to the tax, there has been a big upswing in stock options to compensate corporate executives. Sen. Chuck Grassley, chairman of the Committee on Finance, today convened a hearing to explore various compliance concerns in the corporate tax arena and asked the Justice Department's witness to explain the agency's investigation of the backdating of stock options. Grassley made the following comment on the issue.

“It’s one thing for an executive to make big profits because he’s improved his company, but it’s a whole different thing to make big profits because he’s playing fast and loose with the dating of stock options. Outside the corporate suite, Americans don’t get to pick and choose their dream stock price. The market dictates the price. It’s bothersome to think that after the corporate scandals of recent years, some executives are still looking for ways to cook the books for personal gain. It’s also troubling that boards of directors are apparently approving these deals without shareholder approval. I hope the Justice Department and the Securities and Exchange Commission are taking a hard look at this practice. I’ve asked the Justice Department to let me know whether the tax laws on the books are adequate to rein in and prosecute stock option backdating. If the tax laws are inadequate, I want to beef them up. I was glad Justice officials made it clear today in response to my questions that executives can face possible prison time for backdating stock options. I expect the Justice Department to fully enforce the law in all of these areas.”