

Few companies seek SEC help with options investigations

JOHN GITTELSOHN. **Orange County Register**. Santa Ana, Calif.: Sep 23, 2006. pg. 1


Copyright Orange County Register Sep 23, 2006

At least seven in Orange County have delayed financial reports.

IRVINE More than 100 companies face stock option investigations by the Securities and Exchange Commission, but few have asked the commission for guidance about resolving their problems, a top SEC official said Friday.

"So far, I can count the number of companies on one hand that we've heard from," Carol Stacey, chief accountant in the SEC's division of finance, said at a conference organized by the Center for Corporate Reporting and Governance at Cal State Fullerton.

As the regulator and rule maker for public companies, the SEC's accounting arm is the ultimate authority of right and wrong. Stacey said companies need to resolve problems or face delisting by the stock exchanges.

At least seven Orange County companies have delayed financial reports after disclosing SEC probes of their option awards: Broadcom, Ceradyne, Corinthian Colleges, Meade Instruments, uest Software, Valeant, and  Western Digital.

This week, William Ruehle quit as chief financial officer of Broadcom, two weeks after the Irvine chip maker said its stock options investigation will require an earnings restatement of at least \$1.5 billion.

On Friday, Broadcom spokesman William Blanning said the company is working with "outside counsel and auditors" to complete its probe, but he did not name the SEC.

Companies offer stock options at the market price on a specified date as a form of long-term compensation to executives and employees. The options become valuable if the stock rises.

The practice came under scrutiny this year after academic analysts found patterns of issuing the options at a favorable date, such as before a public announcement drove up a stock's value, or by backdating the price before a stock climbed.

Concerns were raised about executive self-dealing or insider trading, prompting dozens of shareholder lawsuits and indictments of former executives at two companies.

Not every company broke the rules, Stacey said, but certain behaviors clearly violated accounting principles.

"If you have a pattern of conduct that indicates you have changed the terms (of option awards), then all bets are off," she said.