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Stock Options

A stock option is an option to buy or sell a specific quantity of stock at a designated price for a specified period regardless of shifts in market value during the period.¹ It is a contractual arrangement between a company and an employee, where the recipient is offered the opportunity to purchase company stock at a specified, pre-determined price for a specified period of time. The optionee is under no obligation to purchase the stock being offered by the company; the option is available to the individual to be used as an additional form of compensation.

Upon employment, many corporations offer top executives a compensation package that may include stock options. If stock options are included, the day on which the options are granted to the employee is considered the grant date. Therefore, the grant or exercise price of any stock option is the current market price of the company stock on that particular day. The individual is able to exercise their stock options at any time during their employment, as long as their rights to exercise have not vested, or expired. This right expires after a specified period of time, either all at once or in increments. Thus, if the current market price for a particular company's share of stock is \$17.50 and an employee decides to exercise their options, at which their grant price was \$15.30, then a profit of \$2.20 is obtained for each share of stock from the transaction.

Generally, an option is subject to a contractual provision under which the granting company has the right (but not the obligation) to repurchase or reacquire the option from the optionee upon the occurrence of a specified event, such as termination of employment.²

History of Stock Options

1. *In 1972*, the Accounting Principles Board (APB) issued Opinion 25, *Accounting for Stock Issued to Employees*. It was the first source on how to account for stock options. APB Opinion 25 stated that stock options were to be valued using the intrinsic value method and to be reported under compensation expense on the income statement.

The intrinsic value is equal to the quoted market price of the stock minus the option exercise price, otherwise known as the grant price. The calculation is as follows:

Intrinsic value = quoted market price – option exercise price (grant price)

¹ Black Law's Dictionary, pg 1459

² SEC website <http://www.sec.gov/investor/pubs/execomp0803.htm#stockoptions>

Compensation expense was determined as the excess of the stock price at the measurement date (generally, the grant date) over the option exercise price. Because most stock options had exercise prices at least equal to current market prices, no compensation expense was recognized.³ In doing so, compensation expense was not being accurately calculated, therefore, falsifying company financial statements.

2. In 1995, the Financial Accounting Standards Board (FASB) issued SFAS 123, Accounting for Stock-Based Compensation. It encouraged, but not required, all entities to use the fair value method of accounting in determining compensation expense, using either the Black-Scholes or binomial model.
 1. The ***Black-Scholes model*** is a mathematical formula used for valuing employee stock options. It considers such factors as the volatility of returns on the underlying securities, the risk-free interest rate, the expected dividend rate, the relationship of the option price to the price of the underlying securities and the expected option life.⁴

The price of a call on a stock currently trading at price S , where the option has an exercise price of K , i.e. the right to buy a share at price K , at T years in the future. The constant interest rate is r and the constant stock volatility is σ .

$$C(S, T) = SN(d_1) - Ke^{-rT}N(d_2)$$

where

$$d_1 = \frac{\ln(S/K) + (r + \sigma^2/2)T}{\sigma\sqrt{T}}$$

$$d_2 = d_1 - \sigma\sqrt{T}.$$

Here N is the standard normal cumulative distribution function⁵.

The above calculation is normally computed using options pricing software or an options pricing calculator. There are numerous websites that provide free options pricing spreadsheets/calculators for individuals including: www.optiontradingtips.com; www.financialhub.info; and www.option-price.com. There are also a number of software programs that can be purchased for stock price calculations and/or tracking including: Premia8 software

³ The CPA Journal "Accounting for Stock Options"
<http://www.nyscpa.org/cpajournal/2005/805/essentials/p30.htm>

⁴ SEC website <http://www.sec.gov/investor/pubs/excomp0803.htm#stockoptions>

⁵ Wikipedia website http://en.wikipedia.org/wiki/Black-Scholes#The_formula

(<http://www-rocq.inria.fr/mathfi/Premia/index.html>); and
Computershare X-treme software sold by Computershare Ltd.

2. The *binomial model* uses a "discrete-time framework" to trace the evolution of the option's key underlying variable via a binomial lattice (tree), for a given number of time steps between valuation date and option expiration.

Each node in the lattice, represents a possible price of the underlying, at a particular point in time. This price evolution forms the basis for the option valuation.

The valuation process is iterative, starting at each final node, and then working backwards through the tree to the first node (valuation date), where the calculated result is the value of the option.⁶(http://en.wikipedia.org/wiki/Binomial_options_model#The_binomial_price_tree)

This calculation is also computed using calculators or software designed for such formula calculations.

Option valuation using this method is, as described, a three step process:

1. price tree generation
2. calculation of option value at each final node
3. progressive calculation of option value at each earlier node; the value at the first node is the value of the option

If the intrinsic value method is chosen in valuation of compensation expense, then pro forma net income and earnings per share are to be disclosed in the notes to the financial statements.

3. *In 2004*, FASB revised SFAS 123 and re-named it to Share-Based Payment.

The Enron scandal and the many other surrounding financial probes that arose in recent years, prompted FASB to re-think its accounting for stock option compensation expense on financial statements. As a result, FASB revised and re-issued SFAS 123.

⁶ See Appendix I for example or
http://en.wikipedia.org/wiki/Binomial_options_model#The_binomial_price_tree

Current GAAP Requirements

Statement of Financial Accounting Standards (SFAS) No. 123 Revised 2004

-Issued by the Financial Standards Accounting Board (FASB)-

A share-based payment arrangement can be defined as an arrangement under which (a) one or more suppliers of goods or services (including employees) receive awards of equity shares, equity share options, or other equity instruments or (b) the entity incurs liabilities to suppliers (1) in amounts based, at least in part, on the price of the entity's shares or other equity instruments or (2) that require or may require settlement by issuance of the entity's shares.

A share-based payment transaction is a transaction in which an entity acquires goods or services because related parties or other holders of economic interest in that entity awards a share-based payment to an employee or other supplier of goods or services for the entity's benefit.⁷

◆ **Fair-value-based method is required for public entities**

- a. Cost of share-based payment
--> required to be recognized in the financial statements.

It is required for *all public entities* to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

- b. All entities
--> are required to apply a fair-value-based method.
- c. Nonpublic entities
--> are allowed to choose intrinsic-value-based method as an alternative.

◆ **Fair-value-based method**

Stock option

--> Opting pricing model is used (e.g., Black-Scholes model, binomial model)

◆ **Intrinsic-value-based method**

Stock option

--> Intrinsic value = Quoted market price of stock - Option exercise price

⁷ SFAS No. 123, FASB. <http://www.fasb.org/st/>.

◆ **Recognition of Compensation Cost:**

- a. Compensation cost is recognized
 - > over the requisite service period
- b. Requisite service period
 - > the period in which an employee is required to provide service
 - > vesting period
- c. Compensation cost is accrued if
 - > it is probable that the performance condition will be achieved.
- d. Previously recognized compensation cost is not reversed
 - > if employee share option expires unexercised.⁸

For *all entities*, compensation cost is measured as the changes in fair value of the award (equity share option) over the requisite service period.

Nonpublic entities may elect to measure equity instruments at their intrinsic value through the date of expiration to determine compensation cost.

The notes to the financial statements, for *both public and nonpublic entities*, must disclose and explain all share-based transactions that are on the financial statements. Disclosures must include the nature and terms of the arrangement, the effect the share-based transaction had on the income statement, the method used to determine the fair value of the equity instruments, and the cash flow effects that arose from the transaction.⁹

Provided below is an example of Panera Bread Company's stock option disclosure practices, as taken from their 2005 Annual Report, provided on their website, http://www.panera.com/about_investor.aspx.

“Stock-Based Compensation”

As of December 27, 2005, the Company had three stock-based compensation plans, which are described in Note 13 of the Company's Consolidated Financial Statements. Through fiscal 2005, the Company has accounted for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25 (APB 25), “Accounting for Stock Issued to Employees,” and related interpretations. See “Recently Issued Pronouncements” below for description of changes in stock-based compensation for fiscal 2006. Compensation expense is recognized in net income for restricted stock grants and a portion of the performance awards payable in the Company's common stock. No compensation expense has been recognized in net income for stock options as all option grants had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following table illustrates the

⁸ “Share Based Payment,” US GAAP. <http://cpaclass.com/gaap/sfas/gaap-sfas-123R.htm>.

⁹ SFAS No. 123, FASB. <http://www.fasb.org/st/>.

effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," to all stock-based compensation plans, including stock options outstanding (in thousands, except per share amounts):

	<u>Fiscal Year Ended</u>	
	December 27, 2005	December 25, 2004
Net Income, as reported.....	\$ 52,183	\$ 38,580
Add:		
Total stock-based compensation expense included in reported net income, net of tax.....	513	-----
Deduct:		
Total stock-based compensation expense determined under the fair value-based method for all awards, net of tax.....	<u>5,861</u>	<u>3,958</u>
Pro forma net income.....	<u>\$ 46,835</u>	<u>\$ 34,622</u>
Net income per share:		
Basic, as reported.....	\$ 1.69	\$ 1.28
Basic, pro forma.....	\$ 1.52	\$ 1.15
Diluted, as reported.....	\$ 1.65	\$ 1.25
Diluted, pro forma.....	\$ 1.52	\$ 1.15

The weighted average fair value of the options granted during 2005 and 2004 was \$21.19 per share and \$13.49 per share, respectively, on the date of grant using the Black-Scholes option-pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 36% in 2005 and 2004, risk-free interest rate of 4.04% in 2005 and 3.42% in 2004, and an expected life of 5 years in 2005 and 2004.

Additional disclosures are provided in Note 13 in the Notes to the Financial Statements. Under "Recently Issued Pronouncements," information pertaining to the revised SFAS No. 123 (December 2004) is provided, as well as any other anticipated changes for the future."¹⁰ (See Appendix II)

Justice Department Perspective

The Enron scandal prompted President Bush to enforce the Corporate Fraud Task Force in 2002 to ensure the diminishment of financial fraud. He announced his "*Ten-Point Plan*," which was developed to enhance information accuracy and accessibility, management accountability, and auditor independence. Bush called on Congress to implement the plan and develop stricter regulations for companies. In doing so, Congress enacted the Sarbanes-Oxley Act of 2002. The act created a new oversight board, the PCAOB (Public Companies Accounting Oversight Board) and also called for more rigid standards for companies to follow. The PCAOB oversees auditors of public companies

¹⁰ See Appendix II or Panera Bread Company, http://www.panera.com/about_investor.aspx.

in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.¹¹

In July 2006, the SEC, for the first time in 14 years, issued new rules on disclosure requirements for options grants in regards to executive pay. The new rules take effect for companies whose fiscal years end after December 14, 2006. Companies will be required to disclose in their annual reports:

Executive and Director Compensation

Compensation for named executives and directors will be disclosed in the compensation and discussion analysis section accompanied by a new compensation committee Report, stating whether the committee has reviewed and discussed the analysis with proper management.

A summary compensation table will be included with the disclosures, showing compensation for each named executive office over a three-year period. The table will provide:

- Total compensation
- Total value of stock and stock options
- Total value of compensation under non-equity incentive plans
- Total actual value of accumulated pension benefits and deferred compensation
- Itemized value of perquisites over \$10,000 (unless stated confidential or competitive)

Disclosure regarding option grants will require:

- The grant date
- Closing market price on the grant date if it is greater than the exercise price of the award
- The date the compensation committee took action to grant the award if that date is different than the grant date

If there are any discrepancies between the exercise price of an option and the grant date closing market price per share, additional disclosure is required to explain the reasoning behind the determination of the exercise price.

A proposal was made by the SEC's division of corporation finance that would require companies with stock-market values exceeding \$700 million to disclose the pay and title of as many as three higher-paid employees who make policy decisions. However, it

¹¹ <http://www.pcaobus.org/>

would not apply to Wall Street traders, athletes, or TV personalities, assuming they had no policy-setting role.¹²

The Division of Corporation Finance's mission is to make sure that investors are provided with material information in order to make informed investment decisions - both when a company initially offers its stock to the public and on a regular basis as it continues to give information to the marketplace.¹³

Stock Options and Fraud

Backdating

Backdating a stock option is the process of altering the grant date of a stock option to reflect an earlier date.¹⁴ A stock option allows the holder to buy shares at some point in the future for a fixed price. The cost of the option is based on the stock's price the day the option is granted. Backdating involves manipulating the issue or grant date, often after a run-up in the price of the underlying stock, so that the options become more valuable for the holder. This allows the optionee to obtain a lower exercise price. When the stock price increases substantially, the optionee can then exercise their options and sustain a huge profit from the transaction. In some cases, executives have been awarded options on the day a stock hit a low for the quarter.

An alternative to changing the stock grant dates for the options is to change the employee hire date. When an employee is hired, usually, stock options are offered as part of the compensation package. Therefore, if the employee is hired around a time the stock prices are at a low, they will benefit with more profit when they exercise their options.

Brocade Communications Systems Inc., a data storage-networking firm based in California, was brought under investigation for altering employee start dates. The firm allegedly had been hiring employees on a part-time basis until the stock hit a complete low and then taking them on full-time. Past non-disclosures have led Brocade to restate their financial statements twice. For example, in the year ended October 28, 2000, they had originally reported a profit of \$67.9 million. After re-issuing the statements, they ended up with a \$951.2 million loss.¹⁵

Backdating of stock option grant dates is not necessarily illegal if the following conditions hold:

- No documents have been forged.
- Backdating is clearly communicated to the company's shareholders.

¹² "SEC Votes to Adopt Changes to Disclosure Requirements Concerning Executive Compensation and Related Matters," [SEC.org](http://www.sec.gov). July 26, 2006.

¹³ SEC website, <http://www.sec.gov/divisions/corpfin.shtml>.

¹⁴ Black Law's Dictionary

¹⁵ Stecklow, Steve. "How One Firm Allegedly Tinkered With Timing of Stock Options," [Wall Street Journal](#).

- Backdating is properly reflected in earnings. Because backdating is typically not reflected properly in earnings, some companies that have recently admitted to backdating of options have restated earnings for past years.
- Backdating is properly reflected in taxes. The exercise price affects the basis that is used for estimating both the company's compensation expense for tax purposes and any capital gain for the option recipient. Thus, an artificially low exercise price might alter the tax payments for both the company and the option recipient.¹⁶

Spring Loading

Another popular form of fraudulently abusing stock options is called “spring-loading.” It refers to the practice of timing option grants to take place before expected good news or after expected bad news.

Many of the high technology companies located in the Silicon Valley region of California use stock options as a huge part of their compensation packages. Nearly 80 companies have recently been under investigation, whether internally or by the SEC, for their stock option granting practices. A large majority of the companies under scrutiny have already announced that financial restatements will be issued. A few of the companies that are or have been under investigation for their options granting practices include; United Health Group Inc, Vitesse Semiconductor Corporation, Home Depot, Apple Computer, Inc., Cheesecake Factory, and KLA-Tencor Corporation. A major scandal in the past few years was that of Enron, in which it had misstated over \$1 billion in compensation expense for employee stock options.

Investigations as of June 30, 2006

United Health Group Inc., a giant health insurer located out west is one of the 80 plus companies under scrutiny for backdating practices. Under investigation is the CEO, who himself has realized about \$200 million from exercising stock options over the past four years. It has been noted that the dates of his grants over the past four years were right before the stock price of the company soared much higher.

United Health Group may be forced to restate its profit up to 3 years back in order to correct the underestimations for stock options compensation. Such a move could result in “cutting net income by as much as \$286 million...”. The corporation may uncover some tax problems associated with its restatements. Certain deductions taken may not have applied because the stock option grants were for highly paid executives. As a result, additional taxes may have to be paid in future years and future tax deductions would be disallowed.

¹⁶ <http://www.biz.uiowa.edu/faculty/eliel/backdating.htm>

Vitesse Semiconductor Corporation is another company whose stock option granting practices are under question. Vitesse fired its CEO, CFO, and executive vice president with reasoning being associated with the integrity of certain documents relating to stock option granting practices. Each of the fired executives had received grant prices right before sharp increases in the company's stock prices over the past few years.

Vitesse has also been conducting internal audits of its stock options granting practices as an investigation of its "general revenue recognition" and practices concerning the "cash position at the end certain reporting periods."

From the years 1992 to 1999, Microsoft practiced backdating of its stock option grant dates to maximize profits for top executives. Microsoft did reveal its error and paid for them via fees and re-filings, back in late 1999, early 2000. The recent SEC probes prompted Microsoft to come forth about its past mistakes to forgo any false interpretations on their part.

After being contacted by Wall Street in relation to its stock options granting practices, Home Depot conducted an internal review of its past options granted. Home Depot being the largest company to come forth about its misstatements besides Microsoft, stated that before 2000, there were five instances of backdating. The corporation revealed that the board approved two of the five grants. As a result compensation expenses were under accounted for in the previous years. However, Home Depot stated that it would not be restating prior financial results since the misstatement was less than a \$10 million difference.

Apple Computer, Inc. reported problems with their stock options granting practices. After conducting an internal investigation into its options granting practices, Apple discovered it had some "irregularities" related to the issuance of stock option grants between 1997 and 2001. There was also said to have been a questionable grant issued to the CEO, however, it was cancelled in March 2003 and resulted in "no financial gain."

The Cheesecake Factory, based out of California, reported that it was investigating its stock option granting practices. After a review, it was found that top executives were repeatedly issued stock options at times when the company's stock had hit lows for the quarter.

KLA-Tencor Corporation, a semiconductor-equipment company located in San Jose, California, found after an internal investigation that some of its stock options were misdated. KLA stated that it could lead to an accounting charge and/or a restatement of financial statements. The idea of an accounting charge indicates that the wrongly dated stock option grants may have benefited executives and could possibly have been purposely backdated.

As a result of the suspected backdating practices, the U.S. attorney for the Northern District of California launched a task force focused on stock options backdating by companies. The task force consists of a dozen prosecutors and federal agents.

The Wall Street Journal published an “Options Scorecard” on their website, <http://online.wsj.com/public/resources/documents/info-optionsscore06-full.html>, that gives summarized and updated information pertaining to the companies that are under investigation for their stock options granting practices.¹⁷ (See Appendix III)

Other Pressing Issues

Options Pricing Software

How backdating practices could have gone unnoticed back in the 1990s is under question. While auditors’ (internal and external) have been under scrutiny for the recent investigations, it was discovered that the options tracking software utilized a decade ago did not come equipped with an elusive audit trail. In other words, it did not provide an easy tracking system to catch any changes made to the software, such as changing the grant dates. It is believed that is why backdating was easily undetected, until recently.

Today’s options-tracking software is more geared with the necessary audit tools to provide clear traces of any manipulations with data. The software does not prevent such actions from occurring; it provides a means of finding that it was in fact attempted or completed.¹⁸ Software programs such as EquityEdge and Computershare have been updated or changed to enhance audit functions.

The Auditor’s Role

While auditors in general have already been under interrogation for their roles in the past decade’s recent scandals, their roles and responsibilities are again being questioned as many companies are being investigated for possible backdating of stock options. The PCAOB advisory board have been discussing that they should educate accounting firms on backdating practices and how they should look for them when reviewing financial statements. Although some experts do understand how the tinkering could be overlooked, others argue that the auditors should be held directly responsible for the situation. “The pressing issue: Should an auditor have had reason to doubt the veracity of legal documents showing the grant date of an option?”¹⁹

¹⁷ See Appendix III for updated list

¹⁸ Anders, George. “Why ‘90s Audits Failed to Flag Suspect Option,” Wall Street Journal.

¹⁹ Reilly, David. “Backdating Woes Beg the Question Of Auditors’ Role,” Wall Street Journal.

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Glossary

Backdate – to put a date earlier than the actual date on something.

Call option – an option to buy something at a fixed price even if the market rises; the right to require another to sell.

Grant date – The date at which an employer and employee reach a mutual understanding of the key terms and conditions of a share-based payment award.

Intrinsic value – the difference between the quoted market price and the option exercise price or the grant price.

Optionee – one who receives an option from another.

Perquisites - A payment or profit received in addition to a regular wage or salary, especially a benefit expected as one's due.

Put option – an option to sell something at a fixed price even if the market declines; the right to require another to buy.

Requisite service period – The period or periods during which an employee is required to provide service in exchange for an award under a share-based payment arrangement. The service that an employee is required to render during that period is referred to as the requisite service.

Share-based payment arrangement - defined as an arrangement under which (a) one or more suppliers of goods or services (including employees) receive awards of equity shares, equity share options, or other equity instruments or (b) the entity incurs liabilities to suppliers (1) in amounts based, at least in part, on the price of the entity's shares or other equity instruments or (2) that require or may require settlement by issuance of the entity's shares.

Share-based payment transaction - a transaction in which an entity acquires goods or services because related parties or other holders of economic interest in that entity awards a share-based payment to an employee or other supplier of goods or services for the entity's benefit.

Spring loading - the practice of timing option grants to take place before expected good news or after expected bad news.

Vest, Vesting, or Vested –to earn the rights to. A share-based payment award becomes vested at the date that the employee's right to receive or retain shares, other instruments, or cash under the award is no longer contingent on satisfaction of either a service condition or a performance condition.

Volatility – A measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. Volatility has also been defined as a probability weighted measure of the dispersion of returns about the mean. The volatility of a share price is the standard deviation of the continuously compounded rates of return on the share over a specified period.

(Definitions were obtained from the Black Law's Dictionary and from the FASB Glossary in the SFAS No. 123)

Appendix III

Options Scorecard

Here's an updated look at companies that have come under scrutiny in recent months for past stock-option grants.

Updated August 2, 2006 -- RED TEXT indicates most recent updates

Company	SEC	Justice Dept.	Exec./ director departures	Restate- ments/ Charges	Comments
Activision					The Santa Monica, Calif., videogame company said on July 28 that the SEC has asked the company for documents related to its stock-option grants as part of an informal inquiry. The company also said its board has appointed a special subcommittee of independent directors to conduct an internal review of the company's historical stock-option grant practices. (Headlines)
Affiliated Computer Services					The Dallas technology outsourcer acknowledged May 10, after a preliminary internal probe, that it had issued executive stock options that carried "effective dates" preceding the written approval of the grants. ACS said it plans a charge of as much as \$32 million to rectify its accounting related to the grants. It is being examined by the Securities and Exchange Commission. (Headlines) (Options chart)
Affymetrix					The maker of gene-testing devices said on Aug 1 that an internal probe has uncovered "certain documentation lapses" in its stock options grant processes from 1997 through 1999, including one instance when the option grant date should have been recorded differently. But Affymetrix said the review hasn't indicated a pattern of inappropriate options dating. (Headlines)
Altera					On June 21, Altera said its special committee has reached a preliminary conclusion that actual measurement dates for certain option grants issued between 1996 and 2000 differed from the recorded grant dates, and that it expects to restate its financial statements for the fiscal years ended 1996 through 2005. The San Jose, Calif., programmable-chip maker said on May 25 that the SEC and the U.S.

attorney in Northern California are looking into its stock-option grants. On May 8, Altera said its board ordered an independent review of "historical stock-option practices and related accounting." The special probe followed a management review sparked by media reports that raised questions about options practices at other companies, Altera said. ([Headlines](#))

American Tower

The operator of communications towers said May 23 it had received a subpoena from federal prosecutors about its stock-option practices. It previously disclosed an SEC informal probe. On July 28, American Tower announced that an internal review has reached a preliminary conclusion that the actual measurement dates of certain stock-option grants likely differ from the recorded grant dates. As a result, the company expects to record additional noncash charges. ([Headlines](#))

Analog Devices

Analog Devices said May 24 it had received a subpoena from the U.S. Attorney for the Southern District of New York requesting records related to stock options. The Norwood, Mass., semiconductor maker said the request is for records dating from the year 2000 to the present. Analog Devices reached a tentative settlement with the SEC in November 2005 related to grants. The company said it believes the options being investigated by the U.S. Attorney are the same ones looked at by the SEC. ([Headlines](#))

Apollo Group

On June 19, the Phoenix education provider received a subpoena from the U.S. attorney for the Southern District of New York relating to stock-option grants. Apollo said June 9 its board will hire an outside firm to review its stock-option practices, following a brokerage report that raised questions about whether the for-profit educational firm had backdated some past options grants. The report,

from a Lehman Brothers analyst, called the company's historical options-granting practices "highly questionable." On July 10, the company disclosed that it had received a letter from the SEC about an informal investigation into the company's stock-option grants. ([Headlines](#))

Apple Computer

On June 29, the Cupertino, Calif., computer maker announced that an internal investigation has discovered irregularities related to the issuance of certain stock-option grants made between 1997 and 2001. ([Headlines](#))

Applied Micro
Circuits

The Sunnyvale, Calif., semiconductor company disclosed on June 27 that it received a subpoena from the U.S. attorney for the Northern District of California related to its stock-option practices. On June 12, Applied Micro said the SEC notified it of an informal inquiry into past stock option grants. On May 31, Applied Micro said its audit committee is reviewing its historical stock-option grant practices, characterizing the review as voluntary and adding that it was initiated in response to recent industry issues involving stock options. ([Headlines](#))

Asyst
Technologies

The Fremont, Calif.-based semiconductor manufacturing equipment maker on June 13 announced a delay in its annual filing, while a special committee of independent directors conducts an inquiry into past stock option grants and practices. Asyst disclosed that it received a letter dated June 7 from the SEC requesting documents relating to stock options granted from 1997 to the present. Asyst said it is cooperating in the SEC's inquiry. Asyst said June 28 it received a grand jury subpoena from the U.S. District Court for the Northern District of California requesting documents related to stock-option grants. ([Headlines](#))

Barnes & Noble

The New York bookseller said on July 12

Blue Coat
Systems

that its board's audit committee will conduct a review of the company's stock-option practices after a shareholder filed a lawsuit alleging that the company improperly backdated dozens of options grants to executives. Barnes & Noble said there was "no merit" to the suit. On July 21, the company said the SEC is conducting an informal inquiry into the company's stock-option granting processes. ([Headlines](#))

The maker of Internet communications equipment said it may have to record additional noncash charges after an independent investigation into its stock option practices. The company has delayed filing its annual report on form 10-K with the SEC. ([Headlines](#))

Boston
Communications
Group

The Bedford, Mass., software company said July 21 that the SEC staff contacted it by telephone regarding an informal inquiry relating to option grants made between 1998 and 2002. The board has retained outside counsel to help review its historical option grants practices. The company said it may need to record additional noncash charges for stock-based compensation expense related to those prior periods. ([Headlines](#)) ([Options chart](#))

Broadcom

On July 14, the Irvine, Calif., chip maker said it expects to record additional non-cash stock-based compensation expense of more than \$750 million, as it corrects accounting for past stock-option grants. The company believes that substantially all of that expense will be recorded in the years 2000-2003. On June 12, the company said it had been notified that it will receive an informal request from the staff of the SEC regarding its option granting practices. Broadcom said it had started an internal review May 18 amid media reports about options practices. ([Headlines](#))

Brocade

The Journal reported on June 18 that

Communications
Systems

federal prosecutors have warned Gregory Reyes, the former CEO of the San Jose, Calif., storage-networking firm, that he could face criminal charges related to stock-options-timing practices. The SEC has warned that he could face civil charges. Mr. Reyes stepped down as CEO in January 2005, at the same time the company announced it would restate income for prior years due to improper accounting for past options grants. The Brocade case, which predated the recent explosion in options-related probes, has been under investigation by the SEC and the U.S. Attorney for the Northern District of California for at least a year. On July 20, prosecutors accused Reyes of backdating options he doled out as a "committee of one" to hundreds of employees, in the first criminal charges filed in the backdating probes. Stephanie Jensen, a former human-resources director, is accused of helping Reyes with the scheme. ([Headlines](#))

The Chelmsford, Mass., maker of semiconductor gear said in late April that it has begun a review of options grants. On May 12 it said it received notice of an informal SEC review; later it said two board members resigned; and on May 22 it said it had received a Justice

Department subpoena. On July 31 Brooks Automation said two former outside directors and its former chief executive signed a "false" document permitting the CEO to exercise an expired stock option for millions of dollars in profit. The disclosure came as the company restated several years of earnings to account for options-related accounting problems. ([Headlines](#)) ([Options chart](#))

On June 29, the software maker formerly known as Computer Associates announced it would delay the filing of its annual report after uncovering problems with its stock-options program. In a statement, the company said an internal review found that some options were given to employees as much as two years after they were approved by the board.

Brooks Automation

CA

Caremark Rx.

CA said delays could force the company to restate results for past periods. On Aug. 1 the company released its restatement, resulting in a total increase in noncash compensation of \$342 million for the 10-year period from 1996 through 2006, on a pretax basis. ([Headlines](#))

Caremark Rx. said May 18 it had received a grand-jury subpoena from the Justice Department and a letter of informal inquiry from the SEC regarding option grants. The SEC is also requesting documents about the company's relocation program. Caremark said it intends to cooperate fully. ([Headlines](#))

The Cheesecake Factory

On July 19, the Calabasas Hills, Calif., restaurant operator announced that the Audit Committee of its Board of Directors, which is comprised solely of independent directors, is reviewing the company's practices relating to its stock-option grants. The company said this voluntary review was initiated in response to recent media and Wall Street reports regarding the option granting practices at numerous publicly traded companies, and is being conducted with the assistance of special outside legal counsel. ([Headlines](#))

Chordiant Software

The enterprise software company on July 25 announced that it has been contacted by the SEC regarding an inquiry relating to its past stock option grant practices. A day earlier, Chordiant said the audit committee of the its board of directors is in the process of conducting an independent review of options practices and related accounting. ([Headlines](#))

CNET Networks

The San Francisco operator of Web sites on May 22 appointed a special committee of independent directors to investigate option grants and their timing. On May 24, the company said it had received a letter indicating the SEC had launched an informal investigation. On June 27, CNET announced it has received a grand jury document subpoena from the U.S. attorney for the Northern District of

California requesting records on its option grants. The company said on July 10 that it expects to restate financial statements for 2003, 2004 and 2005 to correct errors related to accounting for stock-based compensation. Based on the continuing review by the special committee, CNET may also restate its financial statements for earlier years and its operating results for the first quarter of 2006. ([Headlines](#))

Computer Sciences

On June 29, the El Segundo, Calif., computer-services company said the SEC made an informal request for information related to its stock-option grants and practices. CSC said it plans to fully cooperate in the matter. On Aug. 1 the company said the U.S. Attorney's Office in the Eastern District of New York is looking into the company's stock-option grant policies. ([Headlines](#))

Comverse
Technology

The maker of telecom software said May 4 that it received a subpoena from the U.S. attorney's office for the Eastern District of New York, indicating a criminal investigation of stock-option-granting practices. CEO Kobi Alexander, as well as the company's CFO and senior general counsel, resigned just days earlier. In April, the company said some option-grant dates used in its accounting "differed" from the actual grant dates, and that it would restate more than five years of financial results. ([Headlines](#)) ([Options chart](#))

Corinthian
Colleges

The Santa Ana, Calif., operator of for-profit schools said on July 12 that it has voluntarily established a special committee of independent directors to review option grants and it will "take any action deemed appropriate." The panel will review option grants dating back to 1999 when the company held its initial public offering. ([Headlines](#))

Cyberonics

The Houston, Texas, medical-device maker disclosed on June 27 that it received a subpoena on Monday from the U.S. Attorney's Office for the Southern

District of New York, requesting documents relating to its stock options grants. On June 8, a stock analyst at SunTrust Robinson Humphrey questioned a June 15, 2004, stock option grant, asserting it was made in the evening, following a vote that day by an FDA advisory panel recommending approval of a Cyberonics medical device. The potential value of the option surged on June 16, when Cyberonics shares rose 78%. On June 9, the Journal reported that the SEC has launched an informal investigation. Cyberonics has denied wrongdoing. ([Headlines](#))

Delta Petroleum

The Denver natural-gas and oil producer on June 19 said it received a subpoena from the U.S. attorney for the Southern District of New York requesting records dating to 1996 related to the granting of stock options. Delta announced May 22 it would conduct an internal review of historical stock-option practices and related accounting. ([Headlines](#))

Engineered
Support Systems

Parsippany, N.J., military contractor DRS announced on June 12 that it has been advised by the SEC and the U.S. Attorney's office that each is investigating possible backdating of option grants at recently acquired ESSI, prior to DRS's acquisition of the company, a supplier of logistics and maintenance support. DRS said the U.S. Attorney's office has advised DRS that it considers DRS to be a witness, not a subject or target of its investigation.

Equinix

The Foster City, Calif., telecom company said on June 12 that it received an informal inquiry from the SEC relating to stock-option grants and pricing. Equinix said the SEC probe comes after it initiated an independent inquiry following the release of a Center for Financial Research and Analysis report that highlighted a questionable 2001 grant. On June 29, the company announced that it

Foundry Networks	<p>received a grand jury subpoena from the U.S. Attorney for the Northern District of California, requesting documents relating to its stock option grants and practices. (Headlines)</p> <p>The San Jose, Calif., network-equipment maker said on June 27 that it received options-related subpoenas from the U.S. attorney for the Northern District of California related to the company's granting of stock options from 1995 through the present. Foundry also said it is the subject of an SEC probe. (Headlines)</p>
F5 Networks	<p>The Seattle computer-networking company said May 22 it received a grand-jury subpoena from the U.S. District Court for the Eastern District of New York requesting documents related to the granting of stock options from 1995 through the present, as well as an SEC notice of an informal inquiry into similar matters. (Headlines)</p>
HealthSouth	<p>Former CEO Richard Scrushy repeatedly received stock options dated at low points in the company's stock price, a Journal review of securities filings showed, raising questions about the company's options-granting practices. Mr. Scrushy denies any backdating occurred, and the company said it has "left the investigation of criminal and possible criminal activities at HealthSouth to the relevant authorities. The new management and the new board continue to cooperate thoroughly in these matters." (Headlines) (Options chart)</p>
Home Depot	<p>The Atlanta home-improvement giant said June 23 that the SEC had initiated an informal inquiry into its option-grant practices. On June 16, the company said that in five instances prior to December 2000, the date of the meeting or resolution approving an option grant was later than that used to determine the</p>

exercise price. The company estimates that the unrecorded expense over the affected period was not more than \$10 million. As a result, Home Depot said it doesn't plan to restate any prior financial statements. ([Headlines](#))

Intuit

The Mountain View, Calif., software maker disclosed on June 9 that it was the subject of an informal SEC probe of its stock options. Intuit said it launched an internal review earlier in the wake of a report that said options granted in May 2000 carried a moderate risk of backdating. On June 29, Intuit said it has received a subpoena from the U.S. Attorney for the Northern District of California seeking documents concerning the company's stock option practices. ([Headlines](#))

Jabil Circuit

The St. Petersburg, Fla., maker of circuit boards and computer components said June 21 it received a subpoena from the U.S. attorney's office for the Southern District of New York requesting information related to an inquiry about how it accounted for stock-option grants in past years. On May 3, Jabil Circuit said two preliminary internal reviews determined that the company didn't backdate stock-options grants. The SEC is conducting an informal inquiry, and Jabil said a special board committee would also be looking into the matter. ([Headlines](#)) ([Options chart](#))

Juniper Networks

Juniper Networks said May 22 it received a request for information from the office of the U.S. Attorney for the Eastern District of New York, relating to the company's granting of stock options. The Sunnyvale, Calif., company said it is responding to the request and it intends to cooperate fully. The Juniper board's audit committee is reviewing its historical stock-option granting practices. On July 19, the company said it believes it will record additional noncash charges for

Company	SEC	Justice Dept.	Exec./ director departures	Restate- ments/ Charges	Comments
KLA-Tencor					<p>stock-based compensation expenses, but added it didn't know if this would result in any restatements. (Headlines)</p> <p>On May 30, KLA said it received a notice from the SEC of an informal inquiry relating to stock-option grants, after disclosing on May 22 that U.S. prosecutors had requested data on grants. On May 24, the semiconductor-equipment maker said its board of directors had appointed a special committee to run an internal investigation of "past stock option grants, the timing of such grants and related accounting and documentation." In 2001, the semiconductor-equipment maker granted its top executives, including Chairman Ken Levy, two batches of stock options. They arrived on unusually fortunate days for the executives: The first dated at the share price's first-half low; the second at its second-half low. On June 30, KLA said a special board committee has reached a preliminary conclusion that the actual measurement dates for financial accounting purposes of certain grants issued in prior years likely differ from the recorded grant dates. (Headlines) (Options chart)</p> <p>The Milpitas, Calif., chip maker disclosed on June 15 that the SEC, as part of an informal inquiry, requested information on past stock-option grants. Linear Technology reported on May 24 that derivative lawsuits were filed against its Board of Directors and certain officers alleging improper back dating. The company denies the allegations. The company said June 28 the U.S. attorney's office for the Northern District of California has requested information about the company's option grants. (Headlines)</p>
Linear Technology					

L-3
Communications
Holdings

The New York defense contractor "is actively looking into" the timing of stock-option grants made since it went public in 1998, a company spokesman said on June 1. No one has alleged wrongdoing by the company, but several Wall Street analysts have said its stock options have produced unusually high returns. ([Headlines](#))

Macrovision

On June 13, the Santa Clara, Calif., software company disclosed that the SEC requested information regarding stock-option grants to its senior management, directors and employees for the period since 1997. Macrovision also said it began an internal review. On June 28, the company said it received a subpoena from the U.S. attorney's office requesting information on the company's processes for granting stock options. ([Headlines](#)) ([Options chart](#))

Marvell
Technology
Group

On July 5, Marvell said SEC officials have requested documents and that it has also received a grand jury subpoena from the U.S. Attorney's Office in Northern California for similar information. ([Headlines](#)) ([Options chart](#))

Maxim
Integrated
Products

The Sunnyvale, Calif.-based maker of analog and mixed-signal integrated circuits said on June 7 that the SEC is conducting an informal inquiry of its stock-option grants and practices. On July 3, the company announced that it received a subpoena from the U.S. attorney for the Northern District of California asking for documents relating to option grants. ([Headlines](#))

McAfee Inc.

On May 30, McAfee ended the employment of General Counsel Kent Roberts after an internal review of the company's employee stock options revealed an improper grant involving Roberts in 2000. McAfee announced on May 25 it is in informal talks with the SEC in connection with its stock-options practices. On June 9, McAfee disclosed it received a document subpoena pursuant

to a formal SEC investigation. On July 27, McAfee said findings from a review of its practices and accounting for stock-option grants will force it to restate prior results for at least one, and possibly several, past periods. ([Headlines](#))

Meade
Instruments

On June 13 the Irvine, Calif., optical-products maker disclosed that it received a notice of informal inquiry from the SEC following a May 22 Journal report that highlighted questionable stock-option grants. Between 1998 and 2002, its founder received six option grants. Two were dated at yearly-low closing prices. Another tied for a quarterly low. Immediately after one particularly well-timed grant, dated March 3, 2000, shares more than tripled over the next 20 trading days. The Journal's statistical analysis indicates that the likelihood of a pattern as favorable, or more favorable -- without regard to share price -- is about one in 800,000. The company's general counsel said he believed all options were granted properly. ([Headlines](#)) ([Options chart](#))

Medarex

On May 24, the biopharmaceutical company said it had received a letter of informal inquiry from the SEC that said requested documents "related to Medarex's stock option grants and practices." On June 15, Medarex said it received a grand jury subpoena from the U.S. attorney's office in New Jersey. ([Headlines](#))

Mercury
Interactive

Mercury Interactive disclosed that on May 15, a special board committee determined that the company's former CEO, who left in November 2005, "should be treated as having been terminated for cause." The committee concluded there was a "material breach" of fiduciary obligations, based on "actions and omissions in connection with option grants, option exercises and loans to him." Mercury had previously

acknowledged "misdating" options, and has had its stock delisted by the Nasdaq Stock Market and has said it will have to restate financial results. On July 3, 2006, Mercury said that the SEC staff told Mercury that it may recommend that the SEC begin civil enforcement proceedings against three Mercury directors alleging the directors knew or should have known about the manipulation of option grant dates. On July 25, Hewlett-Packard said it will pay \$4.5 billion to buy Mercury Interactive, despite the company's expectations to "continue to incur significant expense" to deal with options problems. ([Headlines](#))

Company	SEC	Justice Dept.	Exec./ director departures	Restate- ments/ Charges	Comments
Michaels Stores					<p>The Irving, Texas, crafts retailer on June 8 said it will be unable to file its latest quarterly report on time because the audit committee of its board of directors had initiated a review of its historical stock-option-grant practices. The company said its board had started the review, which is focused on the period from 1990 to 2001, on a "proactive basis." Michaels Stores said June 15 that it has received a letter from the SEC asking the company to preserve its documents regarding stock-options grants since 1990. It said June 16 it received a grand jury subpoena issued by the U.S. District Court for the Southern District of New York for documents related to stock options granted since 1996. (Headlines)</p>
Microsoft					<p>The Journal reported June 16 that the Redmond, Wash., software giant awarded options at monthly lows each July from 1992 to 1999, with varying dates. The software giant also routinely issued options to new employees at the stock's lowest closing price in the 30 days after they joined. In 1999, Microsoft took a charge for the practice and ended it.</p>

Monster
Worldwide

[\(Headlines\)](#)

The New York job-search company received a subpoena from the U.S. Attorney for the Southern District of New York on June 12 relating to its option grants. Monster's securities filings show it made seven options grants between 1997 and 2001 to James J. Treacy, who became its No. 2 executive before leaving the company in 2002. One was dated at the stock's lowest closing price of 1997, and three others carried the lowest closing prices of various quarters. Other senior executives and employees also received grants with some of those dates. The company is conducting an internal review. On June 14, Monster said it had been notified of an informal SEC probe. On July 11, Monster said it may need to restate financial results for 2005 and prior years to record additional stock-based compensation charges. [\(Headlines\)](#)

msystems

The Israeli flash-memory company said on June 1 that it has begun on its own initiative an internal review of stock-option grants without offering any further details. Msystems subsequently canceled a secondary share offering. On July 3, the company announced its board concluded that the actual measurement dates of certain past stock-option grants differ from the previously recorded measurement dates. The company said it intends to restate its financial statements for 2001 to 2005 and take charges in the first quarter of 2006. Also, the SEC is conducting an informal inquiry into the company's grants. On July 30, Sandisk agreed to buy msystems, which recently shortened its name from M-Systems Flash Disk Pioneers, for stock valued at about \$1.55 billion. [\(Headlines\)](#)

Newpark
Resources

The Metairie, La., provider of fluids management and services said on June 29 that a review of past stock option grants has shown that some of the options

Nyfix

granted prior to June 2003 were dated on a day other than when it was approved, and the exercise price was determined in advance of their approval. The company will restate earnings and estimates its related reduction in pretax income for 2003 through 2005 to be less than \$2 million. The company's former CEO and CFO were terminated. ([Headlines](#))

Nyfix, a Stamford, Conn., provider of financial trading and communication technologies, in mid-May said it received a grand jury subpoena from the U.S. Attorney's Office for the Southern District of New York. The subpoena calls for the production of all documents referring to, relating to or involving the granting of stock options for the time period from 2000 to the present. Nyfix said it intends to cooperate fully. ([Headlines](#))

Openwave
Systems

The provider of open software for the communications industry said May 22 it received a letter of informal inquiry from the SEC. The Redwood City, Calif., company said the SEC seeks documents related to Openwave's stock-option grants and stock-option practices. On July 5, Openwave disclosed that U.S. attorneys for the Northern District of California and the Southern District of New York issued it subpoenas tied to its past options practices. ([Headlines](#))

Power Integrations

On May 24, San Jose, Calif., chip maker said the SEC and the U.S. Attorney's Office for the Northern District of California were investigating its stock-option practices. Chairman Howard Earhart resigned May 5, as the company said it probably will need to restate nearly seven years of financial results because of options problems. On July 31 the company said the Nasdaq will delist its shares because the company won't become current in its SEC filings by the Aug. 2 deadline. Power Integrations cited new information on how it accounts for stock option grant dates for the filing delay. ([Headlines](#))

Progress
Software

The Bedford, Mass., maker of application infrastructure software on June 19 delayed its earnings figures due to a voluntary review of its stock-option grants since the beginning of fiscal 1996. Progress said the review, being carried out by its audit committee along with outside legal counsel, was in response to recent media attention and investor inquiries. Progress said June 27 that it has received written notice that the Boston office of the SEC is conducting an informal inquiry into the company's options practices from Dec. 1, 1995 through Nov. 30, 2002. ([Headlines](#))

Quest Software

On May 22, the Aliso Viejo, Calif., software maker said its board had formed a special committee to investigate historical stock-option practices and related accounting. Quest said it began this investigation following the release of a third-party report about the timing and pricing of stock-option grants. On June 1, Quest said it had received notice of an informal SEC inquiry into past options grants. On July 5, Quest said that it will restate more than five years of financial statements after an internal investigation found that "many" stock options to employees were wrongly dated. ([Headlines](#))

Rambus

The Los Altos, Calif., maker of technology that speeds up memory chips, said on May 30 that the audit committee of its board has begun an internal investigation of the timing of past options grants and other potentially related issues. The committee expects to focus primarily on options issued in or before 2003 and will be assisted by outside legal and accounting experts. On June 27, Rambus announced that the board's audit committee reached a preliminary conclusion that the actual measurement dates for certain grants issued in prior years differed from the recorded grant

	<p>dates. On July 19, the company said it plans to restate financial statements dating back to 2003 and incur "significant" costs to correct errors related to its stock-option accounting. Shares of Rambus plunged on the news. (Headlines)</p>
<p>Redback Networks</p>	<p>On June 30, the Sunnyvale, Calif., high-speed Internet networking company said it received an informal request from the U.S. Securities and Exchange Commission for information related to historical stock-option grants. The company said it was also subpoenaed by the U.S. Attorney for the Northern District of California related to stock-option grants. (Headlines)</p>
<p>Renal Care</p>	<p>German dialysis company Fresenius Medical Care said on June 2 that its U.S. subsidiary Renal Care Group was subpoenaed by the U.S. government for information about its stock-option grants. A Journal report had pointed out grants made between 1997 and 2002 preceded sharp run-ups. Fresenius bought Renal Care in a \$3.5 billion deal that closed in early 2006. (Headlines)</p>
<p>RSA Security</p>	<p>The software maker announced on June 13 that it got a document subpoena from the U.S. Attorney for the Southern District of New York regarding stock-option grants from 1996 to the present. Earlier, Bedford, Mass.-based RSA received a letter of inquiry and document request from the SEC. RSA said the SEC staff noted that the letter shouldn't be construed as an indication that any violation of law has occurred. RSA said it intends to cooperate fully with the SEC in this matter. (Headlines)</p>
<p>SafeNet</p>	<p>SafeNet said in May it has received a subpoena from the Office of the U.S. Attorney for the Southern District of New York related to the company's granting of stock options. SafeNet also said it received a letter of informal inquiry from</p>

Sanmina-SCI	<p>the SEC requesting information related to the company's stock-option grants and certain accounting policies and practices. The Baltimore information-security company said it will cooperate fully with both requests. (Headlines)</p> <p>On June 9, the SEC requested information regarding the San Jose, Calif., electronic contract manufacturer's stock-option grants since 1997. Sanmina-SCI, which noted it plans to fully cooperate with the SEC's request, said it has already initiated an internal inquiry concerning grants to its executive officers. (Headlines)</p>
Semtech	<p>Semtech said on June 14 that it won't be able to file its quarterly report for the period ended April 30 in time. It also said it got a subpoena from the U.S. attorney in Manhattan for options-related information. On May 22, the Camarillo, Calif., semiconductor supplier declared that it had received a letter of informal inquiry from the SEC, and that it is cooperating fully. The company said the SEC is seeking information related to stock options granted since Jan. 1, 1997. On July 20, the company announced that it will restate its financial results for fiscal years 2002 through 2006 to record additional "material" stock-compensation expense after an internal inquiry found problems with the granting of stock options. (Headlines)</p>
Sepracor	<p>The Marlborough, Mass. pharmaceutical company said on June 2 that it received a letter of inquiry from the SEC requesting documents related to stock-option grants and stock-option practices. Sepracor says it has created a special committee to oversee a review. (Headlines)</p>
Stolt-Nielsen	<p>The London-based shipping concern said in an annual report filed on June 1 with the SEC that it backdated stock-option grants for executives and employees in 2003 and 2004, and it took a charge to</p>

Sycamore
Networks

correct the accounting for the awards. On July 6, the company said it is the subject of an inquiry by the SEC over its stock-option plan. ([Headlines](#))

The Chelmsford, Mass., optical gear firm said May 23 that it was informed that the SEC has started a formal investigation related to certain stock options granted by the company during calendar years 1999 through 2001 that were erroneously accounted for under GAAP. The company said it had previously instituted and completed an independent investigation into this matter and subsequently restated financial results for fiscal years 2000 through 2004 and for the first two quarters of fiscal 2005.

Sycamore announced May 30 that the U.S. attorney's office for the District of Massachusetts issued a grand jury subpoena seeking documents related to option grants. It said July 11 that an employee filed suit alleging wrongful termination. The suit includes an internal memo that shows employees discussing how they could manipulate grant dates to make them more lucrative while keeping their actions hidden from auditors. ([Text of suit](#)) ([Text of internal memo](#)) ([Headlines](#))

Take-Two
Interactive
Software

The New York entertainment software company disclosed on July 10 that the SEC opened an informal investigation into stock-option grants dating back to January 1997. Take-Two said it plans to fully cooperate and also is conducting its own investigation. ([Headlines](#))

According to a WSJ analysis, grants at the Sunnyvale, Calif., chip maker have preceded sharp run-ups. Each of seven grants between 1995 and 2001 to Chief Executive Frank Lin were dated ahead of a double-digit rise in share price over the next 20 trading days. Trident said it has referred the matter to its audit committee for review. It added that during 2004, the

Trident
Microsystems

company received and responded to an SEC inquiry regarding its stock option grants to executive officers for a period from 2000 to 2004. Trident said June 16 it has received a subpoena from the U.S. Attorney's office in New York; it also said that on May 26 its board set up a special committee to examine past grants from 1995 to 2004. ([Headlines](#)) ([Options chart](#))

On May 11, the Minnetonka, Minn., health insurer acknowledged problems with the way it administered its stock-option grants and warned that it might have to restate past results, lose some valuable tax deductions and take charges that could reduce the past three years' net earnings by \$286 million. In addition, the company said it was the subject of an "informal" SEC inquiry into its practices. Federal prosecutors in Manhattan have begun a criminal probe. UnitedHealth also said the IRS had made a request for documents. On June 7, Minnesota Attorney General Mike Hatch said he plans to investigate the health insurer concerning its stock-option grants. ([Headlines](#)) ([Options chart](#))

UnitedHealth

The Mountain View, Calif., company disclosed on June 27 that it received a subpoena from the U.S. Attorney for the Northern District of California requesting documents related to the company's stock-option grants and practices. VeriSign said it also received an informal inquiry from the SEC, requesting documents related to its stock option grants. ([Headlines](#))

VeriSign

In late April, the Camarillo, Calif., chip maker suspended its CEO, CFO and an executive vice president, saying the decision was related to the "integrity of documents" involving its stock-option program. Later, Vitesse said its board had discovered additional accounting issues that called into question more than three

Vitesse
Semiconductor

years of financial results, delayed its next quarterly report and hired a turnaround firm. In May, it terminated the CEO, CFO and the executive vice president whom it had previously placed on leave.

([Headlines](#)) ([Options chart](#))

Xilinx

The San Jose, Calif, chip company said June 23 that the SEC is making an informal probe into its "practices, procedures and disclosures" related to its stock options grants. On July 25, Xilinx reported earnings, including a \$1.5 million charge to cover what the company termed "minor differences between approval documentation and certain recorded stock option grant dates."

([Headlines](#))

Zoran

The Sunnyvale, Calif., company disclosed on July 3 that it has received a notice of informal inquiry from the SEC requesting documents related to the company's stock option grants. It also received a grand jury subpoena from the U.S. attorney for the Northern District of California. ([Headlines](#))

Explanation: "SEC" indicates SEC contact or probe disclosed; "Justice Dept." indicates subpoena from U.S. attorney; "Exec./director departures" refers to departures attributed to grants examinations; "Restatements/charge" applies to situations where a company has said it will restate earnings and/or take a charge to earnings, beyond delaying filing. Companies listed but not checked have disclosed internal probes but no further news and/or have been identified by WSJ reporting as having grants that may need to be scrutinized for possible backdating.