

034

One proxy statement in particular causes me great concern. I refer to the statement which was sent to IBM stockholders on March 21 of this year in preparation for the annual meeting of stockholders at noon tomorrow. What particularly disturbs me is that the IBM management now proposes to grant themselves a second round of options.

Those who have defended the principle of the restricted stock option have leaned heavily on the argument that very limited numbers of shares have been placed under option, and that the harm done to the company and the stockholders by virtue of this type of stock watering will be small. Now, this argument might hold up fairly well were companies to set aside one small block of stock, and when this was exhausted allow no more options.

But, this is not being done. Decent restraint is not being exercised. Company insiders are finding that the shares of stock set aside for the first round of options have all been allotted, and they are, therefore, setting aside additional shares for a second, or perhaps a third, round.

IBM adopted a stock option plan in 1956. Under that plan, some 130,000 shares were granted under option to 61 executives through calendar year 1959. No more options may be granted under the 1956 plan after tomorrow. So, it is now proposed that the stockholders, at this annual meeting, approve a new plan whereby 100,000 additional shares will be set aside for the benefit of officers and key employees.

Mr. President, there is apparently no end to this sort of rigging. Corporate directors and managers can continue, year after year, to set aside large blocks of stock for their own benefit, and to the detriment of legitimate purchasers of their company's stock who must go into the open market and purchase at the going rate.

These figures for IBM may not sound staggering, but bear in mind that IBM stock is a high priced stock—it is selling now for around \$720 per share.

Let me illustrate this point by showing what the president of the company, Mr. Thomas J. Watson, Jr., has gained. Under the 1956 plan, Mr. Watson was granted an option to purchase 7,643 shares of stock at a price of \$137.70. At current prices, this represents compensation, in addition to his regular annual compensation of more than \$300,000, of almost \$4.5 million.

And this added compensation is not taxable at the time the option is exercised, at which time a real, tangible, and measurable profit is realized.

...should Mr. Watson retain the optioned stock in his estate, then no income tax will ever be paid by anyone on this tremendous fortune. Meanwhile, taxes are withheld from the pay checks of every hourly paid worker employed by IBM.

Can it be argued by any reasonable man that Mr. Watson needs this extra \$4.5 million as an incentive to look after the company's affairs? Can it be successfully argued that Mr. Watson would, without this gimmick, leave the company so closely identified with his family and in which he, his brother, and their mother already own more than 175,000 shares worth some \$125 million? Do he and the other highly compensated executives need even more cut-rate bargain purchases?

I hope the stockholders of IBM will rise up tomorrow and vote down this new scheme. But I hold little hope of this. As I have previously pointed out, the managers have taken control away from the stockholders, and it is difficult for interested and knowledgeable stockholders to get together enough proxies to defeat a proposal sponsored by the management, and even for the benefit of the management.

It is, therefore, up to the Congress to act to protect all stockholders.

ELIMINATION OF ADDITIONAL FEES FOR CONTRACTOR FINANCING EXPENSES UNDER DEPARTMENT OF DEFENSE CONTRACTS

Mr. BYRD of Virginia. Mr. President, on May 13, 1960 The Senate adopted an amendment to the military construction bill of 1960 to stop Federal payment of additional fees for contractor financing expenses under Department of Defense contracts.

This amendment was later eliminated in the House-Senate conference on the bill, but I am pleased to advise the Senate at this time that the practice has been stopped by an administrative order. Substantial savings will result.

These fees were being paid in connection with many military contracts under Department of Defense Directive 7800.6, "Cost-Reimbursement Contracts—Payments for Work in Progress," dated November 1, 1957.

Audits by the Comptroller General found that under this directive the Government was paying millions of dollars in additional fees to cost-plus-fee contractors for which it received no significant benefit.

The Department of Defense on March 14 of this year canceled the 1957 directive in the interests of reducing costs and simplifying procurement administration.

There is reason to believe that this action resulted from the findings revealed by the Comptroller General's audits and the attention given to them

...subject and a statement of explanation be printed in the Record as part of these remarks.

There being no objection, the correspondence and statement of explanation was ordered to be printed in the Record, as follows:

COMPTROLLER GENERAL OF THE UNITED STATES, Washington, March 28, 1961.

HON. HARRY F. BYRD, U.S. Senate.

DEAR SENATOR BYRD: Reference is made to our letter of February 23, 1961, in regard to payment of additional fees to contractors for agreeing to deferred reimbursement of costs under cost-type contracts. At that time, we stated our opinion that there was a present and continuing need for legislation on this subject.

On March 14, 1961, the Department of Defense rescinded its Directive 7800.6 dated November 1, 1957, which established the policy for payment of additional fees for contractor financing expenses. The Deputy Secretary of Defense issued the following statement to the military departments:

"In the interests of reducing costs and simplifying procurement administration, I have today directed the cancellation of the subject directive which provides for the withholding from contractors performing certain categories of cost-reimbursement type contracts twenty percent of costs incurred until deliveries of end items or performance of specified increments of work.

"Please take such actions as are necessary to provide for the omission of the withholding requirements from all new contracts. In addition it is desired that existing contracts containing the withholding provision be amended by supplemental agreement to provide for payment of withheld amounts whenever adequate consideration can be negotiated with the contractor in the form of an adjustment in the fixed fee."

Your aggressive interest and action in this matter, including introduction of legislation in the 86th Congress to nullify the policy, had a significant bearing on the action of the Department of Defense in rescinding this policy and will result in substantial savings to the Government.

Sincerely yours,

JOSEPH CAMPBELL, Comptroller General of the United States.

HOUSE OF REPRESENTATIVES, COMMITTEE ON ARMED SERVICES, Washington, D.C., March 16, 1961.

HON. HARRY F. BYRD, U.S. Senate.

DEAR SENATOR: On May 16 last year, you wrote me concerning an amendment to H.R. 10777, the military construction bill, which you introduced on May 12, 1960, the purpose of which was to nullify the effect of Department of Defense Directive 7800.6, which ordered withheld 20 percent of incurred reimbursable costs on cost-reimbursable contracts.

In our hearings on contracting procedures and in House Report No. 1959, 86th Congress, pages 22 and 23, the effect and cost of this directive was considered and brought forcefully to the attention of the Department of Defense, and the subject has been under active study.

I am happy to bring to your attention today, a cancellation issued March 14, 1961.

With warmest personal regards and very best wishes,

Faithfully yours,

CARL VINSON, Chairman.