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Letter of Comment No: 5039
File Reference: 1102-100

From: steve goldberg [sfgoldberg@hotmail.com]
Sent: Monday, June 21, 2004 11:17 PM
To: Stacey Sutay
Subject: Reference Number 1102-100

Dear Sirs:

I am writing to express my opposition to the FASB proposal to require stock option expensing for the following reasons:

Stock Option Expensing does not increase financial transparency; it obscures it

Stock option expensing breaks basic accounting rules. Granting of a stock option does not reduce the value of the enterprise like true expenses; rather it enlarges the pool of people with a claim on the value of the company. As a result, stock option expensing makes financial reporting less accurate, not more.

Further, there is no way to value stock options due of the fundamental nature of employee stock options. The methods proposed by FASB to value options are essentially equivalent to throwing a dart at a dartboard. They may be applicable to options that are freely traded on an open market but don't apply to the world of employee stock options which have a completely different set of terms. Further, there are no studies that I am aware of that correlate stock option expense estimates with real world experience. Investors will rue the day that stock option expensing takes hold because unscrupulous executives will use the easy-to-manipulate formulas to achieve whatever results they desire and mask, rather than improve, financial reporting transparency.

Stock Option Expensing will do little to stop excessive executive compensation but will hurt rank-and-file workers

There seems to be a belief that requiring expensing of stock options will somehow eliminate or stem excessive executive compensation. The fact is that companies will find other compensation techniques to attract and retain high caliber talent. The only people that will really suffer will be the rank-and-file employees, many of whom participate in stock option programs and ESPP programs today. Many corporations have indicated that they will curtail option grants to lower-level employees should stock option expensing rules go into effect.

Stock Option Expensing will have significant negative unintended consequences

The American economy also stands to lose if FASB prevails. A significant portion of the growth of the American economy in the past 20 years has been driven by the technology sector, and in particular, by companies such as Intel, Cisco, and Microsoft. Broad-based stock option plans helped fuel the entrepreneurial spirit that turned these companies from small startups into pillars of the American economy in a few short years. Shifting to stock option expensing will stifle the next wave of entrepreneurs and cause untold damage to the long-term success of the economy.

In closing, it is hard to see any benefits of stock option expensing but it is easy to see the costs. I find tremendous motivation in knowing that my personal performance can have an impact on the value of my company and that I can share in this success. The American economy is driven by the efforts of millions of people like myself. Why would we knowingly stifle this motivation and incentive?

6/22/2004