## ALFRED E. MANN

12744 SAN FERNANDO ROAD SYLMAR, CALIFORNIA 91342-3728 TELEPHONE (818) 362-6266 FAX (818) 362-4556

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Mr. Robert H. Herz, Chairman Financial Accounting Standards Board of the Financial Accounting Foundation 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Dear Mr. Herz:

The Financial Accounting Standards Board is again addressing expensing of employee stock options and appears committed to implementing the proposed standard. Such a move is understandable, especially in response to the excesses that have been disclosed during the past couple of years.

Yet I assert to you that with the proposed standard FASB will be making a great mistake. Our country's success in world markets has to a large extent been effected by our leading technology in a number of key fields. These technologies have created the advances we see in medicine, computer science, etc. that have fueled our country's growth.

The advances are mostly achieved by small entrepreneurial companies, not by the giants of industry. Large corporations seem so bureaucratic and lethargic that their primary route to significant growth is through acquiring the fast moving smaller enterprises. Indeed, it is the entrepreneurial spirit of the smaller companies that has made our country so successful, and it is this entrepreneurial spirit that moves like minded, creative people into those ventures. One of the key factors in this process is the opportunity for these creative and highly motivated people to share in the venture's success. Stock options are the accepted and expected mechanism for these people to share in a company's future achievements, to which they contribute significantly.

Forcing stock options to be expensed, especially using an arbitrary valuation model, will effectively eliminate this valuable tool, at least for public companies. Restricted stock grants are being adopted by some companies because the costs are fixed and it is argued that smaller grants are justified by this structure. For some companies, especially larger ones, I agree that this may make sense. Yet for the smaller ventures this is still not a satisfactory solution.

To be sure, there must be a way to avoid the egregious excesses, such as the huge stock options to executives that have been so widely publicized. Yet even here the sensationalism in the media has misled the public. Published executive compensation includes valuation of stock options, generally based on the Black Sholes computation. I

have seen no retraction of those media reports when the value of stocks drastically fell during the recent recession. Still, there have been excesses, so some change is in order. Yet, in eliminating the excesses we should not eliminate the valuable contributions that stock option programs make to creating opportunity, jobs and value to our country.

While I am basically opposed to expensing options, I do believe there could be a reasonable compromise. What I propose as a more appropriate way to value the expense of a stock option would be to consider the grant to be a restricted purchase via a loan from the company, and to impute an interest rate, or even better to apply a mandated interest rate on the principal, which would be the Fair Market Value (FMV) on date of grant. For this purpose the interest should be accrued and reasonably low, but must satisfy reasonable accounting standards. With such a structure there would be a definitive charge to the company rather than a speculative calculation, and one that more realistically relates to the true value of the grant. The stock would remain as collateral for the loan. The grant could vest; i.e., if an employee leaves he could only complete the transaction as to that portion which is vested, and he/she would at that time have to pay the respective portion of the underlying loan amount plus the accrued interest on the entire loan.

Additionally, to avoid abuses, perhaps loans for options with a FMV above one million dollars would be with recourse, with increasing recourse levels above the one million dollar FMV exclusion; i.e. the liability could be progressive, with recourse at different levels. For example, I suggest no recourse for the first million dollars to take care of the majority of employees below management levels, 25% recourse for the next two million dollars, 50% recourse for the next four million dollars, and full (100%) recourse for everything above seven million dollars in FMV. These levels of recourse could apply just to annual grants or perhaps a portion, say half, could even include aggregate option levels including all prior grants as well.

The above proposal would seem to be a more appropriate solution to the abuses we have seen, and it would preserve one of the most important tools in entrepreneurial motivation for the entrepreneurial companies that fuel our economy. An expense would be borne by the company that reflects the "real" cost rather than an arbitrary bet on futures. If a person leaves employment, he/she would either have to pay the loan plus interest or forfeit the stock, and purchase would be limited to the vested portion. Such a plan would enable companies to continue incentivizing junior level employees and would provide serious risks to executives who in today's unrestricted programs take advantage of the system and abuse our sensibilities.

Hopefully, FASB will not throw out the baby with the bath water.

Sincerely.

Alfred E. Mann