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Letter of Comment No. 2304
File Reference: 1102-100

From: tiverson@echelon.com
Sent: Wednesday, May 12, 2004 7:33 AM
To: Director - FASB
Subject: File Reference No. 1102-100, Comment on FASB Stock Option Proposal



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Dear Mr. Robert Herz:

I am writing in reference to FASB's invitation to comment on its exposure draft, "Share-Based Payment," an amendment of Statements No. 123 and 95. I understand the desire to act in light of abuses by some large, high profile companies. However, please consider the consequences of requiring the expensing of stock options.

Stock options have fueled the great technology drives in the US economy during the last 35 years. They address one of the great management challenges: how to align the interest of employees with the interest of shareholders. Options are powerful motivators, especially in the early years of a company when extraordinary effort is required from all employees to make a company go and grow.

I'm a CPA, but have worked in several companies where I've had incentive stock options. They were not a little perk, they were the driving motivation to build the company and make it successful. They gave me an equity interest, even though I was not in a financial position to invest, and hence aligned my interests with shareholders.

I could go on and on about the importance and value of options. But that's not the exact question we face. The question is whether to require companies to expense the value of these options.

As a CPA, I think the biggest reason not to expense options is that, for all but the very biggest companies, the value of the options is not certain at all, and will create wildly varying and misleading financial statements.

The potential value of options is huge. However, the likelihood of a zero value is also high. And the true value changes daily or monthly depending on orders, contracts, technology breakthroughs, competition, external business factors, etc., and is impossible to accurately calculate.

The right place for this changing value to be determined is in the equity market. Clear disclosure of stock option issuances is already required, so the market can take this data into effect. Adding this information to the financial statements brings confusion, not clarity, to the investment community.

It's a slippery slope. If we require expensing stock options, do we next require the company to value and expense a competitor's technological breakthrough? Or the loss of a big order? Or the loss of a key employee?

Again, as a CPA, I know the important and difficult role FASB plays. But please don't let the current tide of opinion drive the profession to institutionalize poor accounting practice.

Sincerely,

Thor Iverson
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