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**From:** Paul Brauneis [pbrauneis@avici.com]  
**Sent:** Tuesday, June 15, 2004 9:54 AM  
**To:** Director - FASB  
**Subject:** File Reference No. 1102-100

To whom it may concern:

As the debate rages on over the issue of expensing stock options, the common themes have been well articulated as follows: -Use of options attracts talented employees and aligns their interests with those of the employer; -Expensing will discourage the broad based use of options; -Expensing will create an economic issue which may have far reaching implications on business and the economy; -As a corporate governance tool, it will not help investors understand a company's finances better and will likely create confusion, inconsistency and misunderstanding; -Existing disclosure currently provides the financial statement reader with substantial information regarding the use of stock options and the presumed financial impact given the constraints of theoretical valuation methodologies; -Valuation models are theories. None are considered reliable, consistent or comparable.

In addition, there has been concern expressed that broad based option plans have created unethical behavior or worse yet, illegal behavior in order to inflate stock values. There has been no direct evidence that this has been the case and in the very small number of cases where other corporate misbehavior has been found or alleged, changing the accounting rules as a forced means of corporate governance is inappropriate. Corporate governance must stand on its own.

From a very practical viewpoint, the dilutive impact of outstanding stock options on a company's earnings per share is currently reflected in the fully diluted earnings per share data presented on the face of the income statement. Since stock option expense is a non-cash charge, it has no impact on shareholders' equity. This point is seldom, if ever, acknowledged. When a less than sophisticated investor is told that an expense is missing from the earnings statement, the logical conclusion is that the entity's equity must be overstated. This is not the case. People argue that the company gets the benefit of a tax deduction when options are exercised. Again, the implication being that the P&L benefits through higher earnings. This also is not the case, as this benefit IS reflected in the equity section.

In conclusion, I urge the Board to consider the issues articulated above particularly in light of the current disclosure requirements which are substantial and meaningful. Let the financial statement reader draw his/her own conclusions from the disclosure without creating confusion and inconsistency in the primary financial statements. Recall the foray many years ago into the realm of replacement cost accounting and its current place in financial statement lore. Stock option expensing is sure to follow in its footsteps if decisive action is not taken to truly understand its consequences.

Respectfully submitted,

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