

ikon

Letter of Comment No: 3970
File Reference: 1102-100

From: John McFarlane [jmcfarlane@ascendenttelecom.com]
Sent: Friday, June 11, 2004 12:42 PM
To: Director - FASB
Subject: Option Accounting

I am writing to you to offer my comments against the accounting for stock options as an expense.

I am currently the Chairman and CEO of Ascendent Telecommunications, and on the Board of three publicly held companies (PBI, CREO, EXAR). I have been involved in the high technology industry for over 20 years, including executive roles at Sun Microsystems, and Nortel Networks.

I am strongly AGAINST treating stock options as an expense. Primarily because I believe it will hinder America's long term competitiveness in global markets. Innovation is our only sustainable competitive differentiation in an increasingly global economy, and we must do everything possible to stimulate innovation, and the start up companies that fuel the high tech industry. Start ups, particularly in the high technology industry rely on stock options as an incentive to attract talent. Start ups cannot afford to pay as much cash compensation, and with their inherent business risk it would be impossible to attract the necessary talent to build a successful company, without offering the upside potential of stock options.

Larger companies whom I am sure are a key source of input to the FASB executive, have less concern about stock options, because they have an easier time attracting employees, and have many other compensation vehicles (Deferred Compensation Plans, Long Term Incentive Programs, etc.) and fewer constraints on paying out cash. They will likely be unintended beneficiaries if this legislation passes, because there will be less likelihood of new competitors nipping at their heels.

As a Board member active in the implementation of new Governance processes, I know that the abuses that have led to consideration of expensing stock options, were largely caused by poor governance, and are not inherent in the concept of stock options.

Lastly I would argue that having shareholders approve new option pools, and showing the dilutive effects of options issued on the company's earnings provides the shareholders all of the control and information necessary. Expensing stock options will further muddle a company's true performance, making it impossible for all but the financial analyst community to understand the 'real' results.

Stock option abuse is a governance issue NOT an accounting issue. Do not throw the baby out with the bath water: By forcing the expensing of stock options, I believe you will cripple high tech start ups, and ultimately the global competitiveness of the American economy.

Yours Truly

John S McFarlane

NOTICE: This email message is for the sole use of the intended recipient(s) and may contain confidential and privileged information. Any unauthorized review, use, disclosure or distribution is prohibited. If you are not the intended recipient, please contact the sender by reply email and destroy all copies of the original message.

6/15/2004