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From: Tibor Deak [bitmapdk@pacbell.net]
Sent: Wednesday, June 30, 2004 11:20 PM
To: Director - FASB
Subject: Expense stock options now

Letter of Comment No: 5815
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Dear FASB,

I am a lowly individual investor that has watched in dismay as corporate executives in the high tech sector have used disingenuous arguments to block the truthful and honest accounting of option expenses. One of their main arguments in opposing the expensing of options is that it is impossible to accurately determine their value. If this argument is valid, how is it that every last tech company manages to value their options for the IRS, which enables them to receive huge tax credits under classic deductions for employee compensation costs? If the method for valuing their options is good enough for the IRS and good enough to receive and benefit from the tax credit, that same method should be good enough for the income statement. It is an absolute outrage that companies are allowed to dismiss the cost of stock options on their income statement while at the same time accept the IRS tax credit on their balance sheets for those very same costs. They should not be allowed to have it both ways. If they claim the tax credit from the IRS, they must acknowledge the cost on the income statement. Failure to do so leads to a double whammy boost to the official financial documents of those companies that use options heavily: 1) ignoring the costs of options on their income statement greatly reduces the largest cost of doing business, employee compensation, which greatly boosts the bottom line, 2) the tax credit received from the IRS for those very same options that do not appear on the income statement boosts the asset column on their balance sheet. Talk about a free lunch! However, in reality, we know that there are no free lunches and somebody ultimately pays for this embarrassing financial sleight of hand.

The liberal use of options ultimately dilutes shareholder value. To offset this inevitable outcome, many option heavy corporations institute huge stock buybacks using cash hordes that really belong to the shareholders. The corporations claim that their buybacks are good for the company, that they reduce the effect of dilution or indicate strong fundamentals. In reality, they simply serve to transfer shareholder wealth to executives through options. Often, a company will use most of its profits in a given year to make those huge buy backs. If those buybacks were reconciled with the income statements, profits would disappear.

Executives and workers of corporations are entitled to good pay, and options can be a valuable vehicle for such pay. However, failure to expense options allows corporate management to abuse this valuable tool to the detriment of the shareholders. The corporations often warn that honest expensing will diminish the use of options and lead to all sorts of economic catastrophes. They are basically saying that for the sake of the economy, let's continue to lie about option expenses. They are correct that the truthful expensing of options will diminish their use, but that belies the point that option use never would have gotten so wild if they had been truthfully expensed in the first place. Just because a compensation vehicle helps start up companies doesn't mean it should be used in an untruthful way.

The primary concern of those assigned the profound duty of safeguarding the integrity of our markets should be to defend honest transparent financial reporting, period. Let the businessmen figure out how to make money off the next best mouse trap within rules governed by honesty and integrity. In 1994, you failed to stand up to the high tech industry

and the congressional fools who backed them on this issue. You failed to demand that options be truthfully and transparently accounted for on the income statement. I believe that that failure played a part in creating the great stock market bubble of the late '90s. A virtuous cycle was created with options at the center. Options were used to greatly reduce employee costs which greatly magnified profits. Those apparent higher profits lead investors to believe that business was better than it was, creating demand for those stocks and higher prices. The higher prices lead to greater and greater wealth accumulation for the option holders which lead to a greater desire to get paid in options rather than cash. This lead to even greater reductions in employee costs and so on and so on. There was more to the bubble than options, however I believe that option abuse played a significant role. In the end, the shareholders were left holding the bag.

I know that you are under tremendous pressure from the high tech industry and from many members of congress. Stand up to these people who appear to value market integrity last and way behind their own personal gain and fortunes. This is not a debate about the usefulness of options. It is a debate about the integrity of our markets. Please require the full, honest and transparent reporting of option expenses on the income statement where employee compensation belongs. You are the guardians of the integrity of our markets. It is up to you.

Finally, I know that you probably are well versed with my argument and have heard its basic message from people of much higher standing than myself (Warrne Buffet comes to mind). I appreciate your time and the opportunity to voice my oppinion.

Sincerely,

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