ikon

Letter of Comment No: 5495
File Reference: 1102-100

From: Stacey Sutay
Sent: Tuesday, June 29, 2004 1:05 PM
To: ikon; Karen Salmansohn
Subject: FW: Comment in favor of expensing stock options

-----Original Message-----
From: FASB Comments
Sent: Tuesday, June 29, 2004 1:04 PM
To: Stacey Sutay
Subject: FW: Comment in favor of expensing stock options

-----Original Message-----
From: Susan_Darren Busing [mailto:busing@hotmail.com]
Sent: Tuesday, June 29, 2004 12:33 PM
To: FASB Comments
Subject: Comment in favor of expensing stock options

As a Silicon Valley Engineer with 15 years experience, I'd like to explain why I think FASB's proposal to expense stock options should be approved.

Although a corporation can cover exercised stock options by issuing new shares of stock without affecting company cash flow, the purchaser of this new share of stock expects that he is contributing working capital to the corporation, for the purposes of generating future profits. If a portion of the proceeds flow directly to an officer or employee, this is the source of an expense.

Furthermore, I find that proponents of non-expensed options offer several disingenuous arguments. They claim that stock options are critical to employee morale and corporate excess, but threaten to eliminate them for the rank and file if they are expensed. Either stock options are important, or they aren't. You can't have it both ways. Also, proponents claim that since the expense associated with options is unpredictable, we should take the Enron-esque leap of logic of assuming that their cost is zero. If company insiders were as reckless as they claim in offering one another and their employees millions of options, with no ability to predict their future effect on the share price, they are arguing that stock-option plans should be subject to direct shareholder approval, not that their cost be hidden from these same shareholders.

Lastly, given the resistance to expensing over the last 10 years, I don't think non-expensing proponents have the right to quibble over the method in which options are expensed. In fact, by expensing options aggressively, FASB would be putting stock share awards on the same level as stock options. Stock shares have several advantages over options. First, their expensing is more predictable and straightforward; the expense is the market price of the stock on the day an employee takes possession of new shares. Second, corporations can award officers and employees with a smaller amount of shares (since the beneficiary can keep the entire value of the share, not just the increase in value), resulting in fewer shares being controlled by insiders. Third, compensation becomes more a function of corporate policy in the quantities of shares they offer, and less a function of stock volatility. Compensation becomes less of a lottery. Lastly, by owning shares, and not options, employees and officers would be more interested in a stable stock price than a volatile one. When officers control options, they are more likely to take all-of-nothing bets, since they see no difference between a mild slide and a large drop in stock value. Perversely, a large drop in stock value is preferred, because it provides an excuse for useless options to be reissued at a lower price.

In my experience in Silicon Valley, I have seen the perverse effects of options, repriced options after stock dives, quietly cheering for the stock price to dip before the year's new options are issued, and seeing company founders cash out and retire from companies that would later go bankrupt with never turning a profit. It's been fun for the valley while it lasted, but unexpensed options are this region's steel tariff or ethanol subsidy. They are a special-interest perk of no use except to those who benefit directly.

Thank you for your time,

Darren Busing
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