

ikon

From: Stacey Sutay
Sent: Friday, June 04, 2004 11:38 AM
To: ikon; Karen Salmansohn
Subject: FW: Comments on Share-Based Payment-an amendment of FASB Statements No. 123 and 95

-----Original Message-----

From: Withers, Jerry [mailto:Jerry.Withers@surgient.com]
Sent: Friday, June 04, 2004 10:50 AM
To: FASB Comments
Cc: jemwit@grandecom.net
Subject: Comments on Share-Based Payment-an amendment of FASB Statements No. 123 and 95

4 June 2004

Robert H. Herz, Chairman
c/o Director of Major Projects and Technical Activities Financial Accounting Standards Board 401 Merritt 7 Norwalk, Connecticut 06856-5116
re: Comments on Share-Based Payment-an amendment of FASB Statements No. 123 and 95 Dear Chairman Herz: As a non-executive employee of a small technology company struggling to cope with our current economy and competitive situation, I have a high regard for the value an employee stock option program provides in obtaining and retaining skilled personnel. As a business manager and citizen, I also recognize that the accounting for executive stock options currently employed by most entities has led to major abuses and violations of public trust. In reading and researching the proposed Share-Based Payment amendment, I have found much of the content to be sophomoric reasoning and contrary to sound accounting principles. Therefore, I urge you to consider the following points during restructuring of this amendment. 1. A simple accounting principle can clear up much of the confusion and complexity embodied in the current amendment draft -- that of basing accounting entries on real events, not speculation. The real, identifiable, events in the life of a stock option are granting, vesting, exercising, and revocation (usually due to termination). Each of these events provides us an opportunity to determine real value to record in an accounting statement. 2. At granting and vesting, the value recognized on the books represents a liability, a promise to pay, but not an expense. 3. At exercising, the value recognized is a real expense, a type of compensation delivered to an employee. 4. At revocation, the value recognized is a reduction in the liability, or promise to pay, but not an expense. 5. Complicated fair market value computations that account for the many and varied possibilities of market conditions are confusing and contrary to sound accounting principles. They may make sense to economists, but are not the realm of accountants. At each event, the value recognized should simply be the difference between the exercise or strike price and the market price at the time of the event. For negotiable stocks, that price is set by the market in which it is traded. For non-negotiable stocks, that price is set by the Board of the respective organization issuing the stock. 6. Pro-forma accounting statements are suitable to certain situations to better explain the vagaries of some industries, markets, or corporate conditions, but are not the realm of accounting standards which should address clear and unequivocal ways of recording business events. 7. Public policy and social effects are the realm of Congress, not accountants, and should be dealt with in legislation, not in this amendment or other accounting standards. If these touchstones are applied to this amendment, a much simpler, more easily understandable, and less nightmarish procedural approach will emerge. Without these considerations, this amendment will make accounting statements less useful and possibly drive entities towards abolishing stock option programs. Sincerely, Jerry M. Withers

cc: Representative Lloyd Doggett
Senator Kay Bailey Hutchison
Senator John Cornyn

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