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Letter of Comment No: 2245
File Reference: 1102-100

From: chrisandmb@fuse.net
Sent: Tuesday, May 04, 2004 8:46 PM
To: Director - FASB
Subject: File Reference No. 1102-100

Thank you for the opportunity to address the above referenced exposure draft.

First, as a rank-and-file employee and secondly, as the primary preparer of a Company's financial statements, I want to thank the FASB for once again reviewing an accounting area that has been addressed before (FYI - Pension disclosure did not greatly improve with the re-release of SFAS No. 132).

Periodically, I have been granted a performance-based stock option grant (with a strike price at market). This was a nice gesture by my employer to enhance my annual performance review, which also includes a modest annual compensation increase. This "enhancement" didn't increase my annual compensation cost recognized in the financial statements nor did it affect my salary as compared to internal / external peers, but it was greatly appreciated. It was a simple recognition for good work. The stock option plan was approved by shareholders, so they knew what the plan was used for. The impact of my options prior to (and post) exercise are considered in the diluted EPS calculation, which has the impact of being included in the Company's financial performance. As a result of the mandated expensing provisions, I can be assured that the days of receiving non-executive stock option grants will be over; so thank you.

The valuation methodologies used to compute a "FMV" of options are limited and certain provisions of the exposure draft are ludicrous. The Black-Scholes option pricing model, which always was (and still is) supported by the FASB as a valuation technique, was originally developed for valuing traded options with relatively short lives. Stock options don't typically fit into that definition. Yet, the FASB tries to force a square peg into a round hole. Additionally, the idea to level the playing field for all companies is also not achieved, as the estimated FMV of each option grant is derived using numerous estimates which are very subjective (implied volatility, expected life, risk-free interest rate).

Lastly, I would like to leave you with a real life example of how the provisions of this proposed statement will incorrectly impact financial statements. Stock options with a life of 10 years are granted with a strike price \$30 above the current market price. The grant is for a large number of shares which would greatly reward an individual should the stock price of the Company appreciate significantly (which obviously would also benefit shareholders). Under the proposed statement, we value these options at the date of the grant and expense the FMV over the four year vesting period. FAST FORWARD - 10 years pass, the Company's stock price never approaches the strike price, the options expire worthless to the individual, and yet the Company has recognized millions of dollars in compensation costs.

How does this example aid the financial reporting function which is to measure and communicate economic activities of a Company? Almost all other accounting estimates are subject to revisions once actual information is available.

Sincerely,

Christian Jalovec, CPA