

Letter of Comment No: 5748
File Reference: 1102-100

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From: Pamela Van Meter [pvanmeter@cox.net]
Sent: Wednesday, June 30, 2004 5:20 PM
To: Director - FASB
Subject: Comments on Proposed FSP for expensing stock options

Hi,

I would like to comment on the proposed rule that would require companies to treat unexercised options to purchase stock as actual expenses in financial statements. I have listed my opinions on the proposed rule and made of couple of suggestions that might accomplish the same purpose without changing the expensing rules.

I feel expensing stock options is a bad idea for several reasons. 1. The business and investor community knows about the current rules that require stock options to be listed in financial reports, so it is unnecessary to further list them as an expense. 2. The rules cause a company to list as an expense a charge that may never actually occur--falsely penalizing them in terms of fair market value--since if the option is unexercised, the previously expensed value cannot be added back into the bottom line as income. 3. The new expensing rules rely not upon actual expenses incurred, but approximations of what the expenses could be for determining the value. 4. The approximation formulas are neither precise nor consistent. 5. Many people are trying to use financial rules for political or monetary purposes.

1. The business and investor community knows about the current rules that require stock options to be listed in financial reports, so it is unnecessary to further list them as an expense. The business and investor community knows how to evaluate current stock prices. They also know how to read a financial statement. I personally did not purchase shares in one particular company in the early 1990s because I read the financial statement and saw how many options went to the founders. The information is not hidden. Expensing options will create an environment where stock valuations from the past can't be compared with future valuations because the rules are different.

2. The new rules cause a company to list as an expense a charge that may never actually occur--falsely penalizing them in terms of fair market value--since if the option is unexercised, the previously expensed value cannot be added back into the bottom line as income. The expensing formula does not provide a true expense--it provides a value of what might happen. As far as I am aware, if the option goes unused and expires, the old expense cannot be added back into the bottom line as income. This serves to falsely lower the true economic state of the company.

3. The new expensing rules rely not upon actual expenses incurred, but approximations of what the expenses could be for determining the value. I understand the expensing formulas to be approximations. Which flies in the face of what expensing should be. Accountants generally require receipts and documentation to directly confirm a value for expense reports or financial statements. Changing this requirement is definitely incorrect. This value ends up being a statistical approximation. If you do not know the true value, how can you expense it. If you wait until the option is expensed, then you can assign it a true value.

4. The approximation formulas are neither precise nor consistent. I understand that the proposed rules do not require a specific approximation formula. This allows different companies to use different formulas to determine the expensing. This creates a mess for the common investor when professionals who study the impact of the various formulas can falsely compare one company with another because of the different expensing formulas the companies use.

5. Many people are trying to use financial rules for political or monetary purposes. Warren Buffet is frequently cited in the media saying that options should be expensed. I feel Mr Buffet is using this as a ploy to lower the stated profit values, which will raise P/E ratios to an extent that, even though nothing has changed as far as the business, except the way stock options are accounted for in a financial statement. The value of the stock will appear too high. This will cause the price to fall--allowing him to purchase shares at a more favorable price. He frequently is quoted as saying that he does not understand how to value new technology companies. So I think

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he is trying to turn new technology companies into old technology companies in the sense they that must limit the amount of stock options issued. I do not feel this is paranoia. He has the money. If he can affect stock prices so that they lower, he can buy the same stock for less money, allowing him a tremendous opportunity to make money if the stocks go up in value, while minimizing his downside because the stock price is lower. And if expensing the options doesn't affect the stock price, why do it.

General comment on how stock options improve the overall business climate:

Currently, new technology companies, which have spawned a tremendous growth of jobs in the United States, issue stock options to a large cross-section of employees making every employee truly vested in the performance of the company. The moment that the ability to influence the pride and sense of ownership in a company is made exceedingly difficult to implement is the moment at which the United States loses the edge in innovation and integrating successful ideas from all employees in any given company. This will not lead to the downfall of the American business community--but it makes it much more difficult to compete. Having everyone share in the success of a company is a tremendous thing. If sectors of the business community that issue stock options don't spread them across the entire company, they should. I guess I'm saying that the technology industry has used stock options to fuel a tremendous growth in jobs and lead the world economy in technology. Instead of penalizing the future job and sector leaders in the United States by removing one of the key tools to make everyone part of the team, I suggest that other industries adopt the technology practice of spreading the options across a larger percentage of the company. (Fair disclosure: I work in the high tech industry).

Suggestions:

1. Require a new line on the financial statement that lists total outstanding stock option grants. Require this line in a prominent location, not in a footnote. This ensures visibility of the total number of stock options, while not affecting the learned experiences of the last 10 years. If you change the valuation method, rightly or wrongly, investors will not be able to successfully compare a stock of \$10/share today with a \$10/share value from 3 years ago. This itself creates a tremendous opportunity for uneducated investors to be fleeced by unscrupulous stock manipulators, because apples are not apples anymore, they are different kinds of apples.

If this is not desirable, require two financial statement numbers. One where the options are expensed and one where they are not. This is good because it provides continuity for the investing public to compare stock prices with the last 10 years or so of stock valuations for a given stock, while simultaneously letting those who truly think it makes a difference see the affect of expensed stock options.

I cannot emphasize too highly how I feel many people will lose tremendous value in their stock investments because someone who does understand how to interpret the stock expensing valuation formula will be able to offer a stock price comparison between the same stock with different rules--which will cause someone to buy or sell at the wrong time. In point of fact, the "professional" investor will get to take advantage of the "at home" investor, because in many cases the at home investor won't know how to compare a \$10 stock price today with a \$10 stock price of three years ago because of the implications of the expensing formula (which isn't even based on actual expenses--it's just an approximation)

2. Impose a requirement that only a certain percentage of stock options can be granted to senior level positions (25%/50%, etc). Quite frankly, once employees (union or otherwise) receive an option in the future value of the company, they become far more interested in making the company successful. Imposing a limit on senior management receiving options helps curtail perceived/actual abuses. I have read many comments that unions are pushing to expense stock options because of past abuses by senior management. If that is truly a problem--limit the percentage of options that senior management can have. Spread the option wealth amongst all the employees. Expense them when they are executed.

Thank you for your time.
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