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Letter of Comment No:2471
File Reference: 1102-100

From: Cooper, Phil [pcooper@crai.com]
Sent: Monday, May 17, 2004 11:45 AM
To: Director - FASB
Subject: stock options expensing

Many see options expensing as an issue for only technology firms, but, in fact, companies across all industry sectors have successfully used options to attract talent and more closely align interests of employees with those of the companies. Mandatory expensing will discourage use of options, thus discouraging entrepreneurship and business development. More than an accounting issue, it is an economic issue that would have far-reaching negative consequences on many U.S. industries, hurting rank and file workers, competitiveness and innovation. FASB's plan will not improve corporate governance and will not help investors gain a complete understanding of a company's finances. No valuation model for options (e.g. the Black-Scholes or lattice models) is considered to be reliable, consistent or comparable. Neither vesting nor blackout periods are considered in such valuation models. Stock options are very different from market-traded options. It is impossible to create an accurate value, and expensing based on available methodologies would in fact undermine the credibility of financial statements. If companies are allowed to adopt FASB's different valuation models, inconsistent valuations and investor misinformation will be the result. There are huge costs associated with implementing expensing a poor investment given the flaws inherent in the FASB plan which will negatively impact the accuracy and comparability of financial statements.

On broad-based options plans:

There is no direct evidence that unethical and illegal corporate behavior aimed at inflating stock values is in any way tied to broad based stock options plans. The "cost" of options is already reflected in financial statement in the dilution of earnings per share. Broad-based options plans are an entrepreneurial incentive that sparks innovation, enabling the creation and growth of successful companies that in turn provide jobs. Broad based plans help align the interest of employees with that of their companies.

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