ikon

Letter of Comment No: 5587
File Reference: 1102-100

From: Paul_Sawyer@amat.com
Sent: Tuesday, June 29, 2004 7:55 PM
To: Director - FASB
Subject: Expensing of Stock Options

Dear FASB,

There are so many opinions about stock options that it baffles the mind. The proposed plans for expensing stock options will destroy the ability of most companies to offer this incentive. Stock options are a powerful incentive. Employees work harder when they have a financial incentive to do so, and stock options provide an excellent methodology to do so. I agree that stock options need some form of formal recognition by the FASB, so that they are reported similarly on everyone's Balance Sheet. I also agree that some companies have abused the stock option rules. However, you should not take away an excellent incentive because of a few bad apples.

Broad based stock option plans put more money in spenders pockets, further fueling our economy.
ESPP Programs encourage long term savings, also helping our economy.
Stock Options with long vesting schedules increase longevity of employees at a company, which further increases productivity.

All of the proposals for expensing stock options seem ineffective. Most of the proposals will cause an increase in stock price to reduce corporate earnings. This is like sending your kids to a time out for doing well in school. It just doesn't make sense. A drop in a companies stock price could reduce the expensed amount, artificially increasing earnings.

If you must expense stock options, you should have the expensed amount be fixed at the time of the issue of the stock options. I would understand a proposal where you require a company to expense the difference between the fair market value and option value at the issue of the stock option. This is a fixed amount, and variation in the stock price would not change the balance sheet. Using this valuation method, most of the stock options that I have would require the company to expense $0, as my options have been at fair market value at the time of issue. This would prevent companies from hiding compensation, such as giving a CEO 100,000 options for $0.01, when your stock is trading at $20. By fixing the value of the expensed amount, you would have more predictable balance sheets, which is beneficial for Wall Street.

thanks for listening,

paul