ikon

From:

Director - FASB

Sent:

Tuesday, June 29, 2004 2:15 PM

To:

ikon; Karen Salmansohn

Subject:

FW: not-worth-what-it-seems accounting

Letter of Comment No: 5489 File Reference: 1102-100

----Original Message----

From: Brian Bresnahan [mailto:brianbresnahan@hotmail.com]

Sent: Tuesday, June 29, 2004 1:55 PM

To: Director - FASB; savestockoptions@cisco.com Subject: not-worth-what-it-seems accounting

June 29, 2004

Dear Sirs:

I am very concerned about the proposed changes for expensing stock options at time of grant. I am not an executive with mega-millions to protect, I am a software engineer who works hard every day to ensure some financial safety now and for the future of my wife and two children.

I have to change jobs every few years because technology changes so quickly. So there are no long-term corporate pension plans - my "bonus" has typically been stock option grants. Out of the 5 companies I have worked for, the options have been worth some real money only 1 time out of the 5. In the other cases the options became worthless.

My point is that many people think a stock option when granted actually has some value. I can assure you that, being the recipient of such a legal contract in these 5 cases, when the option is granted it is worth \$0 to me.

contract in these 5 cases, when the option is granted it is worth \$0 to me. In the case of ISOs, it is actually written into the IRS Code in the Section on ISOs that they can NOT be granted at LESS than market value. Therefore, by definition, they are worth \$0. But people who don't understand stock option contracts or look at them only from the corporate side of the equation think that the FACE value of the option is worth something to me, the recipient. Not so.

If I receive an option to buy 250 shares of stock at \$100 per share, it will cost me \$25,000 to do so. On numerous job interviews, I have had people tell me things such as "the option we granted you is worth \$25,000. The minute you walk through the door you are worth \$25,000 more." This is completely not true. It would COST me \$25,000 to exercise the option and I would only do that IF I thought the stock had some future value.

This unexplainable not-worth-what-it-seems thinking I am now seeing once again with the proposal to expense stock options when they are granted. Since options are granted at fair market value, the real value to me is \$0. Until the underlying stock price goes up that stock option is worth nothing. When it becomes worth something, I decide to exercise the option. At that time, I am effectively purchasing the shares and that is the appropriate time to expense the options, as is done today. (That is my understanding - I am not an corporate accountant). Until the "property" changes hands, there is nothing to expense because the stock never left the company's treasury and into my brokerage account. Therefore it doesn't affect the number of shares on the market or the earnings-per-share until time of exercise.

I will give you another example of improper not-worth-what-it-seems accounting. Via the AMT (Alternative Minimum Tax) the IRS taxes me, the citizen, on stock from ISO options BEFORE I actually sell the stock. The buyer/seller transaction is not complete to me, yet I pay a tax on it when I exercise it. In reality, I will sell the stock at some future date and

then pay tax again on any additional gain. If the stock goes down I am limited to my loss. In either case the accounting math becomes so horribly complex that it is almost beyond comprehension. Moreover, when I sell the stock after holding it for a year to get long-term capital gain rates (we were taught that holding stock long-term is the right thing to do but IRS laws can force you to think otherwise), I never receive the correct credit for the original tax payment. This is due to a flaw in the IRS code that no one in Congress seems to want to fix.

Moreover, this thinking bankrupts unwitting workers every single year who exercise and hold their ISO stock past December 31st. Let me get to the point. These issues stem from the fact that the IRS places an artificial value on the stock before it is sold on the market. This is very much like expensing stock options at the time of grant. This is not-worth-what-it-seems accounting - you attempt to attempt to anticipate the value of property in the market without actually selling it. You are not abiding by the rules of a true market economy and this is DANGEROUS.

FASB thinks that the option is worth something according to Black-Sholes, but as I pointed out above, the option is worth \$0 to me when granted. Do not fall into the trap that the face value of the option is worth something. Expense the shares when they actually change hands.

In any case, since my career is in software development, my financial life has always involved stock options. If you do make a change, please restrict your changes to the massive stock options granted to executives. Please leave the workers alone and come up with a smart way to make your changes. After the recent technology depression, economic downturn, job outsourcing, massive tax outlays to rebuild Iraq, and a future with no payback on our 7% Social Security payments, please be very smart when fixing the "option problem" when it comes to the working folk like me. A stock option is a great incentive to work harder than the other guy. The U.S. needs this more than ever right now.

Sincerely, Brian Bresnahan 93 Blanford Place Bedford, NH 03110 brianbresnahan@hotmail.com

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