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Letter of Comment No: 3229 File Reference: 1102-100

From: Sean Mountcastle [smountcastle@cox.net]

Sent: Thursday, June 03, 2004 8:25 PM

To: Director - FASB

Subject: FASB File Reference No 1102-100 - Expensing of Stock Options

As an individual investor who has also benefited from employee stock options and employee stock purchase plans in the past, I felt the need to write you regarding FAS 123. In principle I would favor the expensing of stock options granted to the top executives of companies, even though the existing methods of calculating the value of options is serious flawed (most notably Black-Scholes).

I believe that FAS 123, as currently proposed, will cause significant harm to both the work force and companies within the United States of America. As we are just seeing signs of an economic recovery, your plan threatens to send us back into a recession. An unintended, and frightening, side-effect of FAS 123 is that it indirectly provides an incentive for companies to lay-off those employees who have a large number of underwater stock options; this means that those who changed jobs during the height of the stock market run (circa 2000), including those entering the workforce for the first time, may be adversely affected by this proposal.

Today, America is recognized as the leader in high technology and innovation which has lead in the past to a rapid expansion of our economy and a significant amount of job creation. This was due in large part to the willingness of Americans to take risks and join early stage ventures where the primary source of compensation was in the form of stock options. If implemented, FAS 123 will likely bring an end to broad-based employee stock option plans and could result in a contraction in those fields, such as technology, where they currently play a major role in compensation.

To remain competitive in this era of globalization, American companies desperately need access to various incentives and compensation packages which include stock options and stock purchase plans. Other countries, such as China and India, do not expense stock options, thus giving them an advantage. If FAS 123 is implemented, we will see a 'braindrain' with many former immigrants returning to their home countries for employment along with Americans looking for work abroad.

Since stock options do not utilize company assets as a form of compensation, they do not meet the definition of an expense. The true cost of stock options is dilution to the earnings per share (EPS) of a company and is already accounted for at the time of option exercise. Since employee stock options are not freely traded and subject to forfeiture both when the employee leaves the company and at the time of option expiry, they are extremely difficult to value. This valuation issue is widely recognized in the economic community and several alternatives have been proposed. These inaccurate valuations will cause financial statements to lose their value for the individual investor and likely lead to further inaccuracy and financial engineering in corporate filings, which obviously is of no benefit to shareholders. Stanford University professors Bulow and Shoven have published a paper, "Accounting for Stock Options," describing the issues with the existing methods of valuation and proposing a simple accounting system, based on the 90 day option prices, which addresses the issues with Black-Scholes.

The past few decades have shown that broad-based employee stock option plans and employee stock purchase plans not only enhance productivity but also benefit shareholders by aligning employee and shareholder interests. It would be a grave error to impact these existing plans in any way.