

Karen Salmansohn

From: Director - FASB
Sent: Monday, February 03, 2003 8:24 AM
To: Karen Salmansohn
Subject: FW: File Reference: 1102-001

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-----Original Message-----

From: Marc [mailto:marcs@tiac.net]
Sent: Saturday, February 01, 2003 11:42 PM
To: Director - FASB
Subject: File Reference: 1102-001

As a capitalist, I believe that stock options are good employee incentives. But they also distort earnings by the way they are accounted for.

Companies receive a double windfall from the way stock options are currently treated. While they deduct stock options when calculating their taxes, they don't expense them when calculating public earnings. This incents companies to issue a large number of options since they receive a huge tax break on one side, without a reporting penalty (i.e. reported earnings) on the other. If companies are allowed to deduct stock option expenses from revenues when calculating their taxes, then this is how they should be reported to the public. We need companies that are growing revenues and generating cash from operations, and not just through a bunch of accounting adjustments. We also need standardized, accurate accounting.

Business investment should depend on the true return of capital, not the return on accounting manipulations. Companies don't need extra incentives to issue stock options. If they are not being expensed on the income statement, then they should not be deducted from taxes. I thought that this was a country based on innovation and manufacturing new products. Now it has become one more concerned with manufacturing earnings. Our system should reward innovative new products, not creative accounting. As India and China begin to challenge the United States' technical leadership, we need to make sure that our capital is allocated properly to industries that are truly cost competitive in the global world, and not to continue buttressing companies that are running money-losing operations.

Stock options have been concentrated in the hands of a few people at the top of management. In the housing market, interest deductions are limited to the first \$1 MM in loans. This doesn't seem to have hurt the residential real estate market. In the same manner (although not necessarily using this amount), there should be a threshold limit above which stock options need to be expensed. This would be calculated annually on a per employee basis. This way, if management and the Board of Directors decide to award an unusually large number of options to one person, one would assume that this person is providing such an extraordinary level of value to the company that the company would be willing to take on this extra level of compensation expense.

Sincerely,

Marc Stutman