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From: Robert Tran [robtran@yahoo.com]
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Letter of Comment No: 1653
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Chairman Robert H. Herz,

Good afternoon Chairman. I am writing this letter to urge you not to expense stock options, especially at an unrealistically high valuation.

I believe I understand the motivation behind this desire and even empathize in many respects given all the corporate scandals of the past several years. I do believe in cleaning up the system and insuring that corporations uphold the highest standards of honesty and integrity in their business practices, but I do not agree that expensing stock options is a step in this direction.

I see this course of action as harmful, on a personal level as well as an industry-wide level. Stock-options have been and will continue to be the fuel that drives our innovation and our economy. The past several years have been hard enough on the high-tech industry and the people that work in it. As we now see the light at the end of the tunnel and are perhaps getting out of the down-turn, hamstringing corporations by making them expense their stock options will only make our recovery that further off (if not possible at all) by reducing corporate earnings.

The expensing of options will reduce earnings, which in turn will reduce the stock growth, which will essentially degrade the value of any equity an employee has built up with existing options (this is what most people came to the Silicon Valley for and basically their "nest egg" that they have worked so many years to accumulate). This will create a "time-bomb" situation for corporations in that there will be a mass exodus of employees if the economy does pickup and corporations start hiring again. People will jump from their present companies to chase a higher base salary (since many compensations packages will be insufficient as-is without options). Expensing options will also reduce or eliminate the issue of any new options, which will force employers to increase salaries, which will again reduce earnings. Being that we are coming out of a down-turn, most of the options that people own today are "under-water" and have no value. If their stock price does not increase beyond the price of the option before the options expire (which could be anywhere from a year to 9 years from the date of issue), these under-water options will never be exercised.

Many employees have much of their compensation packages based on stock options. Just as a server at a restaurant makes their living not through the wages the restaurant pays them, but through the tips they get from the patrons, tech workers took stock options as "wages" to compensate for lower salaries. And just as the server knows that the bulk of their wage comes from tips, the incentive for them is to provide great customer service, so it is with the tech worker and their options, the incentive is to push the envelope and continuously improve the company so as to be able to realize some gain in their options and reap the rewards of their hard labor.

I'm not advocating doing nothing and leaving it all as is. As a concerned citizen, I hear the news stories of corporate excess and malfeasance and of executives who "cook the books" to reap huge rewards (through their options) at the expense of the average investor, the average person. Lets work to correct these specific abuses and loop-holes, use a scalpel, not a machete. The everyday worker with options is just like the everyday investor - someone with a vested interest with in the company they own shares in. They do not cook books or misguide the public. They are victims just like everyone else when their executives drive a company into the ground.

Please avoid a knee-jerk reaction and continue to take the time to do a thorough analysis, work with a broad range of parties to get the whole story and have a complete understanding of the impact before coming to a final conclusion.

Thank you for your time.

R. Tran

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