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Letter of Comment No: 5449
File Reference: 1102-100

From: Andrew D. Swart [andrew@swart.com]
Sent: Monday, June 28, 2004 9:42 PM
To: Director - FASB
Cc: jcdowling@nvca.org
Subject: 1102-100 Stock Option Expensing
Importance: High

June 28, 2004

FASB Director
File Reference No.: 1102-100 Stock Option Expensing

Dear FASB:

I am writing to express my concern over the proposal to expense stock options. As the co-founder of a high-tech startup that sold for several hundred million dollars, as the board member of two privately-held, high-tech firms, and as an advisor to several Venture Capital funds, I would like to express my strong disapproval in treating options as an expense item. In particular, expensing options will 1) result in bad accounting, 2) limit the competitiveness of the United States and 3) add additional expenses for US companies to bear. It is my sincere hope that FASB will find another, more intelligent way to account for stock options.

Bad Accounting: Expensing options, which has neither current market nor cash value, is absurd and ultimately bound to be inaccurate. Individual options for startups have no market and thus no realizable current value. In addition, expensing options is simply wrong. Options are not an expense to a corporation. Options are a contingent liability in the form of dilution of earning per share. Running options through the income sheet is, plainly, incorrect accounting.

Stifle U.S. Innovation: More importantly, this accounting change will severely limit the ability for the United States to continue to compete in the world economy. China, India, EU member countries and other Asian Tigers are not limited by this accounting practice and will be able to better incent their employees. This will result in an already depleted talent pool to either stay overseas or worse yet, ex-patriot overseas. Without options, talented employees will simply head to the highest paying jobs rather than take a risk working for a U.S. company in the early stages of success.

Additional Expense for U.S. Corporations to Endure: Finally, in the event that the ruling passes, my company will be forced to hire new accounting staff or consultants to a) gather the historical option data required, 2) run complex models, 3) conduct additional appraisal on stock price volatility, which are key variables in binomial, Black-Scholes or intrinsic value modeling.

Although there is tremendous political pressure to "do something" after the various financial accounting scandals, expensing options will not help. I fear that this has turned into a decision for short-term political gain. I will be looking for your common sense and continued service to our economy.

Sincerely,

Andrew Swart

6/29/2004