December 30, 2003

Andrew H. Dral
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Financial Accounting Standards Board (FASB)
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 129
File Reference: 1101-SCU
Date Received: 03-01-04

Dear Mr. Herz,

Please fight against House bill -- Broad-Based Stock Option Plan Transparency Act of 2003 – HR 1372. The supporters of this bill insult the intelligence of anybody with knowledge of accounting or finance. Not expensing employee stock options is accounting *FRAUD*. Chairman Alan Greenspan says options "should be expensed," and the argument that they can't be accurately valued is "flat wrong." When it comes to options Silicon Valley will only be happy with options having a value of zero, anything else is not acceptable to TechNet. The Black-Scholes options' pricing model is time tested, elegant, and accurate.

Senator Boxer laments "we can't stand by and let accountants wearing green eyeshades decide who is going to get the American dream." Senator Boxer would rather have Silicon Valley CEOs decide our accounting principles, so it's assured that Silicon Valley CEOs live the American dream, off the backs of shareholders. Not expensing employee stock options destroys transparency and shareholder value, fleecing the pockets of all investors.

One author laments, employee stock options are "a vehicle of fantastic riches for an elite few." CEOs have made windfall profits from employee stock options, while investors in the Tech 100 lost $0.96 on the dollar from the markets peak until the boom's end. Investors have been stripped of returns by stock options. Why should we stop the CEOs from making egregious lavish salaries, roughly 465 times that of an average worker. They have so much fun paying off politicians from both political parties with the windfall. Note that 80% of CEO's salaries comes from employee stock options. Investor losses are a direct result of bogus acccounting: costs are understated and profits and shareholder value are overstated. Many technology companies had no earnings or took large lossess when counting the option's cost. Not expensing stock options is out-right accounting *FRAUD*.

Those supporting the expensing of stock options sent management a mandate at Delta Air Lines, Apple Computer, and Veritas Software Corp. Sixty-two percent of the shareholders at Delta, by 80% over those against expensing at Veritas, and by 29.2% over those against expensing at Apple, the reformers won. Even at companies where shareholder proposals to expense stock options lost, -- Hewlett-Packard, IBM, and Intel -- the votes were extremely close. Considering that mutual funds and brokerage firms are conflicted, because they jeopardize losing 401K, investment banking, or other privileged relationships by voting against managment. The outcomes were very encouraging to reformers.

Expensing of stock options at Hewlett-Packard was defeated by only 7.7% of the votes with 35.9% voting "For" expensing. At Intel expensing was defeated by only 0.98% of the votes with 47.6% voting "For" expensing of stock options. At IBM expensing was defeated by 10.4% of the votes with 34.4% voting "For." Defeating management in a shareholder proposal is highly unusual, getting over 10% of the votes management takes notice. Charles Schwab shareholders sent management a message by 23.4% of the voters supporting the expensing initiative. Support the shareholders, not the greedy special interests in Silicon Valley, please require the expensing of employee stock options.

Sincerely,

Andrew H. Dral

December 14, 2003

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Silicon Valley Still Doesn't Get It

I recently attended an industry banking conference to hear CEOs present their results and strategy. It was refreshing to hear a number of CEOs give the impact of the expensing of employee stock options on their earnings. This shouldn't be a surprise, because back in August 2002 twenty-one of the largest financial companies, banks – insurance companies – brokerages, joined with over 150 other companies that announced they would begin expensing stock options. But it was still refreshing, because in Silicon Valley they still don't get it. TechNet, the Silicon Valley trade group, is pressing congress to pass a bill that would create a three year moratorium on the expensing of employee stock options.

Cisco Systems' John Chambers sold two million shares of stock generated from stock options to register a $38MM gain this past November. The shares were acquired for $3.45 and and sold between $22.50 and $22.74. The share price is a far cry from its $70.38 high reached in March 2000, but Mr. Chambers still reaped a tremendous gain. From March 2000 to September 2001 Cisco lost shareholders over $500B in market capitalization. Cisco's revenue for the latest Q1, ending in October, is down ~22% from its Q1 2001 high. Management is still playing the same old game buying back shares with cash and giving them to employees after they execute their options, diluting shareholder value and paying themselves with egregious salaries not tied to performance metrics. For Q1 you can disregard ~30% of Cisco's earnings, $327MM, because it would pay for employee stock options. Instead of Cisco earning $0.15 earnings per share (EPS), it should be $0.11 per share.

Craig Barrett of Intel doesn't get it either. Mr. Barrett claims if options had to be expensed, it would cause the effective elimination of broad based option grants for tech employees. He says even China is promoting the use of stock options in order to attract higher quality employees. He's trying to figure out, "why the Communists in China think this is a good idea and we think this is a bad idea," talk about double speak, reformers aren't saying that performance based options are a bad idea. The proponents of expensing employee stock options are not saying eliminate options, we just demand fair accounting for investors and pay for performance. Our entire capital system benefits with fair and transparent accounting. Capital will be more efficiently invested in company's that deserve their valuations, improving our economy, so in the long-run we will surpass countries that deceive their investors, because our scarce resources are more efficiently allocated. In Intel's most recent Q3, options cost the investor ~18% of the EPS, instead of Intel earning $0.25, it made $0.21 including the cost of options.

We can't tolerate a system where some companies expense options and others don't. It does not promote the efficient allocation of scarce resources demanded by a free market economy. Nor can we accept egregious stock option give-aways with no performance criteria tied to the option grant.

Sincerely,

Andrew H. Dral

June 7, 2003

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The Democratic Party Accounting Non-reformers

If you're looking for accounting reform, don't look to California's Democratic Party. Senator Barbara Boxer and Dianne Feinstein; Representative Robert Matsui, and Anna Eshoo; State Treasurer Phil Angilides, Mayor Willie Brown, and Assemblyman Darrell Steinberg are all proud to align themselves with the anti-accounting-reform Silicon Valley trade group TechNet. Senator Boxer laments "we can't stand by and let accountants wearing green eyeshades decide who is going to get the American dream." Senator Boxer would rather have Silicon Valley CEOs decide our accounting principles, so it's assured that Silicon Valley CEOs live the American dream, off the backs of shareholders.

One author laments, employee stock options are "a vehicle of fantastic riches for an elite few." CEOs have made windfall profits from employee stock options, while investors in the Tech 100 lost $0.96 on the dollar from the markets peak until the boom's end. Investors have been stripped of returns by stock options. Why should we stop the CEOs from making egregious lavish salaries, roughly 465 times that of an average worker. They have so much fun paying off the Democratic politicians with the windfall. Note that 80% of CEO's salaries comes from employee stock options. Investor losses are a direct result of bogus acccounting: costs are understated and profits and shareholder value are overstated. Many technology companies had no earnings or took large lossess when counting the option's cost. Not expensing stock options is out-right accounting fraud.

Personally, I'd rather have the folks with the green eyeshades decide our accounting, rather than the CEOs in Silicon Valley with their private jets, Ferraris, and Armani suits. The Financial Accountin Standards Board (FASB) is under pressure from these same Democrats to delay the implementation of the expensing of stock options. Investors have absorbed enormous losses due to the lack of accounting transparency. Expensing stock options would not eliminate stock options. It just forces a company that grants stock options to generate the same earnings per share figure as companies that pay their employees in cash. I think the folks with the green eye shades would be more independent and objective, that's their job objectivity and fair accounting. Ms. Boxer, please leave the accountants with green eye shades alone, don't black-mail them like you've done in the past. Take the advice of Intel's Andy Grove, that disengenuous scion of Silicon Valley, the expensing of stock options should be settled by non-political means, but by the FASB going away on a deserted island and thinking about it. We would all be better off if Mr. Grove really meant it.

All these Democrats agree on one fallacy: there is no way to accurately quantify their value, i.e., the options value. I don't understand how such a large group of educated individuals can all flat out lie to the public. They insult the intelligence of anybody with knowledge of accounting or finance. Their assertion is a blatant lie. It's amazing how all these politicians fall in line. They lack morals, ethics, and integrity. Chairman Alan Greenspan says options "should be expensed," and the argument that they can't be accurately valued is "flat wrong." When it comes to options Silicon Valley will only be happy with options having a value of zero, anything else is not acceptable to TechNet. The Black-Scholes options' pricing model is time tested, elegant, and accurate.

Craig Barrett, CEO of Intel, recently stated, "stock options do not create a cash cost like salaries, or rent, and they do not have a market price since they cannot be sold." I don't understand, if there's no cash cost there must be no value, if there's no value why does everybody want them? They want them because they can have immense value and need to be expensed.

Those supporting the expensing of stock options sent management a mandate at Delta Air Lines, Apple Computer, and Veritas Software Corp. Sixty-two percent of the shareholders at Delta, by 80% at Veritas, and by 29.2% over those against expensing at Apple, the reformers won. Even at companies where shareholder proposals to expense stock options lost, Hewlett-Packard, IBM, and Intel, the votes were extremely close. Considering that mutual funds and brokerage firms are conflicted, because they jeopardize losing 401K, investment banking, or other privileged relationships by voting against managment the outcomes were very encouraging to reformers.

Expensing of stock options at Hewlett-Packard was defeated by only 7.7% of the votes with 35.9% voting "For" expensing. At Intel expensing was defeated by only 0.98% of the votes with 47.6% voting "For" expensing of stock options. At IBM expensing was defeated by 10.4% of the votes with 34.4% voting "For." Defeating management in a shareholder proposal is highly unusual, getting over 10% of the votes management takes notice, beating management means there's overwhelming momentum. And just think, if the *fix* wasn't put in at the California Public Employees' Retirement Systems' (CalPERS) by Phil Angelides and Willie Brown the votes at HP, Intel, and IBM may have gone the other way. CalPERS abstained on all these votes, a clear breach of its fiduciary duty to plan participants and beneficiaries by the Democraticly controlled board.

Don't expect to hear a peep out of CalPERS' management, because the Democraticly controlled state assembly sets their salary. Which, by the way, was most benevolent during dire economic times. Four of the top-5 highest paid state employees work for CalPERS. They also have a wonderfully designed defined benefit pension plan that no one in management would be willing to jeopardize.

The politicians are an amazing lot. Just like the CEOs they're set for life. Even a one-time elected federal congressman or woman will retire with $15,000 or more per month in retirement. Ms. Boxer has also been known to supplement her family's income with initial public offering (IPO) shares. That's a potential conflict of interest. We'll give you the IPO shares if we can count on you to support legislation lining our pockets. As the rest of the public watched their 401Ks and retirement plans dissolve, the federal politicians guaranteed themselves a wonderful retirement. The politicians don't feel our pain. Instead of masquerading as the junior league of the Republican Party, I suggest the Democrats get back to their roots and represent the people and the common good, not the special interests. STOP the accounting fraud by supporting the expensing of stock options!

Sincerely,

Andrew H. Dral
Sacramento

The New York Times

7/13/02

Stock Options Said Not to Be As Widespread As Backers Say

By DAVID LEONHARDT

Campaigning against legislation that would force companies to account for the cost of stock options, corporate executives, lobbyists and sympathetic lawmakers have proclaimed options to be a pillar of the middle class.

In reality, however, the defenders appear to have greatly exaggerated the spread of options. The overwhelming number of stock options go to top executives, who are the primary ones likely to be affected by any legislation, according to researchers, including those whose work corporate lobbyists have cited.

In defending stock options, some supporters have contended that as many as 10 million Americans received them last year, often citing the National Center for Employee Ownership, a nonprofit group based in Oakland, Calif. But the center's executive director, in an interview this week, said that his organization believes three million peopl...

Fox News, via Associated Press

"A lot of average people are getting a lot of stock options."

SENATOR JOSEPH I. LIEBERMAN
Democrat of Connecticut

of thousands of options.

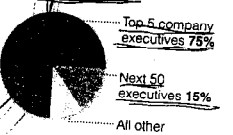
"We talk about deceptive accounting practices," said Senator Carl Levin, Democrat of Michigan, in an interview yesterday. "These are deceptive numbers."

On Monday, the Senate blocked two amendments — one from Senator Levin —

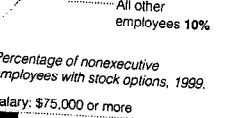
Top Heavy

Supporters of the special accounting treatment of stock options, like Senator Lieberman, left, say they are widely distributed. But the best estimates available show that options are mainly granted to top executives and highly paid employees.

Distribution of all options outstanding as of 2000



Percentage of nonexecutive employees with stock options, 1999.



Washington Talk

Lieberman's Pro-Business Views May Haunt Him

7/15/02

By DAVID E. ROSENBAUM

WASHINGTON, July 13 — More than most other Democrats in Congress — and far more than the others with presidential ambitions — Senator Joseph I. Lieberman has been a champion of business interests in general and generous stock options in particular. Now those positions may come back to haunt him.

The stance on the side of business has served him well in Connecticut, the state with the highest per capita income and the home of large insurance and pharmaceutical companies, military contractors and many corporate executives who commute to New York.

It has helped him raise large sums of money for his election campaigns, and his close relationship with business was probably a factor that led Al Gore to pick him as running mate in 2000.

But now, with corporate scandals at the top of the news and Democrats hoping enough of the tarnish rubs off on Republicans to help Democrats in this fall's Congressional elections, Mr. Lieberman, who is seriously considering running for president in 2004, finds himself in an awkward and somewhat defensive position, and he is rethinking some long-held views.

In an interview in his office, Mr. Lieberman repeated several times that he was "proud to consider myself a pro-business Democrat." He said he had no regrets about business-friendly positions he had taken over the years, such as his opposition to tighter accounting rules for stock options and support for restrictions on lawsuits against companies and their accountants.

But he went to great lengths to dispel any notion that he was an apologist for corporate misconduct. He expressed outrage at "greedy individuals" who "did things that were illegal and unethical." He emphasized his advocacy of legislation moving through the Senate that would impose stiffer criminal penalties for corporate wrongdoing.

He also promised that in the fall, the Governmental Affairs Committee, of which he is chairman, would investigate the Enron collapse, an inquiry that has been sidetracked because the committee is dealing with President Bush's proposal for a Department of Homeland Security.

Without being asked, Mr. Lieberman denounced as "sloppy journalism" several recent reports that he was close to the accounting industry and had opposed the plan of Arthur D. Levitt, the former chairman of the Securities and Exchange Commission, to prohibit accounting firms from doing consulting work for companies whose books they audited. In fact, Mr. Lieberman said he supported the Levitt proposal, and Mr. Levitt confirmed that in a telephone interview.

Mr. Lieberman's reputation as a friend of accountants dates to 1993, when he mobilized the Senate to block a proposed rule by accounting regulators to require companies to list stock options as a business expense on their financial statements.

The issue arose again this year after top executives at Enron and other companies made hundreds of millions of dollars before their companies went under by selling stock they had bought with options. The options — rights to buy stock at a fixed price after the market price has risen — gave these executives an incentive to cook the books to keep the market price high.

Mr. Lieberman continues to oppose the change in accounting procedures. It is "intellectually irrational," he said, to put a value on stock options when no one knows what they are worth until the stock is sold.

Most important, Mr. Lieberman said, changes in the accounting rules would lead companies to drop stock options they give to ordinary workers. "A lot of average people are getting a lot of stock options," he said, and this lets them "buy a house and send their kids to college."

An increasing number of companies are indeed awarding stock options to rank-and-file workers. But a survey by the National Center for Employee Ownership, a research institute that favors stock options, found that 70 percent of all stock options in publicly traded companies are given to managers, and that about 50 percent are given to the most senior executives.

The average value of stock options to a senior executive, the survey showed, is $512,000. The average value to hourly workers is $8,000.

Corey Rosen, executive director of the California-based center, said: "The distribution is still wildly skewed toward top management. They are at such different scales they ought to be treated in a completely different way."

In light of the corporate scandals, Mr. Lieberman said he had modified his views on stock options. He said he could now support Senator John McCain's proposal to prohibit top executives from selling stock they bought with options as long as they worked for the company. He could even support requiring companies to record options given to top executives as operating expenses, if a way could be found to do that and protect options awarded to lower-level employees.

Does he worry about the grief such changes would cause constituents and donors who are top executives?

"You'd be surprised," Mr. Lieberman replied, "how little I hear from those people."