

**Karen Salmansohn**

---

**From:**  
**Sent:**  
**To:**  
**Subject:**

Director  
Saturda  
Karen S  
FW: Stc

Letter of Comment No: 211  
File Reference: 1102-001  
Date Received: 1-31-03



ATT454757.txt



InterScan\_SafeStamp.t  
xt

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

From: bferko@genlytethomas.com [mailto:bferko@genlytethomas.com]  
Sent: Friday, January 31, 2003 5:22 PM  
To: Director - FASB  
Cc: lpowers@genlytethomas.com  
Subject: Stock Option Expensing - File Reference No. 1102-001

William G. Ferko  
Vice President & CFO  
The Genlyte Group  
10350 Ormsby Park Place, Suite 601  
Louisville, KY 40223

January 31, 2003

MP&T Director-File Reference 1102-001  
Financial Accounting Standards Board  
401 Merritt 7 P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Dear FASB MP&T Director:

This is in response to FASB

?s proposed expensing of stock options.

Expensing stock options as currently proposed is not supported due to the ambiguity concerning the ?cost? of an option, the impact an incorrect ?cost? could have on the income statement, and the fundamental problems with the current option pricing model.

Treating a misleading number, as an expense on the income statement will only increase the opaqueness of financial statements at a time when transparency is paramount. Even the savviest of investors will be challenged to decipher the accounting-ese. Simply issuing stock options does not result in corporate level costs that impact net income. In fact, corporate assets may be increased by the amount of cash an employee must pay to exercise those options. (While there may be a corporate opportunity cost associated when an option is issued, FASB does not require the reporting of opportunity costs.)

Current pricing models fail to adequately measure the corporate cost of stock options. The ?fair value? standard in FAS 123 is neither the fair value cost to the company nor a fair value to the employee. Many managers would be delighted to sell their options for the Black Shools value that is implied in the proxy statement. They would be hard pressed to find buyers at this "price". In addition, the reality is that the managers can not sell their options and in addition they can not exercise their options due to exercise restrictions, black-out periods, changes in employment, death, and other reasons that are difficult and misleading to price into the income statement.

A determination of the stock?s volatility is required in the current models, and cannot be assumed without a significant amount of bias. Small cap stocks will be at an earnings disadvantage to large-cap companies due to the inherently higher volatility of small cap stocks. Volatility is a

two way street. The stock price may go up and it may go down. The model prices both directions the same way. If the stock price volatility in the most recent quarter has a downward momentum, does it make sense for the company to record income because its options are now more worthless than they were before? The volatility of a stock could be justified, regardless of what is chosen, then when it becomes apparent that the assumption is incorrect, a company can be exonerated due to market influences beyond their control.

If companies are forced to treat options like salaries or manufacturing costs, many will decide they can't afford to continue this form of potential compensation. Current high-profile instances of corporate misconduct have raised questions about systemic integrity and have encumbered the cycle with uncertainty. Some see the lure of stock options as a corrupting influence and believe curtailing their use by treating them as an expense will promote greater transparency and restore confidence. But expensing options will only serve to further obfuscate a company's financial situation and punish its employees. The reality is that a long vesting period for options encourages managers to take a longer-term strategic view for the company rather than focusing on the current quarter's earnings. Forcing all companies to expense stock options would do little to enhance corporate conduct or end accounting abuses.

FASB is not the IASB. Fortunately most American businesses are more dynamic than European and Asian businesses. We should not necessarily bow to the International Standards for the sake of convenience or to make FASB's reconciliation with IASB standards easier. Stock options are not the only problem and expensing them is not the only solution. Stock options play a

crucial role in our economic prosperity and should be protected and encouraged not challenged or diminished.

Sincerely  
William G. Ferko  
Vice President & CFO  
The Genlyte Group  
10350 Ormsby Park Place, Suite 601  
Louisville, KY 40223  
502-420-9502  
bferko@genlytethomas.com