Karen Salmansohn

From:

Director - FASB

Sent: Monday, February 03, 2003 11:23 Al

To:

Karen Salmansohn

Subject: FW: File Reference No. 1102-001

Letter of Comment No: 172
File Reference: 1102-001
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----Original Message----

From: Curtis Carmack [mailto:curt@carmack.biz] Sent: Monday, February 03, 2003 9:02 AM

To: Director - FASB

Subject: File Reference No. 1102-001

To the Director:

I write to voice my opinion regarding the expensing of stock options. I have advised small- and medium-sized technology firms for many years, and am intimately familiar with the dynamics involved in attracting and retaining human talent in new business ventures. Having also served as a General Counsel of a public company, I am very familiar with the accounting, disclosure, and "fairness in compensation" issues that attend the use of stock options as a form of compensation in such companies.

I believe that the FASB's proposed rules for expensing options are flawed for two very important reasons:

- 1. Requiring expensing in the manner proposed by FASB would inflict mortal damage on the ability of start-ups and early- to mid-stage companies to attract and retain talent at all levels. Many of these companies use options to recruit and retain motivated and talented employees at all levels -- from the mail room to the board room. FASB's proposed rules would make that difficult to impossible. Without this compensation tool, innovation, job creation, and capital formation and investment will all suffer. This is something we can ill afford, especially in difficult economic times. A corollary negative effect will be to continue to concentrate compensation at the senior management level.
- 2. The proposed method of expensing will further cloud accurate disclosure. Not only are the guidelines insufficient to ensure a method of expensing that will be transparent to the investing public, but studies have credibly shown that such methods yield wildly inaccurate results in the real world. Forecasting option values is far from a science in today's volatile markets, and especially for early-stage companies. This rulemaking will lead to more fuzziness in accounting and disclosure than existed before.

Lest you think this is all about criticism, I am not against the concept of expensing options. I just think that it should be done as it actually occurs. Why record an expense that is a fiction until the smoke clears? By requiring companies to record expenses related to options as those options are actually exercised (with some provisions for smoothing over a reasonable period), investors will be able to be confident that the expense numbers are real. and companies will be able to attract and retain valuable talent not otherwise available to them.

This type of regime would have the further positive effects of encouraging senior executives to think hard about sizes of option grants and timing of exercises (given the direct impact on earnings) and whether holding is a better course (continuing to align their interests with those of shareholders), as well as pushing high compensation expenses into periods of high success, when they can be most easily afforded and when the recruiting and retention value of options is least needed (diminishing the need for further grants).

Please consider carefully the effects of what you are proposing, as well as what you are missing.

Thank you,

Curt

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