

ikon

From: Jim Alumbaugh [alumj@ils.unc.edu]
Sent: Thursday, April 29, 2004 3:04 PM
To: Director - FASB
Subject: FAS 123

Letter of Comment No: 2007
File Reference: 1102-100

RE: File Reference No. 1102-100

Chairman Robert H. Herz,

I am writing to express my concern with the Board's recent draft to expense stock options. While understanding the Board's rationale for taking this action (due to recent corporate scandals such as Enron, Worldcom, etc.), if stock options were at all responsible for these events, they were only tangentially related to options given out to the top-most executives in these companies. Unfortunately, FAS 123 will not only cause executive stock options to be expensed, but also broad based option plans which award stock options to individual contributors.

I work for a company which currently offers a broad based stock option plan. I believe that if FAS 123 is implemented, it will have a hugely detrimental effect to the high tech industry in the United States. Many, if not all, US companies will likely terminate their broad based stock option plans in the US. However, instead of replacing this form of compensation with something else, I believe this change will only lead to US companies increasing the speed at which they are currently outsourcing jobs to foreign countries that currently allow broad based stock option plans. After a very difficult three years in the US high tech industry, this would be a crippling blow to not only the high tech sector, but the employment picture in the US as well.

Broad based stock options have helped to motivate myself and my coworkers to increase productivity and align our goals with those of shareholders; we feel that we actually have a share of ownership in the company we work for, and take far greater care in how we personally run our business, spend, and allocate resources than any company I have previously worked. I fear the loss of all these things if the broad based stock option plan at my company is ended.

Furthermore, I am skeptical that stock options can be accurately valued for the purposes of expensing on financial statements. Broad based stock options are not freely tradeable and they must be forfeited if an individual leaves the company. How can these options be accurately valued? And, if these valuations are not accurate, what service is being provided to the average investor? I would argue that, if implemented, FAS 123 would provide the investor no more accurate data than would be provided if stock options were not expensed.

Therefore, given one of the main goals of FASB's draft is to provide a clearer and more accurate picture to the individual investor of a particular company's balance sheet, I fear this change would provide a disservice to the average investor, as well as harm those industries that really on broad based stock option plans to cultivate ingenuity, innovation, and job creation.

While recognizing the need for FASB to act on this matter given recent events, I urge the Board to reconsider this potentially damaging recommendation and, instead, look at other more accurate mechanisms for accounting for stock options.

Thank you very much for your time and consideration.

Sincerely,

James Alumbaugh