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**Letter of Comment No: 2011**  
**File Reference: 1102-100**

**From:** Mike Behnke [mikebehnke@hotmail.com]  
**Sent:** Wednesday, April 28, 2004 5:40 AM  
**To:** Director - FASB  
**Subject:** File Reference No 1102-100 (Employee Stock Option Expensing)

File Reference No.1102-100 - Employee Stock Option Expensing

Dear Chairman Robert Herz,

I have read through the 3/31/2004 Exposure Draft for Share-Based Payments amendments to FAS No 123 & 95. I am writing to express my strong opposition to any proposals that would require the expensing of employee stock options.

I work for a high-tech company in Texas. Stock options are issued regularly to the vast majority of the employees at our company. These stock options are very vital for high tech companies and high-tech employees. In our company, they have a very significant impact on our employee productivity and allow us to attract, retain and motivate the best and brightest employees from here and from abroad. This results in us being able to survive and thrive in the very competitive international high-tech industry.

And it results in job creation in the USA and less off-sourcing of jobs to other countries (such as China, which does NOT require expensing of stock options).

Employee stock options create a win-win situation for shareholders and employees. When the employees drive the company to excel, it benefits the stock price and shareholders, and the employees are subsequently rewarded.

Requiring additional expensing of stock options does NOT seem to make good accounting sense to me either. There is no good way to effectively estimate the fair-value of employee stock options. These are not ordinary stock options which can be traded in the free-market. They have all sorts of vesting, performance metrics, employment contingencies, non-transferability clauses, etc in them. If you were to try to guess at a value on the grant date, the Black-Scholes model would greatly exaggerate the value of these. For example, a large number of stock options were issued to our employees several years ago when the stock price was high during the 2000 high-tech bubble. Since then, the stock has come back down to reasonable levels, but these particular stock options are very far underwater and essentially worthless by any valuation model. But if we had been forced to expense these options several years ago, our balance sheet would have inaccurately shown a big expense and hit our EPS, while in reality this expense never came to fruition.

The only way to account for the cost of stock options is at the time of exercise, and this is already accounted for in the EPS dilution when the option is exercised. We don't force companies to expense expected future bonus payments, but instead, bonuses are accounted for accurately when the bonus is paid to the employee. Stock options should be accounted for similarly, at the time when the option is exercised and the employee makes money and pays taxes on this. In these times of Enron, etc, we need accurate financial accounting. Trying to force companies to totally guess at the value of stock options at time of grant does nothing to improve financial accuracy. Listing the number and price of options outstanding as footnotes on the company's annual report seems like a much better idea. It allows the sophisticated investor to look at this info, if they desire, but it does not distort the balance sheet and EPS with guesses about the value of employee stock options.

So far I have stated why NOT requiring expensing of stock options is good for shareholders, employees and the USA. Now let me express on a personal basis what they mean to me. Today there are very few raises. There are not

many defined benefit pension plans available anymore. Social security and Medicare will probably not provide much of the needed resources during retirement for my parents or me. College tuition costs are skyrocketing and by the time my kids reach college-age, it will be astronomical. I am hoping that Stock options will provide me with the means to take care of my parents, wife and myself adequately during retirement and to provide a good education for my children. I know that if companies are required to expense options at grant time, they will drastically cut back the number of options they issue employees. This will severely limit my potential earning power in the future. It will also de-motivate a lot of my fellow employees, and we as a company may not survive in the competitive high-tech environment. When faced with these grim prospects for myself and my company, if US companies are forced to do this employee stock option expensing, I may be forced to consider working for an offshore company which is able to compete and adequately compensate their best and brightest. And I think a lot of other extremely high-achievers and their children in the high tech industry will be forced to consider similar alternatives. This does not bode well for the US competitive picture over the long-term. I do not know how the US economy can thrive and the US government budget can ever be balanced on a nation void of high-paying high-tech jobs, especially with baby boomers approaching retirement age.

I sincerely hope you evaluate all the implications of requiring expensing of employee stock options and then decide to NOT require expensing them. I see very dire consequences to shareholders, employees and the USA if expensing options becomes mandatory.

Thank you for your consideration,

Mike Behnke

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