ikon

Letter of Comment No: 3994
File Reference: 1102-100

From: Mike Steinbaum [msteinbaum@yahoo.com]

Sent: Monday, June 14, 2004 1:57 PM

To: Director - FASB

Subject: File Reference No. 1102-100; Chairman Robert H. Herz

Dear Chairman Herz,

I am strongly against the expensing of stock options -- I believe it is bad policy with harmful implications. Instead, I urge you to support the Stock Options Accounting Reform Act as a sound compromise.

Most of the major innovations of the last 20 years in technology, biotechnology and in areas from office products to overnight shipping have come from companies that use stock options to motivate employees. Stock options, the basic tenet of employee ownership, are now in serious jeopardy.

The threat of mandatory expensing of employee stock options is the most significant issue facing America's technology industries. Mandatory expensing threatens our nation's innovation and economic leadership. It is a terrible policy for the economy, the tech industry, the 14 million American employees who rely on options, and even for investors who will be faced with unreliable financial statements.

Here are some simple facts about options:

- Stock options do not meet the definition of an expense because they do not use company assets.
- The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised.
- U.S. companies need stock options to compete with other countries on a global basis. (Example: Chinese companies use stock options and they do not treat them as an expense.)
- Expensing stock options could have a dramatic impact on American high tech leadership, innovation and job creation

A central goal of post-Enron reforms is to limit "abuse at the top" without penalizing the rank-and-file worker or reversing the positive national trend toward broad-based employee ownership. Expensing stock options would do exactly the opposite - expensing would likely eliminate the use of options for middle management and rank-and-file workers, as many companies that widely distribute options will be deterred by the prospect of a significant and distorted impact on earnings.

Stock options benefit company shareholders because employees are rewarded only when share prices rise.

Leaders such as California Senators Dianne Feinstein and Barbara Boxer support this issue and are working to pass the "Stock Option Accounting Reform Act."

The "Stock Option Accounting Reform Act" (S.1890/H.R. 3574) legislation addresses concerns about executive compensation, while allowing employees to continue receiving broad-based employee stock options.

By preserving broad-based stock options plans and addressing the serious economic implications of stock option expensing, the Stock Options Accounting Reform Act is a sound compromise.

Thank you for listening,
Michael Steinbaum
Chief Operating Officer, Meaningful Machines
mike@meaningful.com