

Comments must be received in writing by June 30, 2004. You can e-mail comments to director@fasb.org, File Reference No. 1102-100.

Letter of Comment No: 217
File Reference: 1102-100

Mr. Robert H. Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856

Re: Proposed Statement of Financial Accounting Standards, *Share-Based Payment – an amendment of FASB Statements No. 123 and 95 (Exposure Draft)*

I am writing to comment on the Financial Accounting Standards Board's Proposed Statement of Financial Accounting Standards, *Share-Based Payment – an amendment of FASB Statements No. 123 and 95* ("Proposed Amendment"). I respectfully oppose the Proposed Amendment on the grounds discussed herein.

Uneven Impact

Expensing options will unevenly impact many smaller technology companies, particularly those not located in Silicon Valley. Like many technology companies, our company has historically relied on stock options as a method of attracting and retaining the skilled professionals needed to research and develop the products that will ultimately drive shareholder value. This is often a deciding factor for potential hires, particularly when we are trying to lure a seasoned technical professional to relocate. It is my belief that the impact of the Proposed Amendment will adversely effect the productivity and performance of many established and start-up enterprises; the recruitment and retention of skilled employees; and employees' incomes, particularly those of rank-and-file workers.

Accounting Issues

I have a number of accounting-related issues with the Proposed Amendment:

First, the granting of stock options does not involve cash outlay by a company and, therefore, does not properly represent the current or real cost to an option granting company. For example, expensing an option on the date of grant that ultimately goes underwater during the vesting/ exercise period and, therefore, never gets exercised, would be a distortion of a company's financial statements.

Second, current U.S. accounting rules already require the pro forma disclosure of stock option expenses in the footnotes to the financial statements, so investors who believe that stock

options represent an expense to a company have already been provided all information to make any adjustments to their own analyses.

Importance of Accuracy in Earnings

Accuracy in corporate earnings is a part of every company's fiduciary responsibility to shareholders and employees alike. At present, U.S. accounting rules require that companies report their earnings per share on a diluted basis (measuring the potential decrease in the ownership of existing shareholders due to the granting and exercising of stock options). The Proposed Amendment would create a dual counting of the impact of options: first by way of the current reports of diluted EPS under existing rules, and then, under the new rules, also as a charge against reported earnings. This type of double counting may result in misleading and distorted reporting of earnings per share.

I believe that it is an inaccurate assumption that the expensing of stock options would make it easier for investors to assess corporate earnings and executive pay packages. In reality, the method currently used by U.S.-based companies under FASB Statement 123 is a better method because it is more accurate.

Options as an Employee Benefit

Stock options are often offered to company employees at multiple levels as a benefit that aligns employee and shareholder interests. Requiring companies to expense stock options will of necessity cause a reduction in this alignment between shareholder and employee interests. Corporate boards and senior management will be faced with conflicts between their obligation to shareholders and their obligation to employees. This problem is exacerbated in light of the speculative nature of valuing options at the grant date, which can result in an equally speculative and inaccurate effect on a corporation's bottom line, as discussed above.

During a down market stock options can be also a strong incentive to remain with a company. Stock options are also effective compensation methods for hiring, achievement recognition and to buoy down market employment. If the Proposed Amendment is adopted, then many smaller technology companies will be forced to drastically limit the use of stock options. This is already happening in anticipation of the new rules. The ultimate result will be that middle to low level employees will not receive stock options.

Lastly, I would submit that the potential abuses for which the Proposed Amendment is designed to correct are already adequately addressed by the recently revised SRO requirements, including shareholder approval of stock options plans.

I appreciate the opportunity to comment to FASB on the Proposed Amendment .

Respectfully,

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