

ikon**Letter of Comment No: 530a**
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From: David W. Burns [dwburns@dwburns.com]
Sent: Friday, June 25, 2004 1:38 AM
To: Director - FASB
Subject: FASB Statement 123 Opinion

24 June 2004

Dear Director of FASB (director@fasb.org),

Thank you for the opportunity to express an opinion regarding option expensing as stated in FASB Statement 123, "Accounting for Stock-Based Compensation".

I am in favor of expensing options. However, I wish to impress what level of expensing should be done. I feel an appropriate accounting method for expensing options should be applied to all employees alike and limited to actual accrued expenses during the quarter or year of reporting. The accrued expenses would include 1) all company-paid social security taxes (6.2%) up to the yearly limit of each individual whom has exercised options and upon which the exercise event has caused the company to owe additional social security taxes on behalf of the individual (i.e. \$87,000 in 2003) that is not covered by normal salary distributions; 2) additional Medicare taxes (1.45%) required to be paid by the company as a result of a stock option exercise based on the value of the exercised options; and 3) a reduction in profit equal to the interest that would be payable on a monetary amount equal to the number of shares granted to each individual times the share price (grant price) on the day the options were granted, the interest rate being determined by a principal-retaining investment such as the 10-year treasury bond that happens to equal the length of time for option exercising for most option packages. Optioned shares that have less value than their grant price would be omitted from the reduction in profit, since the individual would not exercise them and the company would not incur additional social security or Medicare taxes on behalf of the individual.

In this manner, the true cost of money for granting an option would be born by the company, equating the value of the employee's retention to what the company would obtain if the dollar equivalent were placed in an interest-bearing account on behalf of the employee. Black-Sholes option pricing and any other option-pricing model should in no way be used for any accounting purposes regarding stock-based compensation. The argument for the use of a treasury note stems from the observation that an investor could make a similar decision on the use of his/her money, and a recognition that the employee also has minimal risk with options, in that no money is owed if the grant price of the optioned shares are over the current fair market value, and therefore would not be exercised.

Support for this position includes a recognition that investors and employees alike should benefit in a similar manner without preference one to the other. Case in point, shares set aside for an employee pool or option plan as agreed to by shareholders represents shares that are not available for public trading and therefore have some cost associated with them. The company should be allowed to decide whether or not to grant an option to any individual along with the total shares granted with the option, with the "penalty" to the company equal in value to a low-risk, non-volatile, relatively secure investment similar to that which the company would retain cash in if the equivalent amount of money for the option was placed in such a secured investment.

While I have your attention, I also wish to express my disgust with the tax structure for option exercising. Taxes due on option exercising should not be at the marginal income tax rate. Investors who are not employees can sell their stock at a much smaller rate, such as 20% or 10% or 8%. The same should be applied to employee stock options. Anyone who says options should be taxed "like bonuses" has not gone through the risk with exercising options and not being able to cover the taxes due thereon. I could understand this argument if the company did all the buying and selling of optioned shares on behalf of the employee without any input from the employee in the decision. If this argument is carried a bit further, one would conclude that it is inappropriate for the Federal or State government to collect either social security or Medicare taxes on exercised options, since similar treatments are not applied to the

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investors.

As an engineer who has benefited from exercising options, who has lost money from exercising options, and who has had ISOs and NQSOs that became worthless without exercising, I appreciate the opportunity to voice my opinions.

Sincerely,

David W. Burns

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