Letter of Comment No: File Reference: 1101-001
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-----Original Message-----

From: Jwpowers1@aol.com [mailto:Jwpowers1@aol.com]

Sent: Thursday, October 24, 2002 5:10 PM

To: fasbcomments@fasb.org

Subject: Accounting for stock options

Dear FASB:

I am a small private investor with over 30 years of business management experience. The current and proposed state of employee stock options accounting has led to serious abuse and misstatement of eps. Some companies have transferred multiple years of eps to the employee option holders. Yet this is not reflected in their eps reporting. Check MSFT for example.

I am in total disagreement with the option accounting to be implemented based on FAS 123. The total <u>amount of compensation that must be recognized is the value of the option at the time of exercise (net of any tax matters)</u>, not the estimated value at the time of issue. During the period prior to exercise, the option pricing model may be used to accrue for the final expense.

In addition, this must be done before the net income line and not be considered a "proforma" adjustment.

There is absolutely no doubt that excercised options are deferred compensation. As such, they must be included in the calculation of GAAP income. The fact that tech companies are whining and refusing to go along tells you that the revelation of "true costs" will be astounding in many cases.

## Quote from FAS 123:

"For stock options, fair value is determined using an option-pricing model that takes into account the stock price at the grant date, the exercise price, the expected life of the option, the volatility of the underlying stock and the expected dividends on it, and the risk-free interest rate over the expected life of the option. Nonpublic entities are permitted to exclude the volatility factor in estimating the value of their stock options, which results in measurement at minimum value. The fair value of an option estimated at the grant date is not subsequently adjusted for changes in the price of the underlying stock or its volatility, the life of the option, dividends on the stock, or the risk-free interest rate."

I am forwarding this information to my government representatives as well as to selected media. I realize that this is almost certain to be ignored. However, I feel strongly enough that I am going to pursue this further. Why not do it right this time?

Thank you for listening.

Sincerely Joseph W. Powers 16307 N. Greenfield Dr. Spring, TX 77379 281-320-2752