Karen Salmansohn

From: Director - FASB
Sent: Friday, January 31, 2003 1
To: Karen Salmansohn
Subject: FW: File Reference No. 11

Letter of Comment No: 111
File Reference: 1102-001
Date Received: 1-31-03

-----Original Message-----
From: Gutridge, David [mailto:dgutridge@soinintl.com]
Sent: Friday, January 31, 2003 9:29 AM
To: Director - FASB
Subject: File Reference No. 1102-001

Ladies and Gentlemen:
I am responding to your request for comments on the proposal to require expensing of stock options. I am firmly against, what I consider, an ill-conceived and apparent knee-jerk reaction to the illegal acts of a few.

I realize that the FASB and other institutions have come under a lot of pressure to institute changes to see that we have no repeats of the Andersen, Enron, and other recent debacles that were so note worthy in the news media a few months ago. And although most of the acts that created that concern are already illegal and there are ample laws to deal with these wrong-doings, there may be a few instances where some loop holes still need to be closed.

But requiring that companies record an arbitrary expense to record the issuance of stock options is not closing one of the "loopholes"; nor does it enhance anybody's understanding of a company's financial statements or their financial position.

In fact, all it does is create confusion. The only thing companies required to abide by this arbitrary process would have in common would be that they were all making an arbitrary entry that would have no bearing on cash flow or any other actual economic event. In fact it would be a major departure from the traditional basis for recording an expense, i.e. record an expense when it becomes fixed and determinable and likely to be incurred.

It appears that much of the stock options debate is confusing the value of a stock option to the employee with the cost to the corporation for issuing that option. Since there is no cost to the corporation from issuing stock options, the eventual value of an option in the eyes of the employee is and should be irrelevant.

Treating an incorrect and misleading number as an expense in the income statement, as would occur if Black-Scholes or other existing option pricing models were used to establish the amount of that cost, would not increase financial statement reliability, transparency, or comparability. Quite to the contrary, investors will be ill served by a rule that mandates the inclusion of misleading numbers in the financial statements.

The issuance of stock options does not result in a corporate level cost that impacts net income. To the extent options are actually exercised, corporate assets are increased by the amount of cash that the employee must pay to exercise the option. It might be arguable from an economic standpoint that the corporation incurs an opportunity cost in issuing the stock options, but FASB has traditionally (and wisely) not required the recognition of opportunity costs - or benefits.

The only "cost" of issuing employee stock options is borne by existing shareholders in the form of potential dilution. This should be and is fully

and
completely disclosed. Because some investors believe that the value of the stock options given to employees is relevant information, I support very clear and full disclosure of employee stock option transactions. Although I believe that quarterly disclosure of an option value computed under any conceivable option pricing models is an incorrect and misleading number, I recognize that some investors feel that any number is better than no number. FASB has already addressed this issue by now requiring quarterly disclosure of the "value" of employee stock options.

I realize there is a lot of justified public sentiment against the executives of a few companies that enriched themselves at the expense of their shareholders. That is no reason to abandon traditional and logical expense recognition practices relating to stock options. Although there may be some current back-lash against the use of stock options to incentivize executives, for the vast majority of public companies, they still represent an efficient way to firmly align executive incentive pay with shareholder results.

Requiring arbitrary expensing procedures (and all thus far conceived methods still appear arbitrary) will most likely emasculate qualified incentive stock option plans. Companies will have to revert to more costly plans that actually involve outlays of cash in order to achieve the same incentive pay results. Those expenses won't be arbitrary, but they will merely reduce the company's and ultimately the market's total capitalization.

David S. Gutridge

David S. Gutridge
Executive Vice President & CFO
MTC Technologies, Inc.
937-252-9199
dgutridge@modtechcorp.com