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Letter of Comment No: 5400 File Reference: 1102-100

From:

brennanm@echelon.com

Sent:

Thursday, June 24, 2004 8:43 PM

To:

Director - FASB

Subject:

File Reference No. 1102-100, Comment on FASB Stock Option Proposal



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Dear Mr. Robert Herz:

I am writing in reference to FASB's invitation to comment on its exposure draft, "Share-Based Payment," an amendment of Statements No. 123 and 95. I strongly oppose the proposal to expense stock options in corporate accounting. These stock options are not an expense to the company as no capital is extended to when the options are granted. Adding this expense to the balance sheet would be misleading to all as earnings would be negatively effected, yet the company has not reduced it's capital when the option is granted. The formula for calculating the expense of the option seems misapplied to this case as employee stock options are not are not transferable or tradable. Also, there is no accounting for when the option grant expires. As most options grants are timed for several years, it makes little sense for the company to expense this amount from one year, when it may not accrue for many years later. As well as if the grant expires, will companies have to restate earnings for several years?

Finally, personally I have concerns that if this proposal was allowed to be adopted, companies like the one I work for would no longer be able to issue these options. My company would likely be forced to stop as the granting of options would bring a profitable company to an unprofitable one (even when we are cash follow positive and generating profits). I would suffer greatly, as the stock options granted to me have helped me pay school loans, purchase a car, as start a savings for a house for my family. The stock options granted to give me a sense of ownership and responsibility to the company and the stockholders (which by options I am one). Without these options, I personally have little incentive to improve the performance of the company as it has little effect on my compensation. As options are already accounted for, I fail to see how this improves transparency into the workings of a company from the balance sheet.

Sincerely,

Brennan McAdams Echelon Corporation 2378 Markham Ave San Jose, CA 95125