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Letter of Comment No: 1837
File Reference: 1102-100

From: Bryan Boatright [boatright@ieee.org]
Sent: Monday, April 26, 2004 10:55 AM
To: Director - FASB
Subject: File Reference No. 1102-100: expensing of employee stock options

To Whom it May Concern:

I am writing to express my desire that the FASB would NOT adopt rules requiring companies to treat stock options as expenses.

In addition to the common arguments that it is difficult to put a value on something that cannot be freely sold and that such a requirement would force companies to reduce the scope of stock option grants thus making it more difficult to attract, retain and develop skills critical to our high tech economy, I'd like to point out some other potential problems with the proposal.

- This proposal is an effort to "fix" something that has not been shown to be a problem. Did Worldcom or Enron collapse because they did not expense stock options? No, they collapsed because of fraudulent accounting practices (intentionally deceiving investors). In the rush to "protect" the public from dishonesty at the corporate level, might this current proposal be going overboard to address a problem that does not really exist? Do you expect corrupt corporate officers to obey this new requirement when they are already ignoring others?

- For some companies that have been very generous with broad-based stock options, this proposal would likely force those companies to stop offering options to the workers instead reserving them for executives or other highly placed employees. This hurts the same people that this proposal is trying to protect: the small investor who doesn't have the time or resources to study the financial details of each company in which he owns an interest.

- Relatively small changes in economic variables can have a profound impact on the economy (e.g., interest rate changes). Has the FASB thoroughly considered how this change in accounting practices will affect the market values of the companies that will be most affected and how the possible decrease in market capitalization would affect the US economy? I can envision scenarios in which the market overreacts to what appears to be worsened operating results even though nothing at all actually changed!

- If enacted, this proposal will cause companies that are honest to tend towards the most pessimistic view of the "cost" of options when granted to avoid being sued for understating the actual cost of those options when they are actually exercised. Honest companies that take great care to meticulously reflect a reasonable view of their business conditions will be hurt the most by this proposal whereas companies that have always walked the line between honesty and deceit will continue to do that with respect to this proposal as well.

Thanks for considering my views which can be summarized by saying that we should not attempt to fix something so complicated when there is not a clear sign of a problem. The risk is too high and there is no way to estimate the potential reward.

For the record, I am a "worker bee" who does benefit from employee stock options, and I can testify to their motivating effect. I truly believe that such options do encourage innovation and provide a sense of urgency to conducting business. This is very much beneficial to the US economy and to our competitiveness in the global marketplace.

Sincerely,
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