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April 10, 2004

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 54
File Reference: 1102-100

Comment Letter on:
Proposal on Equity-Based Compensation to Improve Accounting and Provide Greater Transparency for Investors

Dear Sir/Madam:

Stock options should not be expensed when they are granted because there is no expense at that time, pure and simple. An expense is incurred if — and only if — the option is actually exercised. This is due to the fact that on the exercise date, the corporation sells the employee stock at less than market value. The expense is the difference between the market price of the stock and the exercise price of the option.

FASB should treat stock option in the same manner as the IRS. When an employee exercises a stock option the company incurs a cost valued at the difference between the option price and the exercise price. The IRS recognizes this cost and allows the company to deduct the expense for tax purposes, ***when the option is exercised***. By contrast, the FASB's proposal would require that the company begin expensing the theoretical cost of the option long before it is exercised. And if the stock price goes down and the option is never exercised, the FASB's proposal really puts the company's accounting out of whack. Why doesn't the FASB simply follow the IRS's lead?

Those who favor the FASB's proposal say it will improve accounting honesty. Yet the truth is that expensing options before they are exercised obscures economic reality. Whether the accounting is done for financial purposes or tax purposes, the honest thing to do is to require expensing only when there is an expense, i.e., when the option is exercised. The FASB's proposal merely kowtows to those who want to punish corporations for the excesses of the 1990s. It does little to serve the interests of shareholders.

I recommend that FASB make no changes and continue with its policy of having companies state their options expense as a note in the annual financial statement.

Sincerely,

Robert J. Lindinger

Robert J. Lindinger

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