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Financial Accounting Standards Board

Dear sirs:

I write to comment on the FASB's proposed new accounting pronouncement on stock based compensation. In the context of that proposal, I understand that the Board has already reached a conclusion that an earnings charge for options is appropriate. Despite that conclusion, I respectfully submit that such accounting is fundamentally flawed. While there are significant weaknesses in the current accounting rules for stock based compensation, an alternative that includes an earnings charge for stock options has weaknesses that are at least as bad and may turn out to be worse than existing rules.

The fundamentals of accounting are based on the principals of consistency and comparability and should be based on measurable reality. Adopting accounting standards that require a charge to the income statement based on the future estimated relative fair value of an entity's stock will significantly detract from a reader's ability to understand whether an entity's operating results are consistent from period to period or whether those financial results are comparable to another entity's results. Further, due to the inherent volatility of stock because of factors that have nothing to do with management decisions, such a standard could result in significant variations in reported operating results even in periods when actual operations may not have experienced such volatility. Given that the stated goal of the FASB in this latest endeavor is to restore trust in a financial reporting system that the public apparently no longer trusts, creating accounting pronouncements that will almost certainly increase earnings volatility seems unwise.

This type of theory led to the abuses of mark to market accounting at Enron and Global Crossing. Accounting principals that allow formulaic methods for using estimated future values to record current income have created many of the most significant misstatements of earnings in recent memory. It is just not reasonably possible to accurately predict future values when future market values are outside management's control.

The issue of how to account for stock based compensation has been completely politicized. The focus of conversation has been around the purported inequities to shareholders caused by the executive compensation component of stock option grants. By bowing to this political pressure, the FASB will fail in its duty to promulgate technically sound policy and will further weaken its already poor hold on the moral high ground that the profession should maintain. The FASB has examined and made policy on this matter twice before, yet only once the pundits and the politicians determined in their uninformed views that there should be a change has the Board concluded that their previous guidance was incorrect. Standard makers should be made of tougher stuff than that.

I urge you to reconsider your position on this matter. I fear the unintended consequences of your policy will be deterioration in the number of options issued to rank and file employees who are the engine of the entrepreneurial machine that drives our economy. Investors in companies that issue options have all the data they need to assess the dilutive impact of options on earnings. Executives will be compensated well regardless of what rules you promulgate. Creating accounting that reduces the rank and files' opportunities to participate in the American dream is short sighted and bad policy.

Regards,

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