

This letter was sent to the following:
The Wall Street Journal
The New York Times
San Francisco Chronicle
Barron's Financial Weekly
CFO Magazine
The Honorable Michael Enzi
The Honorable John Ensign
The Honorable Barbara Boxer
The Honorable David Dreier
The Honorable Anna G. Eshoo
The Honorable Dianne Feinstein
The Honorable Arnold Schwarzenegger

The FASB was cc'd.

Letter of Comment No: 117A
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COO
NYSE

November 13, 2003

Letter to the Editor
The Wall Street Journal
200 Liberty Street
New York, NY 10281

Re: Stock Option Expensing – A Compromise

Dear Editor:

I write at a critical time. A critical time for the world, visited as it has been by the horrific actions of Osama bin Laden, Saddam Hussein and others of their hate-filled ilk. A critical time in the history of American business, currently fraught with wide spread disclosures of scandal, greed and, in my opinion, a series of ill conceived accounting and regulatory machinations by various agencies that appear to this writer to be becoming more a part of the problem than the solution. As American business struggles to function in an environment driven by fear and uncertainty under the guise of "Governance," I and I trust (hope?) others wonder, "Where is the voice of reason?"

Consider, for example, the battle now raging over the accounting for employee stock options. With apologies to Mr. Shakespeare, "To expense or not to expense, that is the question." The Financial Accounting Standards Board ("FASB"), fearing for their very existence, and after many false starts, now seems to be intent on requiring that stock options be expensed in each company's Income Statement beginning in 2005, but they still don't know how their final rules will read. Even worse, they don't know how the options themselves are to be valued. By the much maligned Black Scholes model? By investment bankers? Who knows!

The tide driving expensing of options seems overwhelming, as journalists and other special interest groups accuse American business of misstating compensation expense by not expensing some contrived value associated with options. But this philosophy is certainly not held by all. Consider these quotes by acknowledged financial and business leaders:

"If anything, expensing options may lead to an even more distorted picture of a company's economic condition and cash flows than financial statements currently paint."

*-William Sahlman, Professor of Business Administration, Harvard Business School,
"Expensing Options Solves Nothing," Harvard Business Review, December 2002.*

"Mandatory expensing will put U.S. accounting policy on a collision course with innovation, entrepreneurship, competition, and new business growth. The fact is that the next Cisco or Intel won't happen without stock options."

-John Doerr, Partner, Kleiner Perkins Caufield & Byers, "Expensing Stock Options is Not Inevitable," Red Herring, January 2003.

"[With expensing, people] are going to get irrelevant information that they'll use incorrectly...[Companies] will come up with numbers that will be completely wrong."

-David Hilal, Managing Director, Friedman, Billings, Ramsey, "The Imperfect Science of Valuing Options," Business Week, October 28, 2002

"...for technical accounting reasons, I would not charge [an] expense for stock options issued to employees...The issuance of a stock option to an employee does not change the market capitalization of the corporation as measured by the market value of the outstanding shares and the value of the outstanding option...And, finally, on the exercise of an option by an employee, the market value of the corporation's outstanding shares should increase by at least the amount of cash that is received by the corporation on the exercise of the option-again, no expense."

-Walter P. Schuetz, former SEC Chief Accountant, Letter to Senator Charles Schumer, March 25, 2002.

Since options are already factored into the calculation of Earnings Per Share ("EPS") (see Exhibit I), any double accounting of options, as proposed by the FASB, could lead to catastrophic results. For example, if this double accounting reduces the average company's EPS by 10%, unless Wall Street increases its Price - Earnings multiples correspondingly, all US businesses will be devalued by 10%. This could cost US investors about \$1.5 - \$2 trillion.

Believing as I do that life is a series of compromises; I would like to offer a proposal to answer Mr. Shakespeare's question: I propose that stock options be expensed in the "Statement of Comprehensive Income" not in the "Income Statement." In this win-win scenario, investors to whom this information is important will be able to see it in the basic financial statements. This will avoid widespread stock market panic due to option expense fluctuations and related earnings per share calculations triggered by changes in stock market values under the FASB's proposal. Indeed, I hope for all Americans that this compromise will prevent the FASB from doing greater economic damage to the United States than the combination of Osama bin Laden and Saddam Hussein could ever create.

Comments welcome.

Sincerely,



Robert S. Weiss
Chief Financial Officer and
Executive Vice President
E-mail: rweiss@cooperco.com

RSW/bev

Attachment

cc: Financial Accounting Standards Board

FASB – Double Accounting Proposal

A. Assumptions:

- 1,000,000 shares granted at fair market value of \$30 and exercisable if stock hits \$40
- Option valued at \$10 per share using Black Scholes method
- Basic EPS \$2.00
- Stock market value increases to \$40
- Shares outstanding 30 million
- Effective Tax Rate = 20%

	<u>Basic EPS</u>	<u>FDEPS</u> ⁽¹⁾	<u>FASB Proposal</u> ⁽²⁾	FASB % <u>Impact</u>
Net Income (\$000's)	\$60,000	\$60,000	\$52,000	(13%)
EPS	\$2.00	\$1.98	\$1.72	(13%)
Shares Outstanding (000's)	30,000	30,250	30,250	

B. Assumptions:

- Same as above except stock market value increases to \$60

	<u>Basic EPS</u>	<u>FDEPS</u> ⁽¹⁾	<u>FASB Proposal</u> ⁽²⁾	FASB % <u>Impact</u>
Net Income (\$000's)	\$60,000	\$60,000	\$52,000	(13%)
EPS	\$2.00	\$1.97	\$1.70	(14%)
Shares Outstanding (000's)	30,000	30,500	30,500	

⁽¹⁾ First accounting for options uses treasury stock method for shares outstanding for fully diluted earnings per share purposes (FDEPS).

⁽²⁾ Double accounting increases shares outstanding using the treasury stock method while compensation costs lower net income via a non-cash charge.