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March 22, 1994

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Mr. Dennis Beresford
Chairman,
Financial Accounting Standards Board
401 Merritt Seven
Norwalk, Conn 06856-5116

Dear Chairman Beresford:

In light of the recent hearing in the Senate Banking Committee on the proposed change of the accounting rules for employee stock options by the Financial Accounting Standards Board (FASB), I would like to inform you of my views on this matter as Senator and a former CEO.

The accounting treatment of stock options outlined by FASB would have a disproportionately negative affect on high-tech businesses and small fast growing companies with broadly-based stock option programs. Moreover, since the earnings charge would be computed differently for public and private companies, it may prevent some companies from going public. This proposal makes it more difficult for new software and other high-technology ventures to raise investment capital.

The financial reporting requirements which FASB calls for are neither an improvement, nor in the best interest of promoting and expanding businesses. The harm caused by FASB's proposal far outweighs any perceived benefits to accounting principals.

FASB's plan requires companies that grant employee stock options to determine the "fair value" of the options using a complicated options-pricing model and to recognize this value as an expense on their income statement. While this expense will be calculated on the date of the grant, in most instances it will be charged against income over the vesting period.

In setting the value of a stock-option grant, the FASB proposal requires consideration of the exercise price and expected term of the option, the current price and expected term of the option, the current price of the underlying shares of stock, the expected volatility of the stock, the expected dividend yield of the stock, and the risk-free interest rate during the expected option term. The calculation of so many subjective factors will lead to significant fluctuations in the expense, especially among public companies.

Mr. Baresford
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As the former CEO of the Franklin Quest Corporation, I understand the necessity of stock options to attract qualified individuals to companies. Many "start-up" companies use stock options in order to attract highly competent people who are willing to tie their financial rewards to the performance of the company.

Many of the world leaders in the software industry had their beginnings as small start-up ventures. The unimpaired ability to grant employee stock options contributed immeasurably to the tremendous success of these companies.

It would be most unfortunate if the FASB proposal, however inadvertent, had a chilling effect on the competitiveness of flourishing American industries.

I look forward in working with FASB on its proposal in conjunction with the software industry to facilitate a compromise which addresses the legitimate points made by both the FASB and the start-up companies in this situation.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert F. Bennett". The signature is written in dark ink and is positioned above the printed name and title.

Robert F. Bennett
U.S. Senator

RFB:tjd