Letter of Comment No: 5129 File Reference: 1102-100

ikon

Sam Schwartz [SSCHWARTZ@serologicals.com]

From: Sent:

Monday, June 21, 2004 2:19 PM

To:

Director - FASB

Subject: File Reference Number 1102-100 - Exposure draft Share Based Payment

June 21, 2004

FASB, Stamford, Conn File Reference Number 1102-100

Director FASB,

I am a CPA and the Chief Accounting Officer at Serologicals Corporation, a public biotech company located in suburban Atlanta, Ga. The views I am expressing are my own and not necessarily those of the Serologicals Corporation.

I am writing to urge you not to issue the current exposure draft on Share-Based Payment. Stock options give employees at all levels a stake in the success of our companies. They encourage the hard work and entrepreneurial spirit that fuel innovation, increase productivity and boost shareholder returns. Your proposal will discourage the use of share based payments. More than an accounting issue, it is an economic issue that would have far-reaching negative consequences on many U.S. industries, hurting rank and file workers, competitiveness and innovation. Broad based plans help align the interest of employees with that of their companies.

Stock option programs are also good for shareholders because employees are rewarded only if a company's stock value increases. I believe that if companies are forced to expense all employee stock options, many companies will no longer grant them to employees. This would negatively impact morale, productivity and innovation. These plans should be encouraged not eliminated.

I believe that expensing stock options is bad accounting.

Employee stock options are not a direct expense of the company. Under the definitions set forth in FASB Statement of Concepts Number 6, stock options are neither a liability or an outflow of assets and as such do not constitute an expense.

The potential dilution of each investor's share of company ownership is the only cost of employee stock options. Employees' participation assists in aligning values and when values move up, ownership dilution is offset by the greater overall market value resulting from these aligned interests. If value does not move up options are usually not exercised and in fact no real dilution occurs. Additionally this ownership cost is already reflected in "diluted earnings per share" which is a required disclosure under current FASB EPS guidelines.

No valuation model for options (e.g. the Black-Scholes or lattice models) is considered to be reliable, consistent or comparable. Stock options are very different from market-traded options. It is impossible to create an accurate value, and expensing based on available methodologies would in fact undermine the credibility of financial statements. The binomial method is very complex and will be costly to administer. The current rules require subjective forecasting of future events, rather than reliance on historical results, which may prove to be inaccurate and as a result misleading. Predicting future events will lead to subjectivity and additional management estimates, thereby possibly further eroding accuracy and reliability of the results. Requiring that each vesting period be separately accounted for will add additional unneeded complexity and make administration overly burdensome for many companies. Your plan will create additional complexity to accounting for deferred income taxes from the consequence of accounting for option plans. Companies will incur very large costs associated with implementing expensing — a poor investment given the

June 21, 2004 Page 2 of 2

flaws inherent in the FASB plan —which will negatively impact the accuracy and comparability of financial statements.

Employee stock purchase plans (ESPP) should be omitted from this exposure draft as well. Current rules on ESPP are simpler to administer. ESPP are an inexpensive means to offer shares to employees, who fund purchases with their own after tax dollars. This further aligns employees with shareholders. I do not understand why these are being addressed at all. Almost all public companies and most rank and file employees participate in these types of plans. Once again there is no real expense incurred by the company and the impact on dilution is so small that it is not worthy of the efforts to regulate these plans.

There is a real need for a comprehensive study, outside the exclusive domain of the accounting profession, because current valuation proposals would create a highly distorted picture of the real economic effects of broad-based stock option grants and thereby create more confusion for investors. As many before me have pointed out, options are a critical means for many companies to attract and retain qualified employees. The economic impact of your decisions will be far reaching, well beyond accounting rules that you wish to change. The FASB plan will not improve corporate governance and will not help investors gain a more complete understanding of a company's financial results.

If options are required to be treated the same as a cash expense, companies would drastically reduce the number of people who receive options, probably restricting them to the most senior executives. Broad-based employee stock options issued to rank and file employees is critical to innovation, and to economic growth that benefits all of us. Mandatory expensing will discourage use of options, thus discouraging entrepreneurship and business development.

Your exposure draft is seen by many as a weak response to political pressure caused by a very few highly publicized situations. Accounting policy should not become a means to reform corporate governance. There is no direct evidence that unethical and illegal corporate behavior aimed at inflating stock values is in any way tied to broad based stock options plans.

I am of the opinion that the current accounting rules in place sufficiently address the accounting for Share -Based Payments and allow for consistent accounting treatment in interpreting financial performance and results. I am of the opinion that you should withdraw the current exposure draft until you have taken the necessary steps to better understand the economic impact of your propose actions. Acting in this responsible manner will also avert Federal government intervention in the accounting standard setting process which must be avoided.

Sincerely,

Samuel R. Schwartz, CPA Chief Accounting Officer and Corporate Controller Serologicals Corporation

The information in this email is confidential and may be legally privileged. Access to this emaby anyone other than the intended addressee is unauthorized. If you are not the intended recipi of this message, any review, disclosure, copying, distribution, retention, or any action taken of than notification to sender and deletion is prohibited and may be unlawful. If you are not the recipient, please reply to or forward a copy of this message to the sender and delete the message attachments, and any copies from your system.
