

Letter of Comment No: 4938 File Reference: 1102-100

Director of Major Projects File Reference No. 1102-100 401 Merritt 7 P. O. Box 5116 Norwalk, CT 06856-5116

RE: Exposure Draft on Share-Based Payment an amendment of FASB Statements 123 and 95

Dear Sir:

We are writing to express our concern over the pending rule change to require the expensing of stock options granted to employees. The following addresses particular concerns for specific issues in the exposure draft on Share-Based Payment an amendment of FASB Statements 123 and 95.

ISSUE 1

Because there may be a benefit to an employee from stock options granted to such employee, it does not necessarily follow that there should be a cost to be recognized in the financial statements of the granting company or a liability incurred on the grant date.

When an employee is granted an option, he has the right to exercise that option in a future period, based on the satisfaction of certain conditions. At the time of grant, there is no out of pocket cost to the company. Furthermore, if the strike price is at the current market price, there is no measurable benefit to the employee that the company should record. When the option is exercised, the company receives cash from the employee and receives a tax benefit based onto the excess of the market price at exercise date over the exercise price, with no cost to the company. Therefore, the company benefits in two ways and there is no cost to the company. Concepts Statement 6 sets forth principles that we believe are relevant to this discussion. Paragraph 80 of Statement 6 states that "Expenses are outflows or other using up of assets or incurrences of liabilities (...) from delivering or producing goods, rendering services ..." Paragraph 81 states "Expenses represent actual or expected cash outflows (or the equivalent) that have occurred or will eventuate as a result of the entity's ongoing major or central operations." Additionally, paragraph 35 defines a liability as "probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events." We do not believe that the granting of a stock option satisfies any of these criteria. Although, we are aware that company shares issued for goods or services result in the recording of an expense, we believe that it is more than a stretch to apply this approach to the treatment of the granting of employee stock

monster worldwide

options. There is no current or future cash outlay by the company for this calculated value; on the contrary, the company receives cash and tax benefits when the options are exercised. With respect to options granted at fair market value, the increase, if any, from the option exercise price to the future share price at which the employee sells the stock is the only value of the option. There is no difference between this appreciation and the normal appreciation that a stockholder might realize by holding the shares and this appreciation is not a cost to the company, even if the stockholder is an employee.

One might argue that there is a cost to the company because had it held the shares, in theory, it could have sold them in the future at a higher price; we believe that if this is a cost, it is an opportunity cost. Under existing accounting rules no other opportunity costs are expensed; consequently, we believe that it also would be inappropriate to expense stock options under this line of thinking.

The pending rule would distort the income statement because there is no out of pocket cash either at the time of grant or at the time of exercise. The economic impact of stock option grant is solely from the potential when the options are exercised. Consequently, the disclosure should focus on the dilutive effect of option grants both on earnings per share and book value.

Issue 4:

Previously the Board issued SFAS 123, which relies upon the Black-Scholes Valuation Model. Initially, the Board was going to make recording of the expense under 123 mandatory, then changed to optional recording and mandatory disclosure. Now the board has determined that Black-Scholes is not the preferable method but prefers the binomial approach. Because of this switch and the untested nature of the binomial method, we believe that any approach at attempting to quantify the expense to the company of employee options should begin with several years of pro forma disclosure, rather than recording a highly judgmental cost on the books of the company.

The proposed statement requires the fair value of a stock option be estimated using an appropriate valuation model which takes into account various factors. The Staff of the FASB has also indicated that a binomial model is the preferred option-pricing model (but not mandatory). The valuation of stock options is a highly complex exercise, which requires significant levels of judgment. There are numerous documented examples among respected professionals who disagree on the most appropriate methods by which to value stock options. By not requiring that a consistent option-pricing model be adopted by all companies, we do not believe that the resulting calculations could possibly be either objective or reasonably consistent. As a result, we believe such inconsistency will lead to an even increased reliance by the investing public to rely on Non-GAAP measurement to compare various companies' performance on a consistent basis.

The myriad of variables in the binomial model will make the calculation very complex, difficult to audit and even more difficult for the average investor to understand. Companies without a long history of employee option exercises or with initial growth spurts in its business that are not likely to be repeated will be required to make assumptions on future employee behavior that will

monsterworldwide

effectively be no better than guesses. This will make the expense calculations unreliable and potentially unauditable. Additionally, the proposed treatment does not provide for the reversal of the estimated option cost when the options are cancelled or expire unexercised or a remeasurement upon settlement. Consequently, we fear that results of operations will likely be misstated. The available choices for valuation models and assumptions are too many to provide for consistent application and therefore comparability between companies.

To illustrate a potential discrepancy between the estimated fair value calculation and the actual option exercise activity, we cite the following grant made by our company.

In December 1999, Monster Worldwide, Inc made a broad-based employee grant of 3.7 million options with a four-year 25% per year vesting and a strike price of \$44.50 per share, the market value on the date of grant. Using a valuation based on Black-Scholes and accounting pursuant to this exposure draft, which considers the actual cancellations before recording the annual expense, the first year's (25% vested) pretax expense would have been approximately \$41.9 million and the second, third and fourth years would have been \$19.2 million, \$8.9 million and \$3.1 million, respectively. As of March 31, 2004, 3.7% of these options were exercised, 55% have been canceled and 41.3% remain outstanding. However, as of the date of this letter, these options are approximately \$20 out of the money. At the time of grant, the Company would not have had any reasonable method to estimate the actual cancellations or exercise activity for these options. The value received by those who exercised these options was \$1.8 million and the value of the 1.5 million still outstanding is \$11.9 million vs. the total four-year expense of \$73.1 million. It is likely that the use of the binomial method would also have had a similar negative impact on our income statement, when in fact there would be (a) no cash outflow and (b) the value of the options today would be significantly lower than the cumulative charge. So therefore, a remeasurement provision is needed. We believe the impact would be similar on many other growth, Internet and high technology companies.

Issue 4 (c): The Board should specify a method for determining volatility. Currently, paragraphs B24 through B26 are unclear as to the application of the rules to determine volatility. Because volatility is sensitive to changes in share price and market conditions, the various choices available in the proposed standard for determining volatility are too numerous and subject to too much interpretation to provide for meaningful or consistent comparison between companies. Additionally, we believe that very few companies have the internal resources necessary to make informed estimates of implied volatilities.

<u>Issue 5</u>

The existence of circumstances in which it is not possible to reasonably estimate the fair value of an equity instrument highlights the flaw in the entire valuation approach and its use as a way to record an expense in the income statement. However, the use of an intrinsic method with a remeasurement through settlement date would give an expense inconsistent with expense determined using the binomial method. We believe that a valuation method must be developed that will provide a consistent application and transparent value to all equity instruments.



Issue 7

There is a presumption that the vesting period of an option equates to the service period. We believe that options are granted with a life that exceeds the vesting period because a significant portion of the benefit is in the longer term. In addition, in order to retain the ability to exercise the vested options in future years, employees must stay with the company, (i.e. deliver service), after the options have vested. We have traditionally utilized stock option as a long-term incentive and retention tool. Although our options typically vest ratably over a four or five-year period, it is our strong desire that employees share in even longer-term appreciation of our share price. Consequently, we believe that the period of recording the expense should be over the expected term of the option.

Issue 11

Proposed standard does not provide for the reversal of the estimated option cost when the option cancellations are greater than anticipated, expire unexercised or a remeasurement upon settlement. This would definitely overstate operating expenses. However, the proposed accounting for income taxes would require that the benefit, which had been set up through operations based on the recorded expense and that is no longer realizable because the options were cancelled or expire unexercised, be reversed through income as tax expense. We believe that this is improper treatment. If previously recorded compensation expense is not reversed through the income statement, then we recommend that the deferred tax asset, which has been lost because options were not exercised at the expected value, be reversed directly through equity.

Issue 13

The Board has decided that this statement should be effective for awards that are granted, modified, or settled in fiscal years beginning after December 15, 2004, (C157). The Board also concluded that this statement should apply to the nonvested portion of awards outstanding at the date of adoption and that were granted in fiscal years beginning after December 15, 1994, using the previously estimated grant-date fair value that was used for recognition or pro-forma purposes (C160). We believe that the transition rules should provide that all grants issued prior to the release of the statement be grand-fathered so as to be accounted for under the rules of either Opinion 25 or SFAS 123, as currently written, depending on the entity's current accounting policy. This would eliminate unfair treatment of accounting under the new rules for grants issued under prior rules because companies considered the consequences of the then existing accounting rules when making the past grants. It is obvious that these new rules will change the behavior of Corporate America with respect to the granting of options.

monsterworldwide

The objective of the proposed statement is to provide for objective and consistent treatment and reporting of stock option awards. We believe that the modified prospective approach will not achieve this objective. Most companies chose to adopt the disclosure only provisions of FAS 123. As a result, companies and industries have developed vastly different strategies in granting stock options. These strategies include various types of broad-based option plans and different combinations of cash compensation and option grants. Faced with the prospect of having to expense stock option grants, we believe that over time, there will emerge, within various industries, a more consistent strategy with respect to the level of stock options granted. Due to the differing strategies previously used in the award of stock options, we believe that the modified prospective approach will continue to provide inconsistent results until all options issued prior to December 15, 2004 vest. We therefore believe, if option expensing is required, that a prospective application to all awards granted, modified or settled in fiscal years beginning after December 15, 2004, will provide the least inconsistent application of the standard.

<u>Issue 18</u>

We believe that the Board's objective of a standard that can be read and understood is not achieved by this statement. The arbitrary nature of the myriad of variables that are used to estimate the expense does not allow for comparability between companies. This statement uses a calculation to estimate the theoretical cost of options issued. There is no provision to test the ultimate accuracy of the assumptions in this statement. Nor is there a provision to remeasure and record the actual cost, assuming that one accepts the notion that the ultimate cash benefit to the employee is equivalent to the cost to the company.

We were recently approached by one of the big four firms proposing to assist us with the implementation of a binomial model. This firm has joined forces with two of the recognized leaders in the development of valuation theory. A brief resume included in the information packet indicated that these two individuals had provided training to the FASB staff on stock option valuation techniques. The very fact that the FASB staff, which consists of the most knowledgeable and technical proficient accountants, requires additional training in stock option valuation techniques would seem to indicate that even those individuals with a significant level of accounting knowledge will have difficulty understanding this proposed standard.

We believe that the valuation method needs to be improved and that the period over which the option value is expensed should be the estimated life of the option not the vesting period. Estimated option life should be used as the period over which the expense is recorded because it matches the period over which the employee services are rendered.

Sincerely,

Michael Sileck

Senior Vice President and Chief Financial Officer

ilal Biled