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From: Skalkotos, Demetrios [Demetrios.Skalkotos@nasdaq.com]
Sent: Saturday, June 19, 2004 11:36 AM
To: Director - FASB
Cc: Skalkotos, Demetrios
Subject: File Reference No. 1102-100

Letter of Comment No: 4935
File Reference: 1102-100



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June 19, 2004

To: FASB
Re: Expensing of Stock Options
Subject: File Reference No. 1102-100

I am writing this letter to request that the FASB delay its ruling until a proper method of expensing stock options can be determined.

I'm not in favor of the mandatory expensing of stock options, and I encourage you to endorse the Stock Option Reform Accounting Act (H.R. 3574/ S. 1890) bipartisan legislation that would delay implementation of the Financial Accounting Standards Board's (FASB) rule pending further study on the proposals economic impact. I urge you to support maintaining the current option expense reporting standards versus the FASB rule to include an estimate of expense directly in the financial statements themselves.

Two compelling reasons shape my opinion as to why FASB should delay its ruling until a proper method of expensing can be determined:

1. Correct valuation models don't exist for the valuation of employee stock options. Black Scholes was created to value market options, not employee stock options. The future-value estimate, combined with an uncertain time frame, makes the expense estimate suspect at best and misleading at worst. The binomial model is also fraught with similar shortcomings. The result of using an incorrect valuation model will produce the opposite effect FASB is hoping to achieve; inconsistent valuations and investor misinformation are not your goals.

2. Real costs of expensing stock options are innovation. Options align employee interests with the company. Expensing stock options incorrectly will encourage senior management to use other forms of incentive packages, perhaps less-equity oriented. The culture of stock options has created everyone as an owner of the business, viewed as highly critical assets to be valued and treated with respect.

Option plans are an entrepreneurial incentive that has sparked innovation, enabling the growth of companies thereby creating new employment opportunities and income streams for thousands of families across the United States.

In conclusion, it is my opinion that the irrationality of a few is driving a reactionary policy for the many. This is not just an accounting issue, it is an economic issue.

Best regards,

Demetrios N. Skalkotos
Regional Vice President
The NASDAQ Stock Market
55 West Monroe
Suite 3450
Chicago, IL 60603