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From: Bennett, Tiffany [tbennett@memberworks.com]
Sent: Tuesday, June 29, 2004 5:38 PM
To: Director - FASB
Cc: Duffy, James
Subject: File Ref. No 1102-100

Letter of Comment No: 5507
File Reference: 1102-100

Ms. Susanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

RE: File Reference No. 1102-100

Dear Ms. Bielstein

We appreciate the opportunity to comment on the FASB Exposure Draft on Share-Based Payments and would like to express our concerns on the impact of its implementation.

We believe an accounting policy that requires expensing of stock options without a clear and consistent valuation methodology is counter productive. This accounting policy will create more confusion than transparency while causing significant financial harm to companies and their employees.

We believe that employee ownership motivates our employees to work harder, boosts productivity, encourages retention of talent and helps to make our company more successful. However, we believe that, many companies like us may not be able to continue the practice of offering stock options if there is a requirement that employee stock options are expensed using a valuation method that significantly distorts the impact of the options on the financial position of the company.

We understand that the valuation methods proposed by the Exposure Draft would assign a fair-value to an option at the time of grant and require the amount to be recognized in the income statement over the vesting period of the option. It is obvious that there is no realizable or attributable value for options at the time of grant due to the nature of stock options. They are not transferable and are not exercisable immediately. It is impossible to predict stock price volatility with any accuracy. Because of these factors their future value is speculative. Given these extreme variables, the expense model when put into practice will not be consistent or comparable from one company to another-resulting in potential for abuse or inconsistent audit treatment.

The expense as recorded is never reconciled or compared to the actual final benefit to the employee. Options can be forfeited in which case; the employee never receives the benefit. The proposal does not permit reversal of charges for any options that expire unexercised. For example, under the valuation model an option with a higher grant price generally results in a greater expense. Therefore, if options are granted at a stock's all time high, a large expense is recorded even if the stock subsequently declines in value and the options expire worthless. Further, the proposed accounting for the deferred tax implications of these estimates is burdensome and entirely confusing to the average financial statement reader. The tax method is to recognize the true cash value realized by the employee in the period of exercise. Without a true-up of the book expense, a deferred tax asset or liability results that will never be realized. The process of evaluating these assets and liabilities for write-off will be challenging, time consuming and prone to error.

The proposed valuation methods will, by their nature, result in inaccurate estimates of the value of the options over time and as such expensing in the financial statements will not improve but will instead distort the transparency and comparability of the financial statements for the investors. Current accounting practice reflects the cost to shareholders

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through the fully diluted earnings per share calculation. This, combined with disclosing the proforma impact of stock options on the income statement in the footnotes, provides a benchmark for users of financial statements without reflecting inherently inaccurate information on the face of the company's financial statements.

While we understand that there are numerous instances where financial information is based on estimations and judgments by management, these estimations are usually coupled with some type of true-up methodology. Without that an investor never achieves the reliability and transparency we are striving for.

We also request the FASB to consider the probable reaction by the investment community to this change in accounting. This recognition of a non-cash expense is likely to result in new definitions of EBITDA and further disclosure of non-GAAP measures such as 'adjusted EPS'. The expense potentially could be effectively ignored while creating further inconsistent treatment for users to try to understand.

MemberWorks strongly encourages the FASB to reconsider their proposal to make the expensing of stock options mandatory. From a financial transparency and accounting perspective, expensing stock options does not make sense.

Very truly yours,

Tiffany Bennett
Vice President Finance
MemberWorks Incorporated