Letter of Comment No: 2453 File Reference: 1102-100

## Stacev Sutay

From:

Shaw, Doug [dshaw@scnb.com]

Sent:

Monday, May 17, 2004 1:41 PM

To:

Director - FASB

Subject: Expensing of Stock Options

## Gentlemen:

The effect of options never was, isn't now, and never will be expense. It is DILUTION. The current position of the FASB is political, responding to the abusive grants of options, a real problem, with the wrong cure. By distorting the income statement, all the expensing of options will do is make it even harder for investors to understand how the core business is being run. And worse, the distortion is amplified by the meaninglessness of both Black-Scholes and Binomial pricing models. They do not produce real numbers.

The problem is best solved with a narrower set of rules for the grant of options, e.g. maximum dilution and overhang limits imposed by statute and required holding periods to prevent cash-outs, thus keeping management's interests in line with those of the shareholders; AND with clear, prominent disclosure on the balance sheet of book value per share, diluted book value per share, and diluted book value per share including overhand, and on the income statement, the effects of all three. That's six line items on two pages, and they would be a far more honest way of addressing the issue.

I am completely sympathetic to preventing the abuse of options. I am a stockholder too. But supplanting one form of dishonesty with another is no answer.

## Regards,

Doug Shaw VP & Corporate Secretary Suffolk Bancorp

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