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Massachusetts Software & Internet Council

JOYCE L. PLOTKIN *
President

Letter of Comment No: 90
File Reference: 1101-001
Date Received: 11/11/02

November 4, 2002

Financial Accounting Standards Board
MP&T Director – File Reference 1101-001
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Sir or Madam:

On behalf of the Massachusetts Software & Internet Council, I would like to submit the following comments on FASB's October 4, 2002 Exposure Draft relating to *Accounting for Stock-Based Compensation, an amendment of FASB Statement No. 123.*

Founded in 1985, the Software & Internet Council is the trade association that represents the software and Internet industry in Massachusetts. The mission of the Council is to promote the software and Internet industry; to assist entrepreneurs in starting, growing and managing companies; and to help them be successful in global markets.

Technology entrepreneurs attract and retain their workforces and form capital by conveying ownership interests in their companies to their employees through granting stock options.

The Council's comments are based on the position that it is important to promote broad-based employee stock option plans and that the only way to value accurately employee stock options is by using the "intrinsic value" method.

The Council favors full and frequent disclosure to investors of the dilutive effects of stock options on earnings per share. However, FASB's proposed amendments to Statement No. 123 do not provide for improved disclosure of the dilutive effects on EPS but instead require more frequent disclosure of stock options "expense".

The real cost of employee stock options lies in the potential dilution of each investor's share of company ownership. Requiring that employee stock options be counted as a compensation expense would result in double counting in the earnings per share calculation, which would provide misleading information to investors.

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Even assuming that employee stock options are an expense, there are presently no pricing models that adequately value them. Indeed, companies who have announced their intention to expense options have backed away from the "fair value" or Black-Scholes model, reflecting the growing concern about Black-Scholes among academics and commentators in the business press.

The only model for valuing stock options as an expense that is not misleading to investors is the "intrinsic value" method set forth in APB Opinion No. 25, where the difference between the fair market value at the time of the grant and the grant price is expensed.

Most important, the Council believes that the intrinsic value method of valuation is particularly appropriate for broad-based employee stock ownership plans. The Council urges FASB to redirect its efforts to reform Statement No.123 toward stimulating a discussion of the intrinsic value method as it relates to the promotion of broad-based plans.

Sincerely,

Joyce L. Plotkin

Joyce L. Plotkin
President.