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

Letter of Comment No: 8
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Dear Director:

I am writing to urge the FASB not to require the mandatory expensing of stock options issued to employees. The FASB was very wise in not requiring this when it adopted SFAS No. 123 and it shoud stay the course. I firmly believe that expensing employee options would greatly distort financial statements and result in less useful financial information to investors and other users. The requirements of SFAS No. 123 regarding disclosure are very good and are adequate to inform users of financial statements about the impact of employee options. Why do I believe this:

First, if you were to assess the number of options <u>issued</u> in the USA compared to the number finally <u>exercised</u>, you would find that only a small percentage are actually exercised. This is clear from the reading of any public company's financial statements. Therefore, it would be unduly punitive on issuers to expense 100% of options granted to employees, well knowing that only a small percentage would actually be exercised and therefore impact dilution.

Second, in my opinion, the issue of employee options is one of dilution and not of expense. The focus should continue to be placed on the need to disclose diluted eps. The FASB was very wise in requiring the disclosure of diluted eps in its SFAS No. 128. In my experience, investors are placing more and more emphasis on this figure as opposed to basic eps. In this era of increasing volatility, there is always a high degree of uncertainty about whether options will indeed become exercised and, indeed, whether they will have any value at all. I don't think financial statements should be impacted by hypothetical transactions and that is what requiring expensing would do. Remember that if employees do not exercise, then dilution is unaffected. After all, diluted eps is not an actual measure of eps, it is a "what if" measure of eps. Historical financial statements should not be based on "what if" events, they should be based on actual events.

Third, the valuation of options is an art and not a science. Accountants, both independant and private, should not be put in the role of valuing intangible rights such as options. They generally lack the qualifications and expertise to do this as they are not valuation experts. Further, the most commonly used model by accountants, the Black Scholes model, provides greatly inflated values when compared to quoted market prices of options. Given how controversial the issue of how to value options is, it is entirely premature for anyone to be considering the expensing of options.

Fourth, I believe that expensing options will wreak havoc with our equity markets. The great advances in our economy over the last 20 years have largely been due, in part, to the technology boom. Recall that options are used more aggressively in these industries. Most technology companies (information and biotechnology) will be hard pressed to show earnings due to expensing of options. Therefore, expensing stock options will harm this sector's ability to attract new capital and continue growing.

Therefore, I urge the FASB to please consider my comments and leave the requirements of SFAS No. 123 in tact, with respect to not requiring the expensing of employee stock options.

Yours truly,

/s/ Fred T. Hadeed

Fred T. Hadeed Chief Financial Officer

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