

Karen Salmansohn

Letter of Comment No: 27
File Reference: 1102-001
Date Received: 1-20-03

From: Len Tatore
Sent: Monday, January 20, 2003 2:25
To: Karen Salmansohn
Subject: FW: File Reference No. 1102-001



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-----Original Message-----

From: BishopAIMM@aol.com [mailto:BishopAIMM@aol.com]
Sent: Monday, January 20, 2003 2:13 PM
To: Director - FASB
Subject: File Reference No. 1102-001

Dear Director,

This e-mail is in response to your request for comments on the expensing of stock option plans. Your consideration of the following would be greatly appreciated:

- * Treating an incorrect and misleading number as an expense in the income statement, as would occur if Black-Scholes or other existing option pricing models were used to establish the amount of that cost, would not increase financial statement reliability, transparency, or comparability. Quite to the contrary, investors will be ill served by a rule that mandates the inclusion of misleading numbers in the financial statements.
- * The issuance of stock options does not result in a corporate level cost that impacts net income. To the extent options are actually issued, corporate assets are increased by the amount of cash that the employee must pay to exercise the option. It might be arguable from an economic standpoint that the corporation incurs an opportunity cost in issuing the stock options, but FASB has traditionally not required the recognition of opportunity costs or benefits.
- * The only "cost" of issuing employee stock options is borne by existing shareholders in the form of potential dilution. This should be fully and completely disclosed.
- * Because some investors believe that the value of the stock options given to employees is relevant information, I strongly support very clear and full disclosure of employee stock option transactions. Although we believe that quarterly disclosure of an option value computed under existing option pricing models is an incorrect and misleading number, I recognize that some investors feel that any number is better than no number. FASB has already addressed this issue by now requiring quarterly disclosure of the value of employee stock options.

Recommendation:

*The "fair value" standard in FAS 123 is not "fair value" of the cost to the company or even "fair value" of the value to the employee. Even for disclosure purposes, the really clear faults with the models in terms of setting "fair value" in the context of an employee stock option should be addressed. Stock price volatility should either be set at zero or capped to level the playing field. Without this, current models create a favorable bias for companies in non-volatile industries and a negative bias in highly volatile industries. This makes no sense. In addition, a discount for lack of transferability is essential. An option that has substantial restrictions is clearly worth less than a freely tradable option (that current models were designed to value).

Sincerely,
Robert C. Bishop
Chairman and CEO

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