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MP&T Director - File Reference 1102-001
Financial Accounting Standards Board
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VIA EMAIL: director@fasb.org

Dear Sir or Madam:

I would like to take this opportunity to respond to your Invitation to Comment issued November 18, 2002, "Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and Its Related Interpretations, and IASB Proposed IFRS, *Share-based Payment*." There are several issues that have been raised in the Invitation to Comment that I would like to address, as well as other issues associated with stock-based compensation.

Before getting into specific issues identified in the Invitation to Comment, I would like to preface my comments with the fact that I do not believe that an adequate model currently exists to appropriately value stock-based compensation, specifically stock options. There are too many dynamics and anomalies surrounding the large number of stock option plans existing in today's business world that prohibit any of the existing option pricing models from adequately valuing those options. Since the Black-Scholes option pricing model ("Black-Scholes") is probably the most widely known and used, I would like to take a moment to point out a couple of its specific shortcomings. First of all, Black-Scholes assumes that employee stock options are freely tradable. However, this is not the case. Most stock options must be exercised by the option grantee or expire unexercised. Accordingly, a fairly significant discount from the derived value under Black-Scholes would be necessary to appropriately take into account the non-transferability issue inherent with employee stock options. Another shortcoming with Black-Scholes is that there is no standard method of determining volatility. Volatility can be, and often is, the input that can most significantly affect the resultant value obtained under Black-Scholes, especially given the enormous volatility that has existed in the stock market during recent years. For example, using the three-year historical volatility of an underlying stock might be the most appropriate method of predicting future volatility of a three-year stock option. However, what data points do you use? The average monthly price for each of the last thirty-six months, the closing price at each month-end, the average weekly price for each of the last 156 weeks, etc. In many cases, the resultant volatility of a stock will vary dramatically depending on which set of data points used. As a result, more confusion and less transparency and clarity are now a part of the option issuer's financial statements. I do not believe this result is what the FASB or the SEC wants in their constituents' financial statements. Accordingly, the mandatory use of fair value in

accounting for employee stock options should not be required until such time as a pricing model exists that takes into account all of the valuation complexities associated with employee stock options.

The first issue that I would like to address in the Invitation to Comment is Issue 2. Given the shortcomings of current option pricing models, I do not believe an accounting standard should mandate the use of any of the existing option pricing models. I do not believe that any one of the currently available option pricing models gives a more accurate answer than do the others. However, in the event that an option pricing model is developed that encompasses all of the characteristics that affect the true value of employee stock options, such as transferability, I believe that strong encouragement to use that particular option pricing model might then be warranted. Additionally, any future accounting standards that address stock-based compensation should provide additional guidance regarding the use of the most preferable option-pricing model to facilitate consistency and comparability among financial statements, specifically the volatility factors used in the model and how those volatility factors should be derived. Again, however, this should be dependant upon the development of an appropriate option-pricing model.

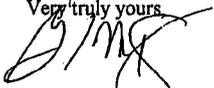
The next set of issues I would like to discuss include several of the identified issues in the Invitation to Comment and primarily deal with the fundamental differences in the FASB 123 approach and the IASB approach to valuing stock-based compensation and the method of attribution of that derived value. It would seem to me that the underlying premise of accounting for stock-based compensation using a fair value method and attributing that fair value to compensation expense of the issuing entity should be that the employees receive something of value (the stock options) and the entity also receives something of value (services of the employee). In the event that the employee or the issuing entity does not actually receive the option/service, the impact to the issuing entity's financial statements should be adjusted. Under the Statement 123 approach, the fact that an employee fails to fully vest with respect to stock options issued to that employee (i.e., forfeiture, etc.) is not accurately reflected in the entity's financial statements since all previously recognized compensation expense is reversed. This does not reflect the reality of the circumstances. The employee did perform some level of service for the entity. Therefore, assuming that an appropriate estimate of total fair value can be determined, a proportional amount of the services rendered should be recognized by the entity. The approach under the IASB method does consider this fact by recognizing compensation expense using the units-of-service method. Therefore, assuming that using a fair value method of accounting for stock-based compensation is mandated by the FASB, I believe that the IASB methodology is more appropriate and better reflects the economics surrounding stock-based compensation.

The final issue that I would like to comment upon is Issue 16 dealing with disclosures. The disclosure requirements under the IASB proposal go well beyond those required by Statement 123. Although these additional disclosures may provide additional insight to how companies measure and account for employee stock options, these disclosures will be complex and will reduce the understandability of financial statements for many users,

particularly the requirements included in the 2nd, 3rd and 4th bullets of paragraph 83 of the Invitation to Comment. This is in direct conflict with increasing the transparency and clarity of financial statements. In addition, the additional disclosures will be extremely onerous for the issuers of financial statements, raising cost-benefit issues. Will any benefits provided by such additional disclosures outweigh the costs incurred to provide such disclosures? I do not believe they will. Accordingly, I suggest the FASB thoroughly consider the cost-benefit argument before incorporating any of the IASB disclosure requirements into any future modifications of Statement 123.

In closing, I would like to reiterate that I believe the FASB should delay any decision that mandates the use of a fair value method of accounting for stock-based compensation until such time as an option-pricing model is developed that will accurately calculate the fair value of employee stock options. Then, once such a model has been developed, the FASB should provide explicit guidance on how the model should be used, and the FASB should consider a methodology of attribution similar to that proposed by the IASB. Finally, any modification of Statement 123 should not include the expanded disclosure requirements included in the IASB proposal.

Very truly yours,

A handwritten signature in black ink, appearing to read 'G. McKinney', written over the typed name below.

Greg L. McKinney, CPA