

Karen Salmansohn

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From: Len Tatore
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To: Karen Salmansohn
Subject: FW: Expensing employee stock options

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

From: Yoram Bibring [mailto:YoramB@fundtech.com]
Sent: Thursday, January 16, 2003 6:41 PM
To: director@fasb.org
Subject: Expensing employee stock options

As a CFO of a small high tech public company I would like to express my opinion regarding the expensing of the theoretical economic value of employee stock options.

I believe that the best way to deal with options is maintain the current accounting treatment and not to expense the options using the "Black Scholtz" model or some other model. I do think that adjusting the EPS for dilutive employee options does make sense. My opinion is based on the following reasons:

- Employee stock options are typically non transferable and therefore their valuation is a theoretical exercise that does not reflect the value of the security as measured by the employee and the company. This means that in 99% of the time employee who receive options tend to discount their value and regard them as instrument that may or may not provide them some value in the future. One can not find today employees who are prepared to exchange receiving more options for less cash.

- The instability of the stock market created a situation that most of the employee options granted over the last 3 years are out of the money and effectively worthless.

It is safe to assume that the market will continue to swing from highs to lows. This will create huge swings in option valuations, and companies will be recording expenses relating to options which may become worthless within a short time and which will never be exercised.

- If companies will start to expense options there will be a substantial decline in their inclination to issue options. This will provide a major advantage to bigger and more stable companies who rely less on options when trying to attract new employees.

- It will be very difficult for small companies to attract strong seasoned management. Often times small entrepreneurial companies need to bring in strong seasoned management to convert the company from a start up to a successful business. Since these companies can not afford to pay high salaries they attract these strong executives by issuing stock options. Expensing stock options will make it very difficult for companies to issue large option positions and they will not be able to recruit the management talent necessary for them to succeed. I believe that this will be detrimental to the US economy.

I think that one possible solution that makes sense is to include in the fully diluted EPS calculation vested employee options which are "in the money". I would treat them as other convertible securities (using the treasury stock method) and so to the extent the company has vested dilutive options, these would increase the number of outstanding shares and reduce EPS. I believe this would give the shareholders the information that they need while avoiding the inaccuracies and the damage that could be caused by

expensing options.

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