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Letter of Comment No: 4132
File Reference: 1102-100

From: Singer, Jeff [Jeff.Singer@nasdaq.com]
Sent: Wednesday, June 09, 2004 3:02 PM
To: Director - FASB
Subject: Stock Option Expensing: File Reference No. 1102-100

June 9, 2004

Re: Expensing of Stock Options

File Reference No. 1102-100

I am writing this letter to request that the FASB delay its ruling until a proper method of expensing stock options can be determined.

As an informed individual on the issue of expensing stock options, I understand the FASB's goal is to illuminate the impact of all expenses, including stock options, in the financial statements. Further, FASB desires that each company expenses them with consistency so investors can make better investing decisions and company comparisons.

Two compelling reasons shape my opinion as to why FASB should delay its ruling until a proper method of expensing can be determined:

1. Correct valuation models don't exist for the valuation of employee stock options. Black Scholes was created to value market options, not employee stock options. The future-value estimate, combined with an uncertain time frame, makes the expense estimate suspect at best and misleading at worst. The binomial model is also fraught with similar shortcomings. The result of using an incorrect valuation model will produce the opposite effect FASB is hoping to achieve; inconsistent valuations and investor misinformation are not your goals.
2. Real costs of expensing the stock options are innovation and business development. Options align employee interests with the company. Expensing stock options incorrectly will encourage senior management to use other forms of incentive packages, perhaps less-equity oriented. Less-equity oriented incentive packages take business back to a by-gone era when employees were treated as resources. The culture of stock options has created owner employees, viewed as highly critical assets to be valued and treated with respect – as they are building the next great companies the next generation will enjoy. Expensing stock options will eradicate the tool for entrepreneurial incentive, innovation, and eventually jobs. This is not just an accounting issue, it is an economic issue.

In conclusion, when a doctor administers a drug to prevent or cure a disease, the doctor should take every precaution to assure the patient does not become sicker. Using incorrect valuation models will make our companies sicker, not healthier. Postponing a decision to create accurate and proper valuation models is the right thing to do and delaying to find the right models will not set the financial markets into turmoil; taking inappropriate action will only have negative ramifications. There are huge financial, accounting and economic costs associated with this ruling and I hope you will prescribe wisely.

Sincerely,

Jeffrey H. Singer

6/10/2004