

Stacey Sutay

Subject: FW: FASB and Expensing Stock Options

March 25, 2003

Dear FASB Board Members:

I am writing this letter to endorse FASB mandating the expensing of stock options under the fair value method. As you are well aware, under current accounting rules there is no expense for stock options, which makes current financial statements misrepresentative of the true earnings power of the business.

My background is in accounting and finance and I currently have a hedge fund that both goes long stocks and engages in short selling of companies that are committing fraud within their financial statements. I have personally shorted numerous high profile accounting scandals and have a keen interest in accounting deceit. From a personal note, when a management team lies and deceives its shareholders it leaves me in absolute disgust and is a grave injustice. The issue of expensing stock options is one of the biggest areas of accounting deceit to shareholders that I have ever seen. It is a fairly clear issue that options have value and are given to employees as compensation, yet this transfer of value from shareholders to employees is not shown on the main financial statements. Having them fully expensed would properly reflect the true earnings power of the business and take into account the value transfer from shareholder to employees, anything without is fraudulent accounting.

Integrity in financial statements is crucial for allocating capital and measuring performance of companies. Under today's accounting standards this allocation becomes a very difficult task.

After reading FASB statement 123 it was clear that the board understood the proper accounting treatment for options as compensation and very clearly ripped apart the countervailing arguments against expensing. What really upsets me is that FASB is being strongly lobbied and bullied by management and politicians to influence the process regardless of accounting correctness. Management teams have all the incentive in the world to keep their often large options packages from being clearly seen and valued by shareholders. And the politicians whom do not support expensing are total hypocrites - how can they ridicule Enron and WorldCom management teams while at the same time promote fraudulent accounting practices with stock options. Do any of these politicians even know the debit and credit that should go into this simple accounting entry? Yet they are being bought by management teams to influence the process for management's benefit.

FASB should remain independent and resist pressure from well-funded lobby groups who may have interests directly opposed to shareholders. One is neither right nor wrong because of how many people agree or disagree, but by ones facts and reasoning. I would urge all the FASB board members to have the courage to stand up for integrity of financial statements in the face of political recklessness. Investors are with you. If you have any questions I would be glad to answer them.

Sincerely,

Ronald Lazaro
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Other thoughts:

1. Regarding the tech industry, I have never seen a company/industry killed from honest financials just bad fundamentals.

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