Karen Salmansohn

From:	Director - FASB
Sent:	Saturday, Februa
To:	Karen Salmansol
Subject:	FW: Invitatio to C

Letter of Comment No: 226
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-----Original Message-----
From: Mark.mauldin@perficient.com [mailto:Mark.mauldin@perficient.com]
Sent: Saturday, February 01, 2003 12:24 AM
To: Director - FASB
Cc: Jack.McDonald@perficient.com
Subject: Invitatio to Comment - Stock Based Compensation File Reference No. 1102-001

We appreciate the opportunity to comment on issues concerning accounting regulations governing stock-based compensation. We have taken the opportunity to express our opinions and position on this subject as follows. The objective of IFRS Share Based Payment is to ensure that an entity recognizes all share-based payment transactions in its financial statements, measured at fair value, so as to provide high quality, transparent and comparable information to users of financial statements. Our position is that mandatory expensing of stock-based compensation does not meet this objective. We strongly feel that mandatory recording of stock based compensation would not accurately reflect the Company's cost related to the issuance of stock options; therefore, would result in misleading and inaccurate financial statements. A stock option plan was meant to increase productivity and to foster an environment that induces innovation and pride in the Company. The requirement to record a misleading expense would negatively impact the objective of the stock option plan. Furthermore, the cost of issuing employee stock options is born by the potential dilution of current stock holders. This dilution should be fully disclosed as it is currently required by FAS 128. Since some investors believe that stock options given to employees are relevant information, we support full disclosure of employee stock option transactions. Therefore, we support the current practice of allowing a disclosure only approach to stock based compensation. We feel that the mandatory expensing of option related stock based compensation would impair the financial statements reliability and quality and therefore, we strongly oppose the position that would require expense to be recorded in the financial statements.

Additionally, the Proposed IFRS requires the estimation of the option's fair value using current pricing models. Current pricing models have certain limitations which impair not only the accuracy of the financial statements but also the comparability of financial statements. In order to reflect stock-based compensation, a reliable and accurate pricing model is necessary. Current pricing models are unable to properly measure the Company's cost associated with issuing employee stock options. Current pricing models rely on inputs to compute the fair value of the option which are sometimes difficult to predict. For example, models like Black-Scholes may calculate vastly different stock-based compensation expense numbers based on the volatility factor. Since the volatility factor is calculated based on the past performance of the stock, the volatility factor used in the pricing model may be significantly different than the actual volatility of the stock prospectively over the life of the option. Also, the use of a volatility factor creates a bias for companies that are in a non-volatile industry compared to companies in a volatile industry. The Black-Scholes model would value an option with a higher volatility (all other factors being equal) than an option with a lower volatility. One could argue that the more volatile stock has a greater chance of decreasing in value dramatically compared to a more stable stock and should be worth less. When a Company is in volatile industry, the Black-Scholes pricing of options within a one year time span could be vastly different. The value of an option in our Company that was granted on a date the market value of our common stock was $18 would have a Black-Scholes fair value much higher than the option we grant this year at the $1 market value of our common stock. Each of these two options has the potential to increase by $1 or more or may decrease to zero, but they have widely different values assigned. Additionally, current pricing models do not consider the different characteristics of the equity instruments which would impact the value or expense of the instrument. An instrument that is transferable is worth more than an instrument that does not allow transferability. Current pricing models assume that stock options are freely transferable, which is generally not the case.

The limitations of the current valuation models result in stock-based compensation that does not equal the actual Company cost and, therefore, the expense should not be included in the Company's financial statements as it would mislead investors. Fully disclosing the options outstanding and exercise prices provide significant information for investors to compare among companies, and the dilutive effect of the options is factored into the EPS based on current standards.

Again we appreciate the opportunity to comment on the subject of stock-based compensation.

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