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January 31, 2003

MP&T Director – File Reference 1102-001 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116

Norwalk, Connecticut 06856-5116

Letter of Comment No: 72 \ File Reference: 1102-001

Date Received:

1-31-03

Re: FASB Invitation to Comment on Accounting for Stock Based Compensation

Dear Sir/Madam:

THQ Inc is a publisher of video games. We are responsible for acquiring/creating the intellectual content, developing the actual game, and distributing the finished product. Because of the unique nature of our product, investors may categorize THQ as a technology company, an entertainment company, a media company, or a consumer products company.

The management of THQ is very concerned about the possible FASB requirement to compel all companies to expense stock options. As a fast growing company with a technology component, we have successfully utilized stock options, in a measured manner, as a vehicle for rewarding employees for the company's success. We believe the requirement to expense stock options would have a disproportionate affect on companies such as ours.

THQ also has specific concerns with anticipated provisions of a FASB pronouncement on the expensing of options. Specifically:

- 1. The "expensing" of options upon grant would result in the accounting recognition of a cost that may never occur. For example, our current share price is approximately \$12. We have outstanding employee stock options that were granted with exercise prices of between \$25 to \$30 per share. Unless there is a dramatic increase in our share price, these options will expire and be worthless. However, if we had "expensed" the options upon grant, we would have recorded a cost that never materialized. This seems counter to either logical business practice or good accounting theory. We can think of no other instance where a company would incur a significant, if not material cost, for an expense whose underlying transaction never actually occurs.
- 2. The generally available methodologies for "valuing" employee stock options are seriously flawed. The most common method, the "Black-Scholes model was never intended to be a pricing mechanism for employee stock options. The Black-Scholes model is intended to price options which are transferable and traded; employee stock options are not. Further, most option pricing models require the estimate of a significant number of critical variables, with many of these variables not easily predictable with a fair degree of accuracy (e.g. share volatility, estimate life, etc.)

Because of the serious flaws in the current pricing models and the possibility of significantly disparate results based on the variables used, THQ is concerned about any proposal that requires or even strongly encourages the expensing of options. We believe that a model needs to be devised that is justifiable from an economic and accounting standpoint and whose inputs are defined in such a manner to ensure a consistent application across industries and companies. Until this is available, we do not believe the expensing of stock option is desirable or appropriate.

Sincerely,

Fred Gysi Senior Vice President Finance & Administration

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