MP&T Director-File Reference 1102-00: Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Letter of Comment No: 238
File Reference: 1102-001
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RE: Accounting For Stock-Based Compensation

In my opinion the accounting for stock options should remain in its current state with the exception of the use of the Black-Scholes method for valuation. One of the most important issues is the positive impact stock options can have on the economy. Forcing corporations to expense some hypothetical estimated value for options upon the grant thereof could create a real obstacle to the recovery of our damaged economy.

There are a number of accounting reasons to support the current treatment of options. First, while there is an anticipated future intrinsic value to stock options, the options clearly are not a cost or expense to the corporation at the time of grant, or at any point, as currently defined by Generally Accepted Accounting Principles (GAAP), and therefore if the rules are changed and this becomes a forced expense, it appears that GAAP would have to redefine an expense (cost). Secondly, the valuation method allows far too many assumptions, variables, etc. and does not rely on actual market valuations as of a specific point in time. This also can cause significant valuation problems in a volatile market.

If there are going to be changes, the obvious easiest remedy would be to disallow the corporate tax deduction upon the exercise and sale of stock options, and thereby allow the entire transaction to be at the individual level. This change would remedy some problems but would also create other issues. For a number of reasons this will not happen, as the primary objection would be why should the individual have to pay tax on income for which the corporation does not get an equal tax deduction.

If corporations must be forced to expense options, then I suggest the following method. Corporations should not be required to book any expense at time of grant, because under current GAAP this does not represent an expense, but rather this would be disclosed and updated quarterly in the 10-Q's and annually in the 10-K. On a quarterly basis, the corporation would book the exact same expense for both book and tax purposes for the exercise and sale of options, which would climinate an M-1 item for the Internal Revenue Service, and is calculated on the actual gain (income), which is reported on the employees form W-2. Footnote disclosure would not be calculated by using the Black-Scholes method, but rather all outstanding options would be disclosed similarly to the current treatment but at current market value and exercise price. This would allow the stockholders to view the actual expense that would be incurred for both

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book and tax purposes if the options were exercised and would allow them more complete information to properly value the company and the related impact on future periods.

This is probably too easy, and therefore would never be used. However, by using market values at each quarter and year end to revalue all outstanding options, using the same expense for both book and tax, which is the same as reported by the employee, and having all valuations and quarterly expenses coming from disclosure and public information that all stockholders can find, would appear to be the best answer. In my humble opinion this would be the best practice for full disclosure by which the normal prudent investor could understand and make sound investment decisions with the public information available.

Sincerely,

Kevin D. Williams Chief Financial Officer Jack Henry & Associates, Inc.