Len Tatore

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Subject: File Reference No. 1102-100

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InterScan_SafeStamp.txt (296 B...

Commons on the Exposure Draft (File Reference No. 1102-100)

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Company: Option123

Issue 1: Yes.

Issue 2: Yes.

Issue 3: Yes.

Issue 4(a): No. The proposed statement does not provide sufficient guidance to achieve the fair value measure objective. It's very clear that the Board prefers lattice models rather than Black-Scholes Model, but the statement does not provide practical guidance to apply lattice model. When the Board issued FAS 123, the detail guidance was provided to apply Black- Scholes Model in the attachments. Many lattice models can be used to value options, which will produce different results. Without sufficient guidance, it will cause confusion in measuring fair values among preparers, auditors and users.

Issue 4(b): No. With many judgmental inputs, it's hard to say which model provides more accurate measurement. Lattice model is more flexible than the closed-form model but it is not necessary more reliable.

Issue 4 (c): In my opinion, no other estimates provide better indication of volatility than the historical volatility. If the statement defaults historical volatility as the estimate of expected volatility without taking into consideration other available information, there are great chance for companies to control, or manipulate, the total compensation cost. Very often nobody knows what level of volatility is better than the other, companies can easily manipulate this very important input to meet the need of management and the swing will be huge from the lower end to the higher end, which ultimately will be reflected on the bottom line and EPS. This is exactly the Board intends to avoid. My research indicates that companies tend to lower the expected volatility and thus lower the compensation costs. My next research will be focus on how companies estimate the five year "expected volatility" in 1999 and then compare the five-year historical volatility from 1999 back to that from 1999 forward. I will send you my research result as soon as I complete. I believe that historical volatility is the best estimate of the expected volatility and thus historical volatility should be used unless there are significant evidences to justify the historical volatility is not a better indicator.

Issue 4(d): Yes

Issue 5: Yes.

Issue 6: Yes

Issue 7: Yes, but I still prefer the vesting period.

More comments will be submitted later.