Karen Salmansohn

From: Sent: To: Subject: Director - FASB Friday, January 31, 2003 11:47 Karen Salmansohn FW: Stock Options Letter of Comment No: \$9
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----Original Message----

From: JVitrano@childrensplace.com [mailto:JVitrano@childrensplace.com]

Sent: Friday, January 31, 2003 10:04 AM

To: Director - FASB Subject: Stock Options

As a company whose stock trades on the NASDAQ exchange, The Children's Place requests that FASB not require mandatory expensing of stock options for several reasons.

First, despite the fact that there are several valuation methods that have been devised to determine the "cost" of an unexercised stock option, it is questionable whether any of those models are an accurate depiction of the actual cost of each option. Since stock prices fluctuate, the determined "cost" of an option would change constantly. By the same token, options whose price exceeds the current market price would not be an expense to a company, since it is extremely unlikely that an option would be exercised by an employee when those same shares of stock could be acquired on the open market at a lower price. A more sophisticated review of data stemming from current option pricing models has shown that there are currently no adequate pricing models to account for the unique nature of stock options.

Second, the issuance of stock options does not result in a corporate level cost that impacts net income. The only "cost" of issuing employee stock options is borne by existing shareholders in the form of potential dilution. This impact is currently addressed by the required disclosure of fully-diluted earnings per share. In addition, such stock options may never be exercised and therefore may never actually have a dilutive effect; however, having expensed these options would have the effect of reducing the reliability of the financial statements upon which investors rely.

Third, mandatory expensing of stock options will likely result in a reduction in the quantity of shares and the number of companies that issue employee stock options. There will undoubtedly be a negative cyclical effect associated with the inclusion of a mandatory expense for stock options that will result in a drop in share prices of companies that issue them to employees. If earnings estimates are lowered, stock price models will almost certainly be lowered as well, which will have the effect of lowering the stock prices of all companies that issue employee stock options. Since public companies have a fiduciary responsibility to stockholders to produce positive earnings and increase share value, this will force companies to choose between strong competing interests: reducing stock options and maintaining a stronger bottom line versus the importance that stock options play in ensuring that key employees are highly motivated to maximize corporate profits.

If the basis for mandatory expensing of stock options is full disclosure of their impact on the public, this is more accurately accomplished through the current obligation to report diluted earnings per share in quarterly and annual public filings. Since mandatory expensing will likely have many other unintended negative effects as discussed herein, The Children's Place urges FASB not to require public companies to expense stock options.

Sincerely, Joanne Vitrano Controller The Children's Place