

Karen Salmansohn

From: Director - FASB
Sent: Friday, January 31, 2003 11:48
To: Karen Salmansohn
Subject: FW: File Reference No. 1102-0

Letter of Comment No: 90
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-----Original Message-----

From: John Wacholtz [mailto:jwacholtz@ethosgroup.com]
Sent: Friday, January 31, 2003 9:46 AM
To: Director - FASB
Subject: File Reference No. 1102-001

Sir,

This is a comment from a non accounting professional that has some question why the issue is considered complicated.

Here is what I think I know:

1. When stock options are issued they either have value because they are issued below the market price and are exercisable or they have no value because they are issued at the market or above, or cannot be exercised. In either case the value at that point is an arithmetic problem not a calculus problem. The cost of the recipient exercising the option (to the company) should be immediately recognized as a liability (in my opinion).
2. More important is the question of what to do at the various financial reporting points (quarterly and annually). The above still applies in determining the companies liability (take the market price, subtract the option exercise price, determine if it is exercisable and increase or decrease the companies liability to match that moment). Of course, those options that cannot be exercised or are out of the money should be disclosed but they do not have a current effect on the income or balance sheet of the company. Again, no Black-Scholes modeling, just straight addition, subtraction and multiplication that everyone can understand and no one can finagle.

If there is something I missed about these things like the illogical case of someone not exercising options in the money or exercising them when they could buy the stock cheaper, please put it in your final press release. If you are really going to recommend the companies value these at issue for all time then I would like to know the model of your crystal ball.

John Wacholtz
jwacholtz@alum.mit.edu