

Stacey Sutay

Subject: FW: options

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From: Rhilemanmv@aol.com [mailto:Rhilemanmv@aol.com]

Sent: Friday, March 14, 2003 5:17 PM

To: Robert Herz

Subject: options

I just read that FASB intends to adopt options expensing rules, and that comments solicited from companies and investors have run in favor of expensing, at least from investors. I imagine this comment means nothing at this date and contains nothing new but I feel the need to comment anyway.

I am a lawyer and a full time individual investor. I believe options are terribly abused, but I am also opposed to expensing options as a response to this abuse. The abuse is not that options are not expensed, because they are not an expense. The abuse is the extent of their use. This abuse is a result of inadequate corporate governance, and should be remedied by improvements in corporate governance, or even direct limitation on the use of options, say as a percentage of outstanding stock, imposed either by statute or as listing requirements on the public exchanges.

Accounting rules ought to reflect as closely as possible actual economic reality. Any options "expense" is a pure fiction, as an expense. Options of course are a dilution of ownership, but they simply are not an expense. Any such fictitious expense will have to be ignored, as an expense, in order to determine a company's actual operating condition. Moreover, if earnings per fully diluted shares are in fact correctly stated, then the dilution effect of options has already been included in that number, making a fictitious expense line item even more distorting. Please advise where I am in error in this reasoning.

Of course I understand political pressure, and I am not an accountant, but shouldn't a profession stand up for its fundamental principles, and isn't it one of the fundamental principles of accounting that the rules should reflect economic reality?

Thank you.

Richard Hileman, Mt. Vernon, Iowa