

Letter of Comment No: 57
File Reference: 1102-001
Date Received: 2-1-03

February 1, 2003

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Financial Accounting Standards Board
of the Financial Accounting Foundation
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To the Financial Accounting Standards Board:

This letter is in response to the invitation to comment regarding the accounting for stock-based compensation as it relates to FAS123. First and foremost, we believe that any amendment to FAS123, that would require the expensing of stock options, would create a new precedent in accounting standards whereby opportunity costs or perceived benefit to a company is considered an expense.

In our company's case a stock option is not a cost to the company. There is no historical cost element and no cash outlay by the corporation with which to record such an amount. We also believe that the accounting profession is in disagreement on whether or not an option should be an expense. Clearly, this is the centerpiece of the argument since the valuation methodologies proposed have no basis for accuracy and will severely distort the results of all companies and, in particular, those with volatility in their stock price.

Looking at the issue of creating misleading financial statements more closely, there are several issues that are important to note:

- Current option pricing models are unreliable and produce wide-ranging results.
- Significant judgment in the inputs for predictability option pricing models creates significant differences in value/expense.
- Historical volatility rates do not correlate with future stock performance. This is particularly true in high-tech and for competitive businesses. Look at the telecom industry, for example, many changes it has gone through are evolutionary and have nothing to do with the past. Therefore, valuation models with historical criteria as inputs would be misleading.
- Existing pricing models were designed to value freely transferable options, whereas an employee stock option is significantly restricted. Current models do not haircut the value for those restrictions.
- Lastly, the Black-Sholes model cannot measure the true cost or "expense" associated with issuing employee stock options. In our 10-K filings we disclosed our FAS123 expense related to stock options as follows:

	Year ended	
	December <u>31, 2001</u>	December <u>31, 2002</u>
Expense	\$130,948,000	\$263,659,000
Change in EPS	\$0.83	\$1.29

The result, with the benefit of hindsight, is that not a single one of these options awarded in 2001 and 2002 have been exercised by any of the company's employees, and not a single one of these outstanding options is within \$20 of our current stock price of \$8. Most of these options were issued at strike prices in excess of \$75.00. Surely, these options will expire, out of the money, over the next several years. Under the new proposal, the company would have recorded almost \$400 million of expense over the last two years with ZERO benefit to the employees. How could such a valuation methodology be used accurately in financial statements that are based on historical costs and derived from cash inflows and cash outlays to run a business?

If fair value is the FASB's new approach to accounting, then valuation methodologies need to be developed for intellectual property including: brand names, patents and know-how, fixed assets including land and buildings, and even a value on the employees (human capital) to whom the stock options are being awarded.

Another area of concern is the inconsistency that will be created among different industries. Industries with little volatility will have favorable treatment while highly volatile industries will suffer the expense penalty.

Further, the requirement of expensing options will reduce, and probably even eliminate, the use of broad-based employee stock option plans. Such plans will be tailored to top officers only. In the good economic times, such plans helped to eliminate or minimize federal and state budget deficits that would not have been replaced by additional corporate income tax.

Additionally, the argument of what is the cost to the shareholder is key to this pronouncement. The shareholder endures dilution. The current rules on common stock equivalents are adequate, however, a new super-diluted calculation would solve the problem of the impact to the shareholder. The super-diluted calculation should be the addition of all common stock equivalents to the primary share calculation regardless of their strike price.

In conclusion, we believe that the FASB should retain its current standard under FAS123. The standard requires footnote disclosure of the cost of the option that an investor can measure quarterly. The approach of providing investors with this information in a footnote provides the reader with the most accurate and meaningful information about the implied cost of employee stock options.

Sincerely,

VERISIGN, INC.

Dana L. Evan
Executive Vice President Chief Financial Officer

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