

Karen Salmansohn

From: Director - FASB
Sent: Friday, January
To: Karen Salmansohn
Subject: FW: (File Refer

Letter of Comment No: 97
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STOCK OPTIONS

-----Original Message-----

From: Jim McGovern [mailto:jmcgovern@corp.internetwire.com]
Sent: Friday, January 31, 2003 11:59 AM
To: Director - FASB
Subject: (File Reference No. 1102-001) Comment regarding expensing of stock options

The proposal to expense options strikes me as at odds with fundamental accounting principles.

When you strip away all the blather, you are left with the simple fact that options are not an expense of the Company issuing the options. Rather, the cost of the options, if the options are ever exercised, is borne in the form of dilution by the existing Shareholders. And, we all learned in Accounting 101 that the Company is a separate and distinct entity whose revenues and expenses should not be confused or commingled with those of its owners (ie. the Shareholders).

If the problem we are trying to solve is with overly-generous grants of stock options, then I think the solution is to reform corporate governance standards, not accounting standards.

I believe, however, that many proponents of expensing options are really trying to improve the usefulness of EPS as a universal measure by which companies can be measured and compared. If that indeed is the goal (and I think it has merit), then I'd suggest a better way to achieve it is not to expense options, but to report three versions of EPS: a) Earnings divided by shares currently outstanding; b) Earnings divided by fully diluted shares outstanding, including all in-the-money stock options; and finally c) Earnings divided by fully diluted shares outstanding, including all stock options.

In all likelihood only one of the earnings measures would prevail in most common usages (my vote is for (b) above as the most meaningful), but to avoid confusion, we would probably want to come up with different acronyms for the three EPS calculations (e.g. EPS, EPIMS, EPFDS).

My two cents,

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