Stacey Sutay

Subject:

FW: Alternative Stock Option Accounting

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

From: Verlingo, Michael J [mailto:MV130629@teradata-ncr.com]

Sent: Thursday, April 24, 2003 3:01 PM

To: FASB Comments

Subject: Alternative Stock Option Accounting

Sirs,

Clearly there is much controversy surrounding the issue of "Expensing Stock Options". As a CPA, I have a fundamental disagreement with recording an expense for this activity in the Income Statement. There are many who also feel that the arbitrary calculation of this expense will not enhance the value of reported earnings. That being said, I completely recognize the need to disclose the dilutive effect of options on earnings per share and equity of existing shareholders. The proliferation of stock options to employees is a serious threat to the growth of firms today. The cash drain required to repurchase shares limits investment, and the dilutive effect on earnings could be staggering. The arguments for these awards are capricious. If limited to firms that exhibit high growth rates over the long term (10 years or more), they may be viable tools. Unfortunately, many corporations' idea of long term (today) is next quarter's results.

I propose the following change in the accounting for option grants:

Whenever an option is exercised, the transaction will be recorded as an increase to cash for the exercise price received. The difference between the Exercise price and Average Market price of the stock on the date of execution will be recorded in an account titled: "Dilutive effect of Option Grants" which will reside in the equity section of the Balance Sheet. Capital Stock will be credited at par with the balance posted to Paid in Capital.

Sample Entry is as follows:

Cash \$10,000

Dilutive effect of Option Grants
Common Stock, at par
Paid in Capital
\$20,000
\$1,000
\$29,000

Reflects the issuance of 1,000 common shares at the option price of \$10.00 on xx/xx/xx when the stock traded at an average value on this date of \$30.00.

The balance in the Dilution account will represent the total equity "given away" by management. Supporting schedules in the footnotes could then easily calculate the impact on existing equity for the unexercised options at the market price at each Balance Sheet date. Management would also be required to disclose their intention with respect to share buybacks or issuance of new shares to address future redemptions.

This method clearly discloses the equity loss from option grants. It also allows investors visibility to the potential dilution that would occur if all "in the money" options were exercised. The only true value (and cost) an employee stock option creates is at the time it is exercised, since a market to trade them does not exist. It would be far better to focus on the

potential dilutive effect of these awards, rather than the gyrations created by expensing them in each quarter's results.

I have no doubt firms will resist this method and disclosure requirements. It would heighten visibility to an issue that would rather be buried in the footnotes or not disclosed at all, but the alternative is less precise, and will only result in the exclusion of Option Expense from a firms operating results by analysts and investors.

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