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MP&T Director – File Reference 1102-001 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

To Whom it May Concern:

There has been much debate about how to account for stock options since they were invented. My experience dates back to the early 1960s when I was in charge of California corporate finance activities for E.F. Hutton & Company. After my years as an investment banker, I served as the CFO and CEO of several publicly held companies, all of which issued stock options. I have read many articles, had countless conversations with partners of major accounting firms, and have given considerable thought to this problem. The following is submitted as our contribution toward finding a solution which serves the many affected parties.

COMMENTS by Scheid Vineyards Inc. (NASDAQ - SVIN)

Granting of large numbers of options to employees of publicly held corporations has become an issue and needs to be dealt with. We feel the following premises must be kept in mind:

- 1. Recent history has shown that many options are not, and may never be, exercised. Worthless options have no impact on financial statements, but it is not possible to know in advance which options will be valuable or worthless.
- 2. The main purpose of options is to give incentive to employees to work harder for the success of the enterprise. It is not in the public interest for this management tool to be destroyed.
- 3. It is in the public interest to make financial statements as understandable as possible for members of the investing public not schooled in accounting and/or security analysis. We need to have little concern for security analysts, accountants and other sophisticated persons.
- 4. The system finally adopted must be clear, easily understood and universal. Multiple exceptions or complicated calculations will confuse and intimidate the less sophisticated investor.
- 5. The method of reporting options must be leading, not misleading. More information is not necessarily better information.

6. Deducting the "cost" of options from carnings requires a complicated valuation system. It is unlikely that any one methodology will fit all cases, leading to lack of understanding of income statements.

Suggested method

Reducing current earnings by deducting a non-cash charge for benefits that may be, or have been, recognized in some other time period does not, to our minds, make sense. This action offends the well-established and reasonable concept of matching costs to revenues. Since it is a non-cash charge, it also distorts the true earnings and cash flow capabilities of the company in question.

It seems to us that what is needed is a more direct, common sense approach that will give better and more complete and less confusing information, as follows:

- 1. The capital account should be set forth in such a way as to show the number of outstanding options and the increase in the number of shares outstanding in the event all of the shares are exercised.
- 2. The footnotes should show the amount of cash which would be received by the company in the event all of the options are exercised, if the options are "in the money."
- 3. The footnotes to the financial statements should clearly disclose all options outstanding, their exercise prices, and time frames for exercise.
- Earnings should be stated two ways:
 - A. EPS based on shares outstanding at the time of reporting.
 - B. EPS based on shares outstanding assuming the exercise of all exercisable options.

This is a simplistic approach, we admit. But, since the goal is a better informed public, a straightforward approach is in order. This disclosure system gives complete information for an analyst to make whatever adjustments he/she deems appropriate. At the same time, a less sophisticated reader would see earnings on a current basis, and with effect to the fullest potential dilution of earnings through the exercise of options.

This approach makes no provision for returns on cash that might be generated by exercise of options. Anyone so disposed can do calculations to give a return on this money. At the same time, a less sophisticated reader would not be reading statements which could be misleading if certain events did or did not occur.

The stated goal of FASB rules is to ensure that publicly held companies provide the investing public with clear, understandable financial statements. Further, that relatively unsophisticated members of the investing public be able to gain understanding of the financial condition of companies by reviewing these statements.

We believe that charging the "cost" of options against earnings does not accomplish this goal for

many reasons, not the least of which is that it does not match real costs against revenues in the appropriate time periods. We believe this method will distort the facts in the minds of even somewhat sophisticated investors. We understand the argument that options may replace cash expenses for salaries and bonuses and, therefore, are a real "cost". But, we believe this is cured by full disclosure of the facts surrounding outstanding options.

The simple fact is that the exercise of options does two things. First, it increases the shares outstanding, and second, it puts new cash into the corporation. We submit that the method we describe here deals with disclosure of these facts. Deducting arbitrary option values does not deal with the facts and is an artificial way to disclose the impact of options on corporate financial statements.

We respectfully submit this suggestion in the hope that common sense prevails in this ongoing debate.

Sincerely,

Alfred G. Scheid Chairman