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Financial Accounting Standards Board Director of Major Projects and Technical Activities File Reference No. 1101-001 401 Merritt 7 Norwalk, CN 06856-5116

Letter of Comment No: //
File Reference: 1101-001
Date Received: /0/21/02-

Financial Accounting Standards Board: Re: Stock Options Accounting

Thank you for the opportunity to comment on the accounting for stock options, particularly executive stock options. I am writing to support strongly the FASB in mandatory expensing of stock options on the face of the financial statements.

In addition, I believe that the FASB should revisit the question of whether stock options are best classified as equity or as a liability. The current consensus is that they are equity. This conclusion is based primarily on the assumption that executive stock options align the interests of management and the existing stockholders, and the executives gain an interest in long-term "sweat equity" through these options. The evidence is overwhelming that executive stock options often not only fail to achieve this goal, but that they frequently separate the interests of existing stockholders and management along diverging paths. The executive stock options also often separate the interests of executives and the workers. For example, executives encourage workers to purchase the company's stock with their personal savings and in their retirement accounts. In too many instances, however, the executive motivation seems to be to provide demand for company stock to keep the price high and make the executive stock options more valuable. Numerous examples of the abuses of stock options have been reported in the press during the last two years and need not be repeated here. The point is that the original assumption of alignment of interests through executive stock options is unfounded

In my opinion, the optimal accounting for stock options is to treat them as a liability. The accounting principles applied are (1) economic (and behavioral) substance over legal form, and (2) conservatism. I am proposing a set of journal entries to account for stock options on the attached spreadsheet.

Sincerely,

Robert L. Benson Ph.D., CPA, CMA, CIA, CISA, CGFM Attachment to Letter Financial Accounting Standards Board October 27, 2002

Example Company Proposed Accounting for Stock Options Over Several Years

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Journal Entries

Date of Grant:

Dr. Common Stock Options Expense - Deferred (Contra-Owner's Equity)

Cr. Liability for Common Stock Options

To record the granting of stock options to executives at fair value. This entry reduces owners' equity and increases the liability section.

II. Amortization

Dr. Common Stock Options Expense - (Income Statement)

Cr. Common Stock Options Expense - Deferred (Contra-Owners' Equity)

Dr. Liability for Common Stock Options

Cr. Common Stock Options Expensed (Liability)

To record the expense of common stock options with the passage of time.

The first half of the entry records the expense which reduces income and is closed to retained earnings, and it also reduces the contra-owners' equity account at the same time.

The second half of the entry reclassifies the initial liability for the portion of the stock options expensed.

It is equal to the amount that retained earnings has been reduced by the recorded stock option expense.

III. Date of Exercise

Dr. Cash

Dr. Common Stock Options Expensed (Liability)

(Dr. or Cr. Retained Earnings for any adjustments necessary)

Cr. Common Stock

Cr. Paid in Capital, Common Stock (if par value stock)

To record the exercise of common stock options.

Reduces common stock expensed liability account and records issuance of common stock.

IV. Date of Expiration

Dr. Common Stock Options Expensed (Liability)

Cr. Retained Earnings

To record the expiration of common stock options which have expired.