

BENCHMARK

The information source for alumni of Oregon's leading accounting program

Should Stock Options Be Expensed?

**Point
Counterpoint**

YES by Dan Rogers, SBA Finance Faculty

Employee stock options should be fully accounted for in corporate financial statements. In the early 1990's, FASB attempted to require firms to include the value of option compensation as an expense. At that time, opponents foiled FASB's efforts. Roughly 10 years later, it appears that firms will be required to expense employee stock options. This is a change for the better for at least three reasons.

First, expensing options will eliminate the inconsistency inherent in the current system. Currently, at-the-money (i.e., the exercise price is equal to the stock price) options are the favored way of providing equity-based compensation. Meanwhile, other forms of equity compensation, such as restricted stock and market-indexed, must be expensed under current accounting regulations.

Second, employee stock options are a financial derivative issued by corporations. Recently, SFAS 133 required firms to account for fair values of derivatives in financial statements. By ignoring the fair value of employee stock options, these are treated inconsistently *Cont. on page 2*

NO by Roger Chope, SBA Accounting Faculty

The controversy over whether or not stock options should be expensed has gotten a lot of attention in the past year and is certainly of interest to a number of companies in the Northwest. Impassioned arguments have appeared everywhere from the editorial page of the *Wall Street Journal* to the front page of our own *The Oregonian*.

Several of the higher profile arguments against expensing stock options center around emotional issues of interest to everyone. For example, if companies are required to expense options they may refuse to issue them any more, robbing American industry of the engine that drives prosperity and innovation. Another argument asserts that companies that are forced to expense options would no longer issue them to the rank-and-file workers, saving the spoils for top management alone. This of course raises a number of equity issues, if it is true. While both of these are interesting assertions, many people believe that markets for innovation and labor will eventually readjust to this new structure and no overall harm would be done. *Cont. on page 2*

Dillard named Retzlaff Chair

The SBA is proud to announce the appointment of Jesse Dillard Ph.D. to the Retzlaff Professorship in Accounting. A leading scholar in the field of accounting ethics and the public interest, Dillard joins the SBA faculty fall term 2003.

Dillard, founder and editor of the journal *Accounting and the Public Interest*, joins the SBA from the University of Central Florida where he served as the KPMG Professor of Accounting. With more than 100 publications to his name, Dillard brings an impressive level of research and experience to his new position. Dillard's appointment is a key component of the SBA's Accounting and the Public Interest *Cont. on page 3*

Bogue Family Donates \$100,000+ to Accounting Program

Last winter Philip and Suzanne Bogue presented the SBA's Accounting Program with a generous gift of \$109,000. The Bogue Accounting Endowment will be utilized for an annual award for academic research focusing on Accounting and the Public Interest. Philip Bogue, a retired manager and partner for Arthur Anderson, and his wife have been generous supporters to the University since the early '80s. This most recent financial contribution is one more example of the Bogues' ongoing support of Portland at large.

L-R: Darrell Brown, SBA Accounting Faculty; Kristi Yutbas, SBA Accounting Faculty; Rodney Rogers, SBA Associate Dean; Phil Bogue; and Scott Dawson, SBA Dean.



Mark Your Calendars

2003 PSU Weekend Business Briefing
Friday, November 7, 2003

"Leadership Through Times of Transformation"
Scott Davis, Chief Financial Officer, UPS
'74 SBA Alum

Multnomah Athletic Club	Continental Breakfast
Alumni Giveaways	7:15am - 7:45am
Limited Space	Program
RSVP to kristinm@sba.pdx.edu	7:45am - 9:00am

Faculty Notes



Elizabeth Almer published two articles and presented a paper at the American Accounting Association Annual Meeting, Honolulu, Hawaii, August 2003.

Darrell Brown along with Scott Marshall (SBA faculty), Marlene Plumlee (accounting professor from the University of Utah), and Shannon Tocchini (project manager, corporate environmental affairs at LP) received a \$65,000 grant from KPMG to study the quality of environmental disclosures.

Richard Chope, can be found teaching Accounting this Fall term in Italy at CIU in Paderno.

Cathy Finger's research, "What Do Analyst's Stock Recommendations Really Mean?" was recently published in *Review of Accounting in Finance*.

Ray Johnson has been busy working on the 8th edition of his auditing textbook *Modern Auditing*.

Tom Johnson was recently named one of the *Top 200 Business Gurus* by a Harvard Business School study.

Bill Kenny has two recent publications in *The Tax Advisor* and continues to advise and deliver the Tax Practitioners Institute.

Donna Philbrick will return from her sabbatical at the Fuqua School of Business (Duke) this winter. She is currently completing a project sponsored by the AIMR.

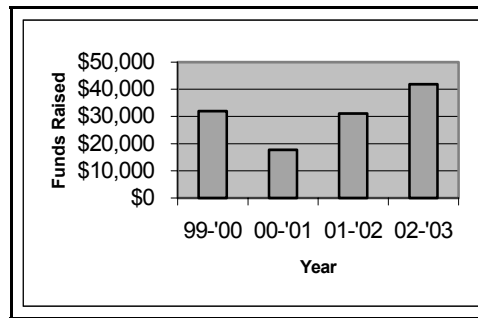
Rodney Rogers spent the beginning of the summer teaching Financial Accounting at the Euro Med School of Management in Marseille, France.

Dick Visse retired in December and reports he has done some traveling, finished three furniture items (china buffet and 2 night-stands), and beat Don Watne at golf a few times. Life is good.

Kristi Yuthas, has been invited to serve a second year as Scholar-in-Residence at American University. She is also the recipient of the Swigert Professorship in Information Systems.

Annual Alumni Gifts Continue

The Accounting Annual Fund proved to be a huge success this year, raising more than \$40,000, the most to date in the history of the campaign. The contributions of alumni and friends of the SBA accounting program will support scholarships, faculty development, technology and innovative academic programs. A special thank you goes to the Accounting Advisory Board members for time and energy. Thank you everyone for your support!



SBA Snapshots

Numbers at a Glance

2002 CPA Exam 1st Time (Under Grad & Grad)

	Students	% Passed
PSU	52	19%
UO	41	7%
OSU	16	6%
Total USA	34,867	19%

Incoming '03-'04 MSFA Students

Mean GMAT	599
Range GMAT	490/770
Mean UG GPA	3.22
Range UG GPA	2/3.78
Mean Work Exp	8.05
Range Work Exp	0/24.5
Degree:	76% - Bus. Adm. 24% - Other

Should Stock Options Be Expensed? *Cont. from Front Page*

YES

relative to other derivative financial instruments.

Third, at-the-money options have value to their holders. For proof, check out option quotes of traded stock options. Buyers willingly pay non-trivial percentages of a stock's price to buy at-the-money options despite the fact that these options have zero intrinsic value. Proponents of the current system often claim that "options don't affect cash" as an argument supporting their claim. Such an assertion is a hollow contention. The fact that firms are providing valuable compensation to their employees suggests that such compensation is in lieu of cash.

In closing, suppose a firm pays an employee \$10,000, then issues 1,000 options to this employee in exchange for \$10,000. Would the \$10,000 be recorded as compensation expense? While this is not the structure of current option grants, the economic substance is the same.

NO

The more interesting question in this controversy relates to the accounting perspective. In general the Conceptual Framework, from which the FASB reasons, is primarily concerned with reliability and relevance, followed by comparability and consistency. It is hard to see how expensing stock options leads to an increase in reliability, comparability or transparency of financial statement data in general. No one would argue that stock option information is irrelevant to the user, but the solution to that problem may very well lie in disclosure of the hard data rather than forcing the use of a valuation tool (Black-Scholes pricing model, for example) in order to force the "costs" onto the income statement. The notion of expensing these options as a form of compensation is fundamentally sound, but in practice it requires a more universally accepted and dependable valuation tool in order to yield reliable data, especially when applied to firms with volatile stock prices.

Please e-mail drogers@sba.pdx.edu or rchope@sba.pdx.edu with your comments.

PSU Alumni Profile: Karen Rasmussen **Alumni**

PSU Connection:

- SBA Accounting Degree, '78
- Chair, SBA Accounting Advisory Board, 2003 – 2004

Current Position:

Director of the Portland Office of Protiviti, Inc., an independent business risk consulting firm with 34 offices around the world. Protiviti's Portland office opened in December 2002.

What do you like most about your job?

Growing this business in a city that I know, with services I believe in. Our services were previously the exclusive domain of the Big 4 accounting firms. Protiviti offers these services without the conflict of having an external audit business too. Helping companies respond to the recently enacted Sarbanes-Oxley legislation, and the recent corporate accounting scandals, is a vital service in today's business environment.



What do you find most frustrating?

Not having more than 24 hours in a day! It's been very busy growing our office here in Portland, and it's hard to do everything that I want to do. I feel there is so much more I could do.

How did you get to where you are now?

Since completing my education at Portland State University, I have experienced work life both inside a business, and as an advisor to a business. My first experience included the traditional route of auditing in the Big 4 environment and earning my CPA certifi-

cate. I then worked in industry, ending up in an executive position for a large Portland company. I combined the best of both those experiences, and entered the business risk consulting world with a Big 4 firm, then went out on my own.

You have recently been named Chair of the Accounting Advisory Board, what do you hope to accomplish in that role?

PSU, the SBA and particularly the Accounting Program are very important to our community. I want to help them grow, and promote their value to in Portland. We need to link the activities of the University with community, and demonstrate the value that a robust university brings to our city. Portland State is such a vital part of our city.

What is your advice for new accounting graduates?

Accounting graduates seem to be shying away from getting their CPA certificate in recent years,

and from working for one of the 4 firms. I suggest making the most of your education, and back it with real work experience.

Cover your basics that your foundation has earned you - get your CPA, work in auditing and accounting. You will see that this strong foundation will open many doors for your future.

What can we find you doing when not working?

Traveling is at the top of the list (I spent a year and half at one point in my life just traveling the world). I also enjoy almost anything outdoors, particularly golf.

Alumni News



Michelle Brooks ('98) was promoted to Tax Manager at Deloitte & Touche.

OHSU named **Josh Demarhest** ('02) Senior Financial Analyst.

Alumni **Victor Epstein** ('96) and **Carl Kostol** ('95) recently formed Epstein and Kostol, PC.

Nancy Hall (Biehl) ('99) was hired as Principal Finance Accountant in the Capital Improvements Program of Pima County, Tucson.

The newly formed Maxwell Hesse Group is a creation of **Lori Hesse** ('89).

Talbot, Korvola and Warwick added new SBA alumni **Galina Kashubin** ('02) to their staff.

Ben Neumayer ('71) has spent the past few years, weeks at a time, volunteering in the Finance Department aboard the hospital ship M/V Anastasis, the largest non-governmental hospital ship in the world.

This fall, **Bill Meadows** ('64) will spend a day at the SBA as an "Executive in Residence."

The Oregon Society of Certified Public Accountants recently elected **Michael Sause** ('90) Director.

Congratulations to the most recent group of SBA alums who passed the Oregon Certified Public Accountant Examination.

Rie Anderson('02) **Lan Chen**('01)
Laura Baker('02) **Katherine Fortin**('02)
Tonya Bennett('00) **Marissa Hemmele**('02)
Sara Campbell('02) **Jennifer Highland**('00)
Alison Chan('00) **Claudia Jimenez**('02)
Susan Chan('98) **Timothy Maguire**('01)
Dan Chapman('00) **Gulnihal Perron**('98)

You all continue to make us proud!

Be sure to share your news with us –fill out the form on the back page and send it to us.

Retzlaff Chair; Dillard Cont.

Initiative, which seeks to build on the schools outstanding reputation for accounting education and research. Dillard will continue to edit his journal at the SBA, as well as be instrumental in the development of the proposed Accounting and the Public Interest Research Center, dedicated to enhancing research and dialogue around issues of ethics and accounting practices. (See Bagues' Gift Story this issue.)

"Arguably Jesse Dillard is an international leader on issues in ethics and accounting and we are very fortunate to have him join us, particularly at a time when the integrity and ethics of the accounting profession are being questioned by many," Rodney Rogers, Associate Dean of the SBA said.

Previously, Dillard was KPMG Professor of Accounting at the University of New Mexico where he was also the Accounting Department Chair. Prior to that he was a professor at The Ohio State University. He is the recipient of outstanding teaching awards from both the University of New Mexico and Ohio State University.



SHARE YOUR NEWS!

We want to hear from you! Have you been promoted? Did you make a new career move? Do you have other developments you want to share with professors, classmates and friends? Let us know...and we'll share the news in the Spring '04 issue.

Name _____ Degree/year: _____

Employer: _____

Daytime Phone/E-mail: _____

News of Note:



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