



Letter of Comment No: 193
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MP&T Director
Financial Accounting Standards Board
Of the Financial Accounting Foundation
401 Merritt 7
P.O. Box 5116
Norwalk, CN 06856-5116
Sent by email to: director@fasb.org

File Reference Number 1102-011

Dear Sir:

You have asked for comments on the Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and its related interpretations, and IASB Proposed IFRS, Share-based Payment.

Palm, Inc. is a company that issues broad-based stock options to all of its full-time employees.

We believe recording a GAAP expense for the granting of stock options is not necessary and would not add additional clarity to the current guidelines for financial statements. Dilution to the shareholders upon exercise is already accommodated and the required disclosures give sufficient guidance to the readers of financial statements. In addition, stock valuation models cannot predict the future nor do they sufficiently reflect the downward volatility and forced forfeitures that are so common in today's economy. In addition, the application of the models provide inherent inconsistencies between companies even if the eventual compensation related to the option is similar.

However, to the extent that the FASB determines that such an expense is required, we have determined that only two alternatives can be justified as estimable and probable.

Alternative 1

At Grant: Add shares to the "Shares for EPS calculation" based upon the Treasury Method.

At Exercise: Record Compensation Expense for actual value received.

DR Cash (for employee exercise price)

DR Compensation Expense (for the difference between the cash received and the FMV)

CR Equity (for the FMV of the stock issued)

This alternative is preferable to either the FASB 123 method or the IASB method as it:

- (1) Recognizes that there is a cost to providing options but accurately recognizes that that cost is not estimable or probable until the option is exercised;



- (2) Records an expense for the actual employee benefit provided;
- (3) Is consistent between the GAAP treatment and the tax treatment;
- (4) Records realized benefits rather than intangible or hypothetical benefits.

Alternative 2

At Grant: Add shares to the "Shares for EPS calculation" based upon the Treasury Method.

At Vesting: Record Compensation Expense for the intrinsic value of the option.

DR Compensation Expense (for the difference between the purchase price and the FMV)
CR Equity

To adequately reflect the real value of the employee benefit, the expense should be marked to market on a quarterly basis.

At Exercise:

DR Cash (for employee exercise price)
CR Equity

The benefit of Alternative 2 over Alternative 1 is that the option is recorded as compensation expense once it has an estimable value to the employee. The disadvantage of Alternative 2 over Alternative 1 is that there can be significant variability in the amount recorded and a potential that, if the stock price goes down and the option is forfeited, the compensation is never realized.

Thank you for considering our views on this important issue.

Sincerely,

Judy Bruner
Sr. Vice President and
Chief Financial Officer