



Alfred M. Rankin, Jr.
Chairman, President and
Chief Executive Officer

Suzanne Q. Bielstein
Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 260
File Reference: 1102-001
Date Received: 2-6-03

Re: Accounting for Stock-Based Compensation: A Comparison of FASB 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-based Payment

Dear Ms. Bielstein:

We appreciate the opportunity to comment on certain issues related to the accounting for stock options. We believe that stock-based compensation should be measured at fair-value and recognized in the income statement over the period beginning on the grant date and ending on the earlier of the exercise or expiration date. We understand that our proposal to measure and recognize the fair market value of stock options as compensation expense differs from that proposed by the FASB. Our comments and suggestions with regard to the accounting for stock options are presented below.

Use of an Option-Pricing Model for Measurement Purposes – Issue 2(a)

Issue 2(a): Do you believe that an accounting standard should mandate the use of an option-pricing model for measurement purposes? If not, what other approaches do you believe would provide more consistent and reliable estimates of the fair value of employee stock options granted and why?

We believe that the value of stock options should be based upon a market-determined value equal to the spread between the fair market value of the stock and the stated exercise price. During the vesting period, the value of each outstanding stock option should be re-measured at each reporting date, and changes in the fair market value of the option, as measured by the difference between the market price of the stock and the exercise price of the option, should flow through the earnings of the current period. Once the options are exercised, any difference between the actual transaction cost and the estimates previously recorded should be expensed in the period the option is exercised. Compensation expenses previously accrued related to any options forfeited should be reversed in the period forfeited.

Our recommendation is similar to the accounting treatment prescribed for "phantom stock" plans. "Phantom stock" plans can be structured to provide either cash or stock compensation, with the determination of the form of payment made at the time of exercise. The accounting for "phantom stock" plans, as well as for stock appreciation rights plans and restricted stock grant plans, requires recognition of compensation expense that is adjusted in each accounting period to take into account either increases or decreases in the market value of the underlying equity instrument, regardless of whether the award is ultimately paid with stock. Simply put, the timing of the designation of the form of payment appears to be the sole factor distinguishing a stock option award from a "phantom stock" award paid in stock. We do not believe that the timing of the determination of the form of payment should result in inconsistent accounting treatment.

The periodic revaluation of the cost of an employee award is not only consistent with the accounting for "phantom stock" plans, stock appreciation plans and restricted stock plans, but also for other types of employee compensation and benefits, such as medical and pension benefits. Our recommended approach of revaluing stock options throughout the period from the grant date to the exercise date results in compensation cost that is measured based on the current value of the stock options over the entire time period that the employee actually renders services to an employer. We believe our approach is a more readily determinable method than the Board's traditional approach of valuing options using an option-pricing model to determine a single estimate of the value at the grant date for the future services rendered by the employee.

Furthermore, option-pricing models are highly subjective since they are based upon assumptions that can vary significantly and are not necessarily reasonable in a company's particular circumstances. These computations are never "trued-up" to reflect the actual value of the compensation received by the employee (*i.e.*, the amount of the award to the employee as a result of the exercise or expiration of the option). Clearly from the employee's perspective, the value received for the services rendered is the fair market value on the date of exercise over the strike price paid. This is the value of the award if converted into cash on the exercise date and the value that will require the payment of income taxes by the employee and the tax deduction claimed by the employer.

We note that the FASB explored the timing of the measurement of stock options during its deliberation of Statement No. 123 and the alternative measurement dates discussed included the dates on which an employee renders the related service and the date an award is exercised or expires. We believe that stock options should be continuously re-measured during the period from the grant date to the exercise date, with a final true-up of the actual value of the compensation recognized when the stock option is either exercised or expires. This method more accurately reflects the actual value of the compensation to both the employer and the employee. Measuring compensation expense based on the actual spread between the exercise price of the option and the market value of the underlying stock represents the most reliable measure, eliminates the potential for the manipulation of option-pricing models and improves the credibility of stock option accounting with the investing public.

Thank you for your consideration of our views. We would be pleased to discuss these issues further at your convenience.

Sincerely,

Handwritten signature of Alvin M. Pauli, Jr. in cursive script.