Len Tatore

From: Robert Herz
Sent: Wednesday, March 12, 2003 8:42 AM
To: Len Tatore
Subject: FW: Expense from exercised options

Letter of Comment No: 28
File Reference: 1101-SCU
Date Received: 03/12/03

-----Original Message-----
From: Rchinwhisker@aol.com [mailto:Rchinwhisker@aol.com]
Sent: Tuesday, March 11, 2003 5:51 PM
To: Robert Herz
Subject: Re: Expense from exercised options

In a message dated 3/10/03 5:52:31 PM Eastern Standard Time, rhherz@fasb.org writes:

There is no further accounting expense from the exercise and the tax benefit the company receives is credited to stockholders' equity .

Hi Mr. Hertz,

Thanks so much for your plain spoken reply. If I read this correctly, there is no requirement that the company include the expense from the exercise of options on the income statement even included in the operating expenses, but they do adjust net income on the cash flow statement by the tax benefit. included in the line for "Net cash from operations" .

To me, this is deceiving, but I'll not get into that. I'm glad to see you are considering forcing the companies to include the expense from granted options. I understand this is a GAAP requirement that the expense be accounted for when it occurs, but I see the real expense as when the options are exercised.

The reason I ask is that a well respected professor in the corporate finance and equity valuation field stated that operating income already reflected the expense from exercised options. I had not found anything to this effect in the 10Ks offered for several companies, so I had to doubt it was true.

I hope all the board members, or at least most, are as clear and concise as you when they discuss options.

Thanks,

Ron