Karen Salmansohn

From:

Michael Tovey

Thursday, February 27, 2003 4:12 PM Sent:

Karen Salmansohn To:

Subject: FW: Stock Compensation Acctg.

Letter of Comment No: 187 A

File Reference: 1102-001

Mike

Date Received: 2-27-1)3

add this as an XXXA numbered letter underneath the

----Original Message----From: HankQT@aol.com [mailto:HankQT@aol.com] Sent: Thursday, February 27, 2003 3:12 PM

To: Larry Smith

Cc: inquiry@lehman.com

Subject: Stock Compensation Acctg.

Reference: Stock Compensation Accounting

PROBLEMS: Footnote accounting. Stock compensation abuse. Option share dilution and industry calculations. Multiple expensing methods. Expense calculations and projections.

SOLUTION:

After a few sages coax the FASB to adapt these two sentences -

"The corporation must maintain outstanding shares in inventory to fund all grants. When the shares become vested, i.e. available to the employee, expense the amount of the market price that exceeds option price, adjust at quarter-ends and settle when the grant is exercised." - then, stock compensation accounting becomes easy, accurate, just and succinct. Visionaries will see how this solution benefits all but the larcenous.

EXPLANATION:

Sentence 1 - Footnote accounting is no longer used for stock compensation. The shares are a corporate asset/inventory item until settlement, valued at market. Purchase of the shares for inventory slows the cash flow but is a net zero to the bottom line. This is just. Option share dilution is curbed and industry calculations of P/E and EPS are improved. Sentence 2 - A four-year work-incentive option is processed by controlling the three inherent traits of an option, i.e. promise, gift, trade on grant, vest, and settlement dates. A CEO's bonus (option price zero, vest date equal grant date) is processed immediately. Expensing the gift (market price less option price) as soon as practicable, on vest date, damps abuse, mollifies some and greatly improves the value of expense projections. Plot grants on stock charts for clarification.

I sincerely hope that you find enough merit in this idea to ask the FASB to adapt it as the U.S. method of handling all stock-based compensation.

Hank Tanaka 1235 Kennymead Orange, CA 92869 (714) 633-5818 Email: hankgt@aol.com

Note. I have used market price where previous day closing market price may be preferable.

Note. Corporation abstains in voting inventory shares (?).

Note. Corporation receives dividends. Capital gains taxed.

Note. When an option expires or is cancelled, shares are moved from Allocated Option Shares back to Available Option Shares.

Note. Step options are prorated.

Note. You are one of the few people who can judge this remedy from many different viewpoints - Analyst, auditor, major shareholder, CFO, CEO, FASB,

Board, Mutual fund, etc. and appreciate the enhanced reporting and control.

Note. The expensing of a share can be categorized as follows:

A. The option price portion.

This expense is matched by an employee payment resulting in a net zero to the bottom line. This is logically done on settlement date. This could be zero, as in a typical CEO bonus

B. The over-option price portion.

This expense is unmatched by any payment, i.e. this portion is being given away, and should be done as soon as practicable, i.e. when it is first available to the employee, i.e. vest date and adjusted when needed (quarter-end (?), settlement date). If the option is underwater on vest date this would be zero.

When any option vests, expense the amount of the market price that exceeds option price, adjust at quarter-ends and settle when the option is exercised. Visualize the previous sentence on any stock chart, adding lines for all dates and option price. Everything falls into place. Upon settlement, the shares are removed from Allocated Option Shares and credited to the employee.