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Senator Joseph Biden
Senator Chris Dodd
Senator Blanche Lincoln
Director, Financial Accounting Standard Board

Subject: Stock Option Reform

I am a retired, corporate president and COO of a Fortune 500 Company (Sterling Drug, Inc.) who for 10 years personally managed and annually executed all management aspects of the company's stock option plan.

I am appalled by TV appearances of various influential public figures (financial analysts, corporate officers and board members, Senators and Congressmen, TV business show hosts, Cabinet members and the President himself) demonstrating little or no knowledge of how stock options work in actual practice.

I am aware of a new approved, FASB regulation scheduled to take effect this fall. The purpose, I am told, is to reform corporate option plans via requiring companies to "expense" stock option costs. If that is true, this approved regulation rests on an invalid premise.

I am aware that I have been out of the mainstream since 1983 and may not have the benefit of all current information. Even so, I want to give you my knowledge, from experience, of some of the debatable issues at hand.

First and most important — under the present guidelines and practice — the financial consequences of stock option activities never "hit" nor affect the company's Profit & Loss Statements. Option activities do affect the balance sheet, being included in the "active stock option" account when shares are transferred from either "approved but un-issued shares" or the "corporate stock held" account. They affect the balance sheet again when options are exercised by employees, reflecting a reduction in corporate stock owned. That's all. These transactions are never recorded on the P & L, and consequently have no effect on either net income or earnings per share.

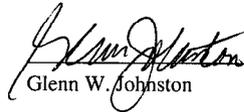
I am aware of the longer-term negative impact of option activity on dilution of currently outstanding shares. But that impact, except for corporations that "overdo" option grants to senior officers, is miniscule, and should not be a reason for severe reform. If, in fact, that pending reform regulation has the objective of forcing options to be reflected on the P& L, it is, in my opinion, a horrific mistake. Doing so will be counterproductive both to an orderly and productive management behavior, but will also not operate favorably in the eyes of well-intended reformers.

There are many ways to accomplish valid option reform without altering earnings reporting.

The principal problem with current stock option practices in virtually all corporations is the abuse and misuse, with the awards of ridiculously large quantities of options to senior officers and most especially by CEO's. (This, on top of high salaries, cash bonuses, long-term bonuses, etc. — all out of line with any reasonable standard or rationale.)

That abuse of options —by cozy CEO's and corporate boards and complicated by "lock step" recommendations from outside compensation consultants — should be the thrust of regulations.

Thank you for reading this letter.


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