

Stacey Sutay

Letter of Comment No: 95
File Reference: 1101-SCU
Date Received: 05/08/03

Subject: FW: Accounting for Stock Options

-----Original Message-----

From: RKlemenahag@aol.com [mailto:RKlemenahag@aol.com]

Sent: Thursday, May 08, 2003 4:55 PM

To: Robert Herz

Subject: Accounting for Stock Options

I agree that cost of stock options need to be valued and expensed currently. I suggest the following valuation and accounting beginning in the period the option is granted through the period in which the option is exercised or expires.

Valuation - Value stock options each reporting period based on the average of the opening and closing stock market price on the last day of the reporting period as reported by the stock exchange. For stock of companies not publicly traded, they would need to have their stock market price determined under valuation principles currently used for ESOP valuation.

Measurement of Expense - For each reporting period, beginning with the period the stock option is granted through and including the period in which the stock option is exercised or expires, the expense or negative expense, as the case may be, is measured by the difference in the stock option value at the beginning and end of the period subject that the beginning of the period stock option price, in the period of grant, would be the option grant price and that any future option market price could not be less than the grant price. Thus, in some reporting periods, negative expense would result, for example, where the stock price declined during the period or the stock option has expired. If the market price is and continues to be less than the grant price, no expense exists only a contingency for the future.

Accounting Recognition - Expense or negative expense, as applicable, is recognized each reporting period as employee compensation in the income statement with a corresponding entry to stockholders equity. Again, no expense is recognized until the stock market price exceeds the stock option price however a contingency would be disclosed.

Please pass my suggestion on to the staff working on this project. Thanks.

Bob Klemenahagen
16501 Elm Drive
Minnetonka, MN 55345
952-935-3177
rklemenahag@aol.com

This accounting recognition of stock option costs is simple, easily understandable and logical plus it fairly recognizes costs associated with the current period and is making no assumptions regarding future periods.