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

From: Gary Henderson [mailto:gvhender@nscorp.com]  
Sent: Friday, September 27, 2002 8:58 AM  
To: jleisering@fasb.org  
Subject: accounting for stock options

Dear Mr. Leisering,

I would like to suggest that FASB consider requiring accounting for stock options the same way we account for other multi-year exposures, such as law suits and environmental cleanups, via a reserve account. Options issued at current market price would carry no expense when issued, whereas options issued at below market price would carry an immediate expense equal to the difference in current price and strike price. This difference in price, if any, would require a cash deposit in the reserve account to cover this exposure.

Each year at minimum, with optional quarterly election, the company must rebalance the reserve account. This would be accomplished by a review of all options outstanding and adjusting for the difference in market price of stock and strike price of the options. If exposure increases, the company must fund to within 90% of liability. If exposure decreases, company can opt to keep reserve at current level or remove funds from the reserve account at a rate not to exceed 10% of current fund value per quarter, or 33% of fund value per year. This type of activity would apply some smoothing/damping to stock prices and earnings while protecting the company and external stockholders from options exposures.

Smaller companies (start ups) below some value, say \$100 million, should still be able to treat stock options via the current program that allows them to elect to handle the cost when options are actually exercised.

Gary V. Henderson