Stacey Sutay

Subject: FW: expensing employee stock options

-----Original Message-----
From: Peg2coll@aol.com [mailto:Peg2coll@aol.com]
Sent: Wednesday, September 18, 2002 6:41 PM
To: fasbcomments@fasb.org
Subject: expensing employee stock options

TO: Financial Accounting Officer
RE: Expensing Employee Stock Options

I would like to propose a method of expensing options that surpasses any
of the alternative methods being discussed in the news recently.

WHO:
I'm a retiree with a thorough knowledge of portfolio accounting systems.
Again, if necessary.
I am a retired computer analyst who first started working on securities portfolios in the 1960's. I have
accounted for stocks, bonds, commercial paper, etc. for thrifts, pension plans, mutual funds, and
independent software companies. Inventory, purchases, sales, stock splits, dividends, options, warrants,
bond interest, etc. were all covered.

MY PROPOSAL:
When the option vests, expense the portion of the current market price that exceeds option price, adjust
at quarter-ends and settle when the
option is exercised.

BENEFIT:
The Company's option expense is now defined as 2 parts -
. The portion matched by the employee when the option is
                exercised, AKA option price.
. The unmatched portion, AKA net option expense.
The unmatched portion is expensed on the date that the option first
became available to the employee. I think that this is equitable, proper,
and legally defensible.
Note. A stock grant is a stock option with a zero option price.
Note. A performance-based option granted today has a vesting date
        of today, unless otherwise stated.
Note. Options that are 'under water' have a zero net option expense.
Note. Options not 'under water' will most likely have an exercise date
        equal to vested date, i.e. no impact.
The proposed method retains employee rights and curtails option abuse.
It is low (no) cost, logical, and finite, separating the Company's net option expense on vesting date,
providing clarity to the reporting.
The Company, using the option shares file and a current market price, can forecast the option expense for
the next period(s) under static and changing
market environments.

The following would require negotiation:

The Company's net option expensing could just as easily begin on vesting date less one year. See below.

CHANGE REQUIRED:
With one small change to the accounting standards, everything falls into place. This would be a FASB Edict.

Commence expensing and maintaining the Company's net option expense
(current market price in excess of option price) on option vested date
rather than option exercise date.

Again, if necessary.

Expense the Company's portion of the option (current market price in
excess of option price) on the earliest date it could be exercised rather
than the date it is exercised. Adjust to current market price until
the option is exercised.

This is not a drastic move because most vested options will be exercised
immediately or are 'under water'. The chief benefit lies in the analysis of
the options.

METHOD:
When the option vests, expense the portion of the current market price that exceeds option price, adjust
at quarter-end and settle when the option is exercised.

Again, if necessary.

On the day that the option becomes vested, the amount of the closing market price that exceeds the
option price should be expensed.

Adjust the expense at quarter-end for reporting purposes.

On the day the option is taken, the closing market price less any expense taken previously is expensed.
The option has been expensed at current market price.

The option price is income / cash received / offsetting data.

If the option expires or employee terminates or, whatever, any expense claimed is reversed.

Again, if necessary.

The Company is prepaying and maintaining the expected net expense beginning on the first day that the
option could be exercised. This sounds worse than it is. Most vested options will be exercised immediately
or are
'under water'.

On the day that the option is exercised, the Company claims as an expense the complete share price less
the amount that was previously claimed. The payment of the option price goes elsewhere, offsetting some
of the expense.

Erase options that die.

WHY:
The method is finite. The non-vested shares will be analyzed differently than the vested shares in
projections, reserves, etc.

The method is easily explained, understood, and administered.

The method uses no formulas.

The method, using logical dates and logical prices, tracks the Company net
expense portion of the option.

Here is a side comment. If new option shares were drawn from an account called Option Shares Available
which were originally included in Company Shares Outstanding, option share dilution and option abuse would
be severely impacted.

9/19/02

OPTIONAL aka THE 'KICKER':

The (tech) Company wants expensing to occur on exercise date.
The investment community wants front-end expensing only because it doesn't want to peruse option lists.
Negotiate the middle ground.
Require expensing to begin 1 year prior to the vested date
continuing until exercise date or expiry date.
Closing this gap requires an edict from FASB:
      'Options are initially expensed (nn%) on the later of:
  . Option Grant date (catches short term options)
. Option Vested date less 1 year
      Expense (nn%) is continually adjusted to current market price
        until the option is exercised (100%) or expired.'

This usage of the first anniversary date preceding vesting date and
the nn% would be only minor changes to the method first described above.

Note. I think nn% is messy and > 1 year is draconian but it is not my call.

IN CONCLUSION:
I feel that this proposal quells the brouhaha that's been in the news.

If you find that this proposal has merit -
    . State your stance to the FASB and/or TechNet in Palo Alto
    . E-mail a note to peg2coll@aol.com suitable for in-house bragging
     rights and, please, any leads on a JAVA Project Leader interview for
     our unemployed son in San Mateo.

Thanks.

poof