

**Karen Salmansohn**

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**From:** Michael Tovey  
**Sent:** Monday, February 03, 20  
**To:** Karen Salmansohn  
**Subject:** FW: Mr. Lawrence Smith

**Letter of Comment No:** 187  
**File Reference:** 1102-001  
**Date Received:** 1-2-03

ITC response

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

**From:** Larry Smith  
**Sent:** Monday, February 03, 2003 7:08 AM  
**To:** Michael Tovey; Sue Bielstein  
**Subject:** FW: Mr. Lawrence Smith

For your consideration. I haven't even read it yet.

Thanks,  
 Larry

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

**From:** HankQT@aol.com [mailto:HankQT@aol.com]  
**Sent:** Sunday, February 02, 2003 11:50 PM  
**To:** Larry Smith  
**Subject:** Mr. Lawrence Smith

Reference: Stock Compensation Accounting

I would like to suggest a method of accounting for stock options and bonuses that will satisfy all but the larcenous. It addresses a host of problems associated with the current method. It is easy, accurate, just and succinct.

Remedy? The corporation should have (re)purchased shares in inventory to cover all grants. This is just. This slows the cash flow but does not materially detract from the bottom line because Available Option Shares and Allocated Option Shares are inventory items valued at market price. Note that reporting of option shares will have moved from the footnotes to the Assets/Inventory pages. This is a huge plus. Also, because the shares are counted in Total Shares, share dilution is curtailed and price/earnings calculations are improved. More huge pluses.

Further, what-to-expense and when-to-expense should be pinpointed to facilitate projections without punishing corporations.

The expense of a share is market price and 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). This would be zero on vest date if the option is underwater.

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.

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

Note. A typical CEO bonus would be granted, vested and settled on the same date.

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

Note. I have not covered expired or cancelled or step options. Easy.

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

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

I sincerely hope that you find enough merit in this idea to ask the FASB to

adopt it as the U.S. method of handling all stock-based compensation.

It is easy, accurate, just and succinct.

Hank Tanaka

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