

**From:** Steve Tachouet [tachouet@hotmail.com]  
**Sent:** Wednesday, May 05, 2004 7:14 PM  
**To:** Stacey Sutay  
**Subject:** Disagreement with FASB Exposure Draft RE: FAS 123

To Whom It May Concern:

I am writing to express my disagreement with the FASB's exposure draft of the proposed amendments to FAS 123, which would require the expensing of stock options. There are several key points/arguments in the draft that seem to be either illogical, in disagreement with GAAP, or simply downright confusing. The following are what I believe to be just a few of the key arguments against the expensing of stock options as they relate to the FASB's proposal:

1.) The current method of accounting for employee stock options (ESOs) is the most meaningful method. ESO grants are in fact an agreement between the shareholders of the company and the employees who receive ESOs, the purpose of such an agreement being to create incentives for employees to increase shareholder value. In fact, shareholders who approve ESO programs are in fact knowingly giving up some of their ownership of the company in hopes that employees will then create value, therefore making their diminished ownership more valuable than their previously undiluted stake. Additionally, these ESO agreements are not intended to be vehicles through which to raise equity capital. Given this knowledge, it would make logical sense that the true impact to shareholders is the dilution ESOs cause, which is the current method of accounting for them.

2.) Given that ESOs are not transferable to others and are not tradable, it makes no logical sense to apply methods of valuing options traded in open markets to ESOs (such as Black-Scholes). In addition, there is no public market with which to confirm the value assigned to an ESO with such valuation methods. With such variables as risk-free interest rates, volatility of the company's stock, etc, valuation of an ESO with open market techniques is disconnected from the purpose of ESOs, while unfairly penalizing some companies based on previous market performance.

3.) Not only is an ESO's time value nearly impossible to accurately calculate (as well as there being no public market with which to confirm that value), there is also no cash impact upon the granting of ESOs. Any expensing of an ESO upon grant would be an unrealized expense. Any "true" expense of an ESO would in fact be unrealized until cash changed hands, i.e. at exercise. Similarly, if a company expenses that assigned value of an ESO over the vesting period of the option, there is no method of recapturing that non-cash expense should the option expire without value (i.e. "out-of-the-money").

I believe my previous work in Investment Banking (both corporate finance and mergers & acquisitions), as well as my current work in global treasury management for a publicly traded semiconductor company, has given me a pretty good handle on how to accurately analyze financial statements from both the investor and corporate perspectives. Regardless of the perspective from which you choose to evaluate the FASB proposals, the result is both clouded and illogical. I would hate to see financial statements become even more complex unnecessarily, making it even more difficult for average investors to accurately evaluate and measure their stakes.

Thank you,  
Steve Tachouet