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Letter of Comment No: 264
File Reference: 1102-100

From: Jeff Nolan [jeffnolan@comcast.net]
Sent: Thursday, May 20, 2004 12:26 PM
To: Director - FASB
Cc: jcdowling@nvca.org; mtwovey@fasb.org
Subject: file # 1102-100 - stock option expense proposals

Please register my opposition to your current proposal on stock option reporting. What follows is the text that I wrote today for my blog, <http://www.jeffnolan.com/>

Today is all about options and the proposed FASB rules that will require companies to expense them. I've thought long and hard about this, balancing the rights of shareholders to accurately see the effects of compensation, with the requirements of startup growth companies and the burdens that excessive reporting requirements impose on them.

I am urging you to get involved in this issue and email FASB while the public comment period is still open, which is through June 30, 2004.

- emails should be directed to director@fasb.org <<mailto:director@fasb.org>> with a cc: to jcdowling@nvca.org <<mailto:jcdowling@nvca.org>>
- if you have specific questions about the proposal, Michael Tovey is the project director for this at FASB, his email is mtwovey@fasb.org <<mailto:mtwovey@fasb.org>>
- your email should reference file # 1102-100

The issue for me came down to the following points:

- the valuation method FASB is proposing is Black-Scholes or binomial, either one is hardly the best measure of incentive stock option value because neither was developed with that in mind, at least anything other than freely tradable options. Black-Scholes is a derivative pricing algorithm, while incentive options are derivatives only when they are fully vested and freely tradable.
- the expense hit is irreversible, meaning that options that are clawed back to the company for whatever reason would not see the expense they incurred in earlier periods reversed.
- this will result in further complexity in financial reporting for public companies, with companies continuing the trend of pro-forma results. In other words, we will see companies reporting official results with expenses for options accounted for and pro forma results that show the Street "this is what our actual earnings are after backing out the non-cash options expenses". We do NOT need more financial reporting options on the street, we need reports that reflect the actual operating performance of a company.
- finally, this measure will do nothing to curb excessive option granting to the top executives of companies.

In addition to emailing FASB, please write a letter to your representative in Congress letting him/her know that top option expense proposal is bad for business and bad for employees. Members of Congress don't always know all the facts about issues in front of them, it's up to us to ensure that they have all the facts, not just what FASB and various lobbyists are telling them.

To submit similar letters of concern to Members of Congress, click on the following link: www.savestockoptions.org <<http://www.savestockoptions.org/>>. This site will identify your member of Congress, both House and Senate. Through this site you can submit letters that express your concern about FASB's direction or you can

submit letters asking your Member to support current legislation that will protect private companies from expensing, and which protects public companies' ability to use broad-based option plans. The site will identify for you whether your Senators or Representatives are already supporters of that legislation and will automatically fax your letter to the appropriate office.

I have attached a Powerpoint presentation that was recently presented at the NVCA annual meeting, it does a good job of laying out the issues.

Download [nvcastock_options2004_may10_handout.ppt](http://sapventures.typepad.com/main/files/nvcastock_options2004_may10_handout.ppt)
<http://sapventures.typepad.com/main/files/nvcastock_options2004_may10_handout.ppt>

Finally, Ross put the FASB letter in the Red Herring wiki, I suggest you read it: http://www.socialtext.net/red-herring-spring/index.cgi?fasb_acts_to_expense_stock_options