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**From:** Kermit Nolan [KNolan@synaptics.com]  
**Sent:** Thursday, June 24, 2004 4:17 PM  
**To:** Director - FASB  
**Cc:** 'mpotter@delphiventures.com'; 'jcdowling@nvca.org'  
**Subject:** FASB proposal on expensing stock options

**Letter of Comment No: 5283**  
**File Reference: 1102-100**

Dear FASB members,

I've had an opportunity to study the valuation models and the impact of expensing options in connection with board member and executive officer queries on this topic. Although I agree that options have value, I am concerned about the subjectivity associated with the valuation models including the complexity thereof, the "benefit" of reflecting the computed value on the face of the financial statements, the short-term and possibly long term impact on unsophisticated investors, and the impact on companies that choose to cease or greatly reduce grants to rank and file employees.

The valuation models require both objective and subjective inputs. My concern is that the subjective inputs will result in financial statements losing comparability not only between companies within a market, but also between companies across markets. Volatility and term have such a significant impact on the valuation model that to leave it to individual judgment is just inviting inaccuracies and lack of comparability in financial reporting. The goal of financial reporting to ensure some level of comparability, not to ensure some level of incomparability.

I think one could argue, too, that sophisticated investors (industry analysts, fund managers, etc.) that focus primarily on cash flow recognize that stock option charges are meaningless and their valuation models will ignore it. Conversely, has anyone studied how the unsophisticated investor that focuses primarily on EPS and PE ratios will react when corporate EPS relative to historical levels plummet or PE ratios climb into triple digits (or cannot be calculated due to losses) as a result of stock option charges. Does this leave the sophisticated investor in a position to profit from the unsophisticated investor both in the short-term and possibly the long-term? Is this protecting the small investor?

So the question is, by moving the stock option charge from a pro-forma footnote disclosure into the financial statements are we really creating "better" financial reporting? Is it really more meaningful?

Further, has anyone studied what the impact would be if companies choose to cease or grant fewer options to the rank and file employee? The rank and file employee is ultimately the driver of corporate profitability. Will companies be able to attract and retain employees or will employees jump ship more frequently chasing the better offer or opportunity because the stock option handcuffs no longer tie them to the company? Granted there have been clear examples of abuse at the highest corporate levels during the last few years, but should the rank and file suffer as a result of a few individuals?

As I mentioned earlier, I recognize that options have value, however, certainly there is a better answer than to require expensing on the face of the financial statements. Given that this drive to expense options appears to be linked to executive level corporate abuse, I believe the answer should focus on much harsher legal ramifications of abuse not on financial reporting given the insidious issues associated with the valuation models and the impact on financial reporting.

I appreciate your giving me an opportunity to voice my opinion on this subject, I only hope you read this with an open mind.

Regards,

Kermit

6/25/2004