

Karen Salmansohn

From: Director - FASB
Sent: Monday, Febr
To: Karen Salman
Subject: FW: FASB Fil

Letter of Comment No: 182
File Reference: 1102-001
Date Received: 2-1-03



FASB File Ref. No.
1102-001 - ...



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

From: Bruce A. Maurer [mailto:Bruce.Maurer@silabs.com]
Sent: Saturday, February 01, 2003 7:44 PM
To: Director - FASB
Subject: FASB File Reference No.: 1102-001, Silicon Laboratories Inc.

Dear Director,

Please see the attached letter commenting on the topic of accounting for stock options. When you open the file, click on "read only" to view and print the letter.

Sincerely,

Bruce A. Maurer
Director of Finance
Silicon Laboratories Inc.



SILICON LABORATORIES

February 1, 2003

To: MP&T Director
Financial Accounting Standards Board
File Reference No.: 1102-001
director@fasb.org

From: The Management at Silicon Laboratories Inc.

We would like to thank the Financial Accounting Standards Board (FASB) for the opportunity to comment on accounting for stock options. We consider the proper accounting of employee stock options to be a very important topic.

We agree with the FASB that employees' options are compensatory, and we agree with their goal that companies need to properly reflect this cost when presenting their financial performance.

However, we believe that the FASB proposal to reflect this cost as an expense on the income statement would cause the financial statements to be misleading and inaccurate. Expensing options depends on assigning values to them and there is no known valuation model that can possibly measure the value of employee options with reasonable accuracy. Fundamental problems exist with the option pricing models used to assign values to options. The Black-Scholes model, for example, was not designed to value employee stock options; it assumes the existence of an options market in which options are freely traded. In reality, employee stock options are subject to many restrictions, such as:

- Employee options are non-transferable under the terms of the grant.
- Employee options are normally not exercisable for months or years after grant due to vesting restrictions.
- Typically, after the exercise of employee options, all officers and many other employees are restricted from selling their shares for roughly 50% of the year because of insider trading "black-out periods".
- Vested options must be exercised within a brief period of time (usually 90 days or less) following a termination of employment.

Absent a true market for employee options, with buyers and sellers acting in real time with real money, the value of employee stock option grants cannot be determined through the use of option pricing models. In fact, we believe that the use of option models, such as the Black-Scholes model, to measure the value of employee stock option grants will result in significantly misleading and inaccurate financial results. If companies were allowed to discount the values of the employee options to account for the difference between traded options and restricted employee options, the subjectivity of the discounting methods would almost certainly result in significantly non-comparable financial statements.

We believe the “treasury stock” method for determining the impact of employee stock options is entirely adequate and fairly reflects the impact of options in diluted earnings per share on the income statement. This is why we utilize this method at Silicon Laboratories Inc. This method provides a useful and real “dilution of earnings” measure to investors and shareholders. The treasury stock method computes with precision how much earnings the existing owners have to give up in favor of option-holders. The treasury stock method is the only generally accepted, reliable, reasonably accurate and easily calculable method of reporting the cost to the corporation and its shareholders of its option grants.

Sincerely,

The Management of Silicon Laboratories Inc.