

Letter of Comment No: 50
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Karen Salmansohn

From: Director - FASB
Sent: Wednesday, January 29, 2003 7:27 AM
To: Karen Salmansohn
Subject: FW: Expensing of Stock Options

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

From: Jack Lazar [mailto:jlazar@netratings.com]
Sent: Tuesday, January 28, 2003 6:45 PM
To: Director - FASB
Subject: Expensing of Stock Options

Dear Director

RE: File Reference No. 1102-001

As a former CFO of several Silicon Valley startups and an auditor at Price Waterhouse, no accounting issue hits home more to me than discussion regarding the proposed expensing of stock options. Silicon Valley is built on the premise that everyone, when they band together, can develop ground-breaking, market moving technologies that become essential to our daily lives. The companies that are successful in building these products often require an unimaginable amount of dedication from their employees that is unseen in other industries. Of course, the idea of rolling out these technologies and building a big company is the driver behind much of the employees hard work.

Stock options are also one of the rewards. In each of the companies that I have worked, stock options were provided to EVERY employee. That includes the receptionist who makes a first impression on the potential customers visiting the office. It includes the engineer, who often spends 15-20 hours a day at the office chasing his/her dream and foregoing time with the family. And yes, all employees includes the executives who live and breathe the company ups and downs for many years. These options are a necessary driver to help bring new technologies to life. They are the catalyst that rewards not just the executives but more importantly, all of the people in the organization when success is achieved. And of course, if success is not achieved, they are nothing but worthless wallpaper to store away in memory vault.

While it is fairly clear that there are potential economic incentives given to employees when stock options are granted, the idea of expensing these options based on some random, unpredictable and unjust formula falls squarely against some of the basic concepts of GAAP. The value of these options is by no means definable. Their value can vary dramatically on a monthly, daily and even hourly basis. The concept that we can define this value during a one period of time is somewhat ludicrous and will only further confuse the investment community and provide additional discomfort to investors. Today, our footnote disclosure is clear enough. As a former CFO of a public company, I can tell you that institutional investors who take interest in this information have what they need via the footnote disclosure. I often found myself discussing this with them in various investors calls. Moving the expense to the income statement would only confuse the issue which we certainly don't need to do in today's environment. We already have do explain large deferred compensation charges that are run through our income statements and subsequently amortized over the life of the supposedly "cheap stock". Those charges are distorting the income statements of many companies today since they were calculated at a time when the market for our stocks was significantly higher. Adding additional charges, especially those that could vary from quarter to quarter, only further blurs the investors' understanding of the company's operations.

In addition, the expensing of stock options would provide significant economic penalties to not only specific industries but also to US as a global competitor. While I know that the FASB does not consider economic arguments, it is important to at least touch on some of the consequences related to expensing stock options. The press is found of pointing out how executives have reaped enormous sums of money via the exercise of stock options. However, rarely is it mentioned that the engineer or receptionist who took a chance on a startup and worked ridiculous hours for years, was able to buy a house or send their kids to college. These individuals are

the real winners from the granting of stock options and let us not kid ourselves - if stock options are forced to be expensed, the number of individuals within these companies who receive stock options will be reduced dramatically. In addition, the expensing of stock options will affect the very basis of new company development, particularly here in Silicon Valley. As one of the important drivers to the US economy, we can not put this innovation at risk by allowing the expensing of stock options. Broad based option plans are a critical ingredient to our growth.

I understand that many bad things have happened in the business world over the past few years. The accounting scandals that have rocked the US are simply unacceptable and those responsible for this neglect or lack of oversight should be penalized severely. I trust that the SEC will do an effective job of penalizing these few, bad individuals and I applaud many of the new proposed regulations that promote tighter review of the accounting systems and records. I also understand that a few, highly publicized executives have benefited disproportionately from the use of stock options. The boards of directors of these companies should take a good hard look at whether they are representing the best interests of their shareholders. But make no bones about it - stock options, are a valuable and essential means of promoting the American entrepreneurial spirit. Billions of people globally have benefited from the innovative products provided by decades of new start-up companies who took the high risk related to starting up a company. Should the FASB decide to require the expensing of stock options instead of continuing the current required footnote disclosure, you will be placing your foot squarely on the throat of innovation and further distort GAAP in a way that is unnecessary. I sincerely hope that this does not happen.

Sincerely,

Jack Lazar
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