

**Karen Salmansohn**

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**From:** Director - FASB  
**Sent:** Saturday, February 01, 2003 1  
**To:** Karen Salmansohn  
**Subject:** FW: Expensing Stock Options

Letter of Comment No: 228  
 File Reference: 1102-001  
 Date Received: 1-31-03

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

**From:** Simon Raab [mailto:RaabS@faro.com]  
**Sent:** Friday, January 31, 2003 8:36 PM  
**To:** Director - FASB  
**Subject:** Expensing Stock Options file ref NO. 1102-001

Dear Sir/Madame

This is in response to your request for comments from interested parties with respect to the above subject.

As the CEO of a publicly traded Micro cap technology company I believe I am in a unique position to comment on the proposed changes to the accounting rules. The Stock option is the most important tool in our management arsenal to visibly and directly align the interests of key employees and those of the shareholder. It is true that like any incentive that excessive and disproportionate use undermines its benefits but this can be said of many incentives including salary. The quantities and distributions of such incentives should be carefully reviewed and approved by the Board of Directors.

As in the case of a tiny minority of criminal CEOs the over reaction by the legislative branch to appease a public concern about a handful of thieves, it is unnecessary for the FASB, free of public pressure, to also over react. In my 5 years of Public company management I have submitted to the whipsaw of goodwill accounting changes and the treatment of in process R and D. Both of these issued did immense and arbitrary damage to our earnings, our share value and ultimately our shareholders. Your dilemma is not simple: the diverse business models and the proper presentation of "real" earnings is a constant challenge.

In that respect, the expensing of options according to some theoretical model and actual highly variable stock price combine to create an income statement entry which is arbitrary, subject to significant shifts for small companies. This unstable contribution to the earnings will discourage issuance of options and we will lose our primary tool to compete for talent with the "big guys". The high ratio of options to the total float and highly variable stock prices for small companies ( and some large) will cause expensed options to further obfuscate real earnings for the public shareholder.

I believe that it is a fallacy that our current reporting requirements ignore the existence of options. Under current regulations the earnings are presented as earnings per fully diluted share. The number of shares used in this calculation include all vested options exercised or not. The net effect is to dilute the earnings to reflect the possible outstanding share count. This is straightforward, uncomplicated by estimation, independent of variable stock pricing and provides an accurate consistent effect on earnings per share.

The combination of the various regulations in effect today, well intentioned as they were, in my opinion conspire to make the public reports exercises in complexity, obfuscation and do not serve the interests of the small inexperienced shareholder or in my experience the sophisticated analyst attempting to present the facts. I urge the board to "Keep it simple sir".

Simon Raab

CEO, Faro Technologies, Inc.

NASDAQ "FARO"