

**Karen Salmansohn**

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**From:** Director -  
**Sent:** Saturday,  
**To:** Karen Salmansohn  
**Subject:** FW: File R

**Letter of Comment No:** 225  
**File Reference:** 1102-001  
**Date Received:** 1-31-03

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

**From:** Ronald P. Scott [mailto:rsconfig@cyanotech.com]  
**Sent:** Friday, January 31, 2003 10:15 PM  
**To:** Director - FASB  
**Subject:** File Reference No. 1102-001

Dear Sir or Madam:

I am writing to you to express my opinion on the current proposal to expense stock options. Our Company, Cyanotech Corporation, is a NASDAQ SmallCap listed company. We have a 16(b)(3) Employee Stock Option Plan in which all of our 65 employees are granted stock options each year in relation to their total salary for the prior year. Since this plan was implemented in 1990, many of our employees have accumulated a significant number of stock options. During the early to mid-1990's, many of these employees realized gains on their options that allowed them to buy automobiles, major appliances, homes and pay educational expenses for their children.

By distributing stock options to all of our employees, we have created an environment in which our employees act like shareholders. Even though many employees do not retain the shares that they exercise, they are all concerned about increasing shareholder value (and the stock price), and act in the best interests of our external shareholders.

I can assure you that if the Company was required to expense the value of these options at the time they were granted, they would never have been granted and this would not be the culture of our Company today.

More recently, the Company, and correspondingly our stock, have not been performing very well. All of the options that have been granted since 1997 are currently "underwater." As a result, they are currently worth very little if not nothing. Had the Company been required to expense these options at the time they were granted, we would have overstated our expenses in the year they were granted, as they ultimately turned out to be worth much less than the current valuation models would tell us.

The primary issue I have with expensing stock options is that you don't know if they are ultimately ever going to be exercised and have any value. The current valuation models assume that you can predict the future by looking at the past. But you can't and you should not.

In my 25 year career as a financial professional, I have never submitted my opinion about a proposed FASB rule change. But I feel so strongly about this and the effect it would have on the 65 employees of Cyanotech, that I am writing you this letter today.

Please do not require stock options to be expensed.

Thank you for considering my opinion.

Sincerely,

Ronald P. Scott  
Executive Vice President / CFO  
Cyanotech Corporation

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