Stacey Sutay

Letter of Comment No: 46 File Reference: 1102-100

Subject: FW: comment to fasb proposed amendments

----Original Message----

From: dennis [mailto:workman@garlic.com] Sent: Friday, April 09, 2004 12:34 AM

To: Director - FASB

Subject: comment to fasb proposed amendments

Dir Sir/Madame,

Please consider the attached comment to FASB proposed amendments

to Sections 123 and 95 regarding the expensing of employee stock options.

Sincerely,

Dennis Workman

VP/GM Component Technologies

Trimble Navigation

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Comment to the FASB 4 April 2004

To Whom It May Concern:

The views presented in this comment on the FASB proposal to amend Statement 123, Accounting for Stock-Based Compensation, and Statement 95, Statement of Cash Flows, are mine alone, and should not be construed as representing the views of Trimble Navigation Limited, hereinafter referred to as Trimble, my employer.

In the enthusiasm to eliminate what are perceived to be executive windfalls, some investors (novice to mature) are endorsing the option expensing idea. What this group may not realize is that employee compensation is a zero sum game – the compensation has to be there or the quality of the personnel and/or the vigor of their commitment will surely decline. Corporations will have to pay for the services of competent employees one way or the other. I would submit that stock options are the best way from the point of view of employees as well as shareholders.

Consider the value of a 1000 share option grant of Trimble, TRMB (it could just as well be any publicly traded stock). Using the following inputs to the Black-Scholes option pricing model we have a Black-Scholes value of \$15,840.

Asset price \$25.00 (approximate current per share market value)

Strike price

\$25.00 0.03

Risk free return Volatility

~0.5 (trailing 24 months using sqrt(12) weighting)

Term⁽¹⁾

10 years

Note that the FASB proposed expensing method suggests additional considerations not captured by the simple Black-Scholes modeling used to obtain the value above. Various lattice modeling approaches are suggested in the FASB proposal as well. In any case, the above calculation is very close to the value that would be derived from a more refined model, and it will be evident below that the conclusions reached are not altered by small variations in the calculated option value.

The employee receiving the option grant would perceive that he/she is, in effect, receiving a spot bonus with a value of \$15,840. The FASB proposal would effectively eliminate the option grant, the value of which presumably must be passed on to the employee by another means. One such means that is still allowed by the FASB is a salary increase. The Black-Scholes calculation already includes the notion of net present value, so the benefits associated with any salary increase would have to be calculated on an NPV basis in order to compare the value of the increase to the value of the option grant. Using a discount rate equivalent to the risk free rate of return associated with the option grant, we find that a salary increase of \$1,866 per annum matches the value of the option grant when applied to the same term as the option grant.

There are at least two important things to consider when comparing the forms of compensation considered above. First, at present the option grant cost is a small dilution of shareholder equity. I would argue an insignificant dilution for an even substantial

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option pool. Second, the money the employee pays when and if the options are exercised is returned to Trimble as paid in capital. It would be no different than if Trimble sold stock at the current asset value at some future time. The salary increase, on the other hand, enters the P&L statement immediately as an expense. Moreover, it is an expense that would be incurred whether or not Trimble stock increases in value.

To put these arguments into a broader perspective, suppose that Trimble's board creates an option pool of 500,000 shares. This pool would represent a dilution of approximately 1% given the amount of stock currently outstanding. The dilution would amount to approximately \$0.25 per share at current market value. The equivalent salary increases would total approximately \$930,000 per year or approximately 2 cents per share. At even a modest price to earnings ratio of 20:1, the effect on stock price would be \$0.40 per share. Trimble is currently trading at a price to earnings ratio of 32:1. At this multiple the salary increase would have a negative effect of \$0.64 per share, or more than twice the negative shareholder impact compared to the creation of the option pool.

Not only is the alternative form of compensation more costly to the shareholders, it fails to motivate the employees in the same way as do stock options. The employees will receive their compensation independent of the value of the stock.

The fallacy in the FASB proposal has nothing to do with the mathematics of the proposed methodology. The fallacy is the implied assumption that the employees who would normally be beneficiaries of the options will not demand and receive alternative forms of compensation. I suppose the FASB is not to be blamed. It is simply responding to a demanding public, and has so responded with what amounts to a reasonable proposal if options are to be expensed. It is the expensing concept itself that is questionable, and in my view ill conceived. The net result will be lower stock prices, greater employee turnover (the cost of which is real and not considered above), a general trend of talented corporate executives and individual contributors to seek employment in non-publicly traded companies, and the injection of an element of uncertainty into what is now a stable equity market. All negative results for shareholders.

In the end the Trimble shareholders would certainly lose if the FASB option expensing proposal were adopted. I would encourage the FASB to formulate an unbiased white paper explaining to shareholders how they can apply the calculations outlined above to determine the impact of the proposed amendments on the particular equities they hold. I would also ask the FASB to extend the time for public comment. Failure to provide the balanced view I am suggesting above amounts to negligence or ignorance or both.

Dennis Workman Morgan Hill, CA

Dennis Workman