

Letter of Comment No:

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Financial Accounting Standards Board
MP&T Director—File Reference No. 1102-001
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Re: Invitation to Comment on Accounting for Stock Options

Dear Sir or Madam:

Because the *Invitation to Comment* on accounting for stock options, dated November 18, 2002 will have a direct effect on RF Monolithics, Inc., I appreciate the opportunity to comment.

RF Monolithics, Inc. (RFM) utilizes broad-based stock options to attract and retain a highly skilled workforce. We believe that any attempt to mandate the expensing of options is misleading and inaccurate because there are no models that can accurately compute a "cost" of the options. Accordingly, we believe the current choice provided by FAS 123 is working and should continue.

RFM believes the only "cost" of issuing employee stock options is borne by our existing shareholders in the form of potential dilution. Accordingly, RFM has adopted a format recommended by the American Electronics Association (AeA) in November 2002 to fully and completely disclose this information.

Today, our investors are looking for more comprehensive information on stock options and their dilutive impact more frequently, more consistently and all in one place. These new enhanced disclosures provide our shareholders with a "one-stop shopping" approach that presents relevant information about stock options in a separate section of our quarterly SEC filings in a series of easy-to-read tables and charts.

RFM understands that our investors should and do care about dilution. Indeed, that is why the NYSE and NASDAQ have proposed changing their listing requirements to require greater input from shareholders on whether and to what extent employee stock options should be granted. These changes are appropriate and address the real issue – the impact of employee stock options on ownership dilution.

We believe that because FASB has already addressed this issue by requiring quarterly disclosure of the value of employee stock options, the questions posted in the invitation to comment are not pertinent. Rather, enhancing meaningful disclosure will help restore investor confidence. Such meaningful, timely and investor-friendly disclosure that does not present sophisticated guesswork as reality is a far better alternative to expensing. And for those companies with broad-based stock option plans, for whom a mandated stock option expense would be material, footnote disclosure gives investors the opportunity to judge for themselves what impact options grants might have on the financial performance of the company. It is wrong to characterize stock options as an expense. The issuance of stock options does not result in a corporate level cost that impacts net income. Appropriately, FASB has traditionally not required the recognition of opportunity costs - or benefits.

Stock options are an important benefit for our employees, and they never result in a cash expenditure from RFM. Requiring that the estimated value of options be treated as an expense would give investors a misleading picture of our financial performance. Expensing options would not add clarity to our financial statements. The "cost" of stock options is already reflected in our EPS, and further, there are no models that can accurately compute a cost of the options. There has been no systematic study of the efficacy of the Black-Scholes model, or any other valuation model, when applied to long term, unvested, non-tradable employee options.

The existing valuation models were developed to price very short-term, publicly traded options, which are exercised on expiration. To compound the fact that that stock options granted to employees do not constitute a corporate expense, they simply cannot be accurately or reliably measured. Mandated expensing of employee stock options will destroy broad-based plans and the productivity, innovation and economic growth they generate.

RFM agrees with the empirical evidence presented in the recently published book, *In the Company of Owners: The Truth About Stock Options and Why Every Employee Should Have Them*, Blasi, Kruse, Bernstein (Basic Books 2003). "Partnership capitalism," as the book's authors described it, in the form of broad-based employee stock option plans should be encouraged, promoted and not hampered by arbitrary accounting rules. To quote directly from this book:

"They [stock options] represent risk sharing based on joint property ownership. Options turn employees into economic partners in the enterprise. As such, they stand to share in the stock appreciation that they help to bring about. Essentially, options offer employees a way to become shareholders by spending their human capital instead of their cash. They're still employees and they still get paid their regular wages and benefits. But options provide an additional dimension to their

employment relationship, allowing workers to participate in both the risks and the rewards of property ownership. "

In the Company of Owners: The Truth About Stock Options and Why Every Employee Should Have Them, Blasi, Kruse, Bernstein (Basic Books 2003), at 214.

For companies that issue only a small number of employee stock options, the inaccuracies that result through application of existing option pricing models may not be as problematic because the expense figure itself may not be material to the company's financial statements as a whole. It is worth noting here that such companies are typically not in the high-tech industry and their options are usually issued only to top officers. Even though the number that such companies would expense would still be wrong, that wrong number would not be material to their financial statements. This is apparently the case with many of the companies that voluntarily chose to expense their employee stock options in 2002.

In stark contrast, however, RFM issues a substantial number of options and grant the bulk of the stock options to most or all employees, use of current option pricing models will result in material errors in our financial statements if we are required to expense employee stock options based on a modified Black-Scholes model, or other comparable pricing models. Given that reality, RFM strongly opposes any proposal to require the mandatory expensing of stock options.

In conclusion, in contrast to the time when FASB was first considering the accounting for stock options in the early 1990's when very little information on stock options was available to a company's shareholders, there is now an abundance of stock option information available thanks to the disclosures presented by FAS 123. Now, with the new quarterly disclosures, there will soon be even more information available. This is good for investors who are desirous of information that they can rely upon, and it is good for our employees who want to continue to benefit from stock options. Again, the current choice provided by FAS 123 is working and should continue.

Thank you for considering our views.

Sincerely,



Buddy Barnes
Chief Financial Officer