## Karen Salmansohn

Director - FASB From:

Friday, January 31, 200 Sent:

Karen Salmansohn To:

Subject: FW: Expensing Stock O

Letter of Comment No: 123

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----Original Message----

From: Jon Holman [mailto:jsh@holmangroup.net]

Sent: Friday, January 31, 2003 2:16 PM

To: Director - FASB

Subject: Expensing Stock Options

Dear FASB -

I am a more than casual observer of the issue of expensing stock options. I run a company which serves Silicon Valley, and I studied cost accounting under Chuck Horngren back in the days when he was a distinguished professor at the Stanford Business School and a member of the old APB.

I have two points I would like to make.

The first is a philosophical one. Issues of accounting accuracy aside, I hope that everyone involved in the debate, and the members of FASB in particular, understand clearly that they will damage entrepreneurial efforts in this country if options are expensed. Maybe this is an acceptable tradeoff against accounting accuracy in someone's mind. But I recruit executives for high technology companies for a living, and I can state to you, without any fear that anyone as knowledgeable as I will contradict me, that the flow of intellectual resources into young technology companies will diminish substantially if FASB takes this step.

The second is a procedural one. Black-Scholes is balderdash. Everyone knows it. It is not predictive of anything, and its inaccuracy has long been proven. It is elegant mathematics and nothing more. If FASB is determined to have options expensed, please find a way to do this which has some meaning. Perhaps one which expenses nothing until time has passed and actual price changes have taken place in the underlying stock, or at the time that the option actually is exercised, and which allows for the reversing of this expensing if the stock falls below the strike price. It is Cost Accounting 101 that you should be measuring real cost, not someone's expectation of what a cost will be some time in the future.

Please do the right thing.

Jonathan S. Holman, President The Holman Group, Inc. San Francisco, California