Several years ago, when this subject first came up, I was much more active and vocal than this time around. Today's focus on corporate governance and stock options does not alter my view that this consideration is ill-advised, and further distorts and erroneously characterizes a company's financial performance. I'm sure that others have commented on many of the same points. I add my support to those who oppose expensing stock options. My reasons:

1. Stock option grants are not a cost to the corporation, per se, at the time of grant. They provide potential dilution to shareholders and should be disclosed as such. They provide cash, in some cases, that isn't measured in the valuation. (Discount the future value of the cash at exercise?)
2. The Black Scholes method of valuation, while widely recognized, is based on current and backward-looking values.
3. In hindsight (and I admit I could be in error in this observation), if we had expensed stock option grants throughout the late 90s, wouldn't current earnings be hit by extraordinary charges attributable to grants that were issued when stocks were significantly overpriced, and even more volatile than today? Distortion results.
4. Stock options are used to varying degrees between industries, and even within industries like high tech, for different reasons. One company can grant options to retain and incentive and share progress they provide to a corporation. Another company grants options because they want to conserve cash. Another decides to not grant options. Another company provides employees with stock purchase plans, and subsidizes some of the cost. And on and on. How does expensing stock options aid in the economic profitability of a company against its peers, or against other companies in other industries? My reply is that it is a confusing "adjuster" to operating results that does nothing except muddle the data.
5. The focus on the stock option expense issue is being considered as a one-shot issue, regardless of the consideration of how it improves operating results financial information. What are the income statement and balance sheet supposed to measure? I thought I understood the concepts, at one time.

I intended my comment to be short and to the point. I think this is a tempest in a teapot that is best handled by disclosure in notes to the financial statements, along with the plethora of other issues described therein.

James W. Kerrigan
Interim CFO
Lantronix, Inc. (Nasdaq: LTRX)
15353 Barranca Parkway
Irvine, CA 92618
(949) 453-7115