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**From:** Klopp, Mark - Eastman [mvklopp@eastman.com]  
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**To:** Director - FASB  
**Cc:** Klopp, Mark - Eastman  
**Subject:** File Reference No. 1102-100 - Comments on Exposure

Letter of Comment No: 1879  
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To FASB Director:

I am writing to you to give feedback on the Exposure Draft as it relates to private companies and small businesses. In summary, the valuation methods proposed will not achieve your goal of better depicting company's economic viability nor will it provide more transparent financial statements. From an economic perspective, expensing options will slow down innovation, entrepreneurship, competition, and new business growth in the US and result in outsourcing of jobs to foreign jurisdictions where these regulations don't exist. Stock options are critical to attract and retain talented employees. Current accounting rules already disclose enough data. Resorting to these problematic accounting practices (a grant is not an expense) as well as inaccurate estimates for valuation will create significant issues for private enterprises. Finally, these proposals will be burdensome and hard to implement for these companies. I outline below comments on specific sections of the Exposure Draft. Recognition of Compensation Cost

There are many problems in the measurement of the value of stock options, however, disclosure of both with non-expensing being the rule and expensing being the pro forma could make sense. So, pro forma financial statements may help to recognize the considerable valuation problems that exist. Measurement

Although still problematic, alternative measurement dates would be the vesting date or the exercise date. Fair Value

In App. B, paragraph 4, FASB would require that option pricing models be used. We do not believe that binomial nor Black Scholes models provide sufficient guidance to "ensure that the fair value measurement objective is applied with reasonable consistency". Furthermore, due to less transparency and inconsistencies, we do not agree with the conclusion that the fair value of options can be measured reliably with options pricing models. The fair value principle will be violated as discounting for vesting restrictions overstates the value of an employee option. Regarding volatility, requiring companies to predict through the life of a 10 year option is not only unreliable but impractical as auditors would most likely not sign off on this activity. Finally, requiring the intrinsic valuing of options in the absence of fair market value will result in another impractical and highly volatile measurement as these expenses will fluctuate from quarter to quarter, potentially having a major impact on the quarterly earnings for these companies with the expense flowing directly to the income statement.

Attribution of Compensation Cost

To the extent that an expense is recognized, the vesting period is an appropriate period to use. However, requiring that options vest on a "graded schedule" would be extremely costly, time consuming, and difficult to audit given the broad based and number of option grants typical in a startup company.

Transition

We believe that unreliable statements through inaccurate valuations will result from the proposed transition rules and a one-year extension of the effective date is not long enough. The compliance costs that would be imposed on private companies would far outweigh any possibly perceived benefits resulting mandatory expensing standard.

Mark V. Klopp  
Managing Director  
Eastman Ventures  
Eastman Chemical Company  
247 Morris Ranch Court  
Danville, CA 94526  
Phone: 925-314-9488