June 21, 2004

Chairman Robert Herz Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116 PERFORMANCE
TECHNOLOGIES

Letter of Comment No: 4996 File Reference: 1102-100

Re: Expensing of broad based stock options for smaller companies

Dear Chairman Herz:

On behalf of Performance Technologies, Inc., a small-cap public company listed on the Nasdaq stock exchange, we write to you today in opposition to the proposed expensing of broad based employee stock options.

Excluding the top 5 members of PTI's operating management, the company granted stock options to nearly 50% of its employees, representing 74% of the options awarded in 2003. Our company would discontinue granting stock options to the broad employee base if this proposal is enacted.

We are appreciative of the FASB creating the Small Business Advisory Committee within FASB to look at this issue. Ideally, the SBAC would have been formed and consulted prior to the release of the exposure draft, but we are pleased to see that the committee had its first meeting on May 11<sup>th</sup>.

Small businesses are the companies that are often times responsible for driving the nation's economy and we strongly encourage you to consider how harmful this proposal will be. The impact of expensing of broad based stock options will be multi-fold:

- Many companies will choose not to grant stock options to most of their employees due to the cost impact on their financial statements.
- · Valuation and audit costs will be higher due to these complex computations.
- Employees will suffer by not receiving this incentive and loss of income.
- Small company financial statements will be less comparable due to the diversity of companies granting or not granting stock options.

Furthermore, if expensing of broad based stock options becomes GAAP, we believe that lenders, investors and other readers of financial statements will ultimately focus on CASH BASED EARNINGS, NOT GAAP EARNINGS. The impact of this shift will be the weakening of the importance of GAAP financial reporting.

We recommend not implementing mandatory expensing of broad based stock options. We appreciate your careful consideration of these issues.

Best Regards,

Dorrance W. Lamb, CFO

cc: George Batavick, Chair, SBAC

