



Letter of Comment No: 3302
File Reference: 1102-100

May 20, 2004

Suzanne Q. Bielstein
Director of Major Projects
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Ms. Bielstein,

As a CEO and entrepreneur based in the Twin Cities, I am writing to you in response to the Financial Accounting Standards Board's Invitation to Comment on accounting for employee stock options. I write to express my company's strong opposition to the proposal as currently drafted. I founded Velocimed, a small privately held medical device company, three years ago to address key unmet clinical needs in the field of interventional cardiology through the rapid design, development, clinical testing and commercialization of novel new therapies. My senior staff and I strongly believe the proposed amendments to FAS 123, if enacted, would (1) be detrimental to emerging growth companies and the economy; (2) substantially increase the subjectivity, complexity and cost of financial reporting; and (3) penalize rank-and-file workers currently receiving stock options.

- **Emerging growth companies and the economy would suffer.**

Emerging growth companies are a vital innovation engine for the industry in which they participate and the economy in general. Large, public companies tend to be significantly more risk averse than start-up companies and often utilize a strategy of allowing smaller companies to "prove out" a technological innovation before applying R&D investment themselves or acquiring the smaller company. Virtually all emerging growth companies rely heavily on stock options to leverage tight payroll budgets and compete for top talent with larger, more established companies. In light of the new standard, if an emerging growth company chooses to limit its use of stock options to protect its income statement, that company would be placed at a significant recruiting disadvantage relative to mature companies. If, on the other hand, the company chooses to continue issuing options, its financial statements would be much more severely impacted by the resultant compensation expense than larger companies, putting it at a disadvantage when trying to raise capital. Either choice would result in emerging growth companies being severely disadvantaged versus established companies ultimately resulting in less innovation, less hiring and slower economic growth.

- **The subjectivity, complexity and cost of financial reporting would increase substantially.**

FAS 5, issued in 1975, is a basic tenet of financial accounting. It states that for a liability to be recorded, it must be probable that a liability has been incurred and one must be able to reasonably estimate the amount of such liability. No such reasonable estimate can be made for stock options. The two methods recommended by the FASB for valuing options, the Black Scholes and the Binomial Method, are both highly subjective, prone to error or outright manipulation and devilishly complicated to implement. While challenging for public entities, determining this valuation for emerging growth companies is virtually impossible. In most cases there are no benchmarks, no underlying

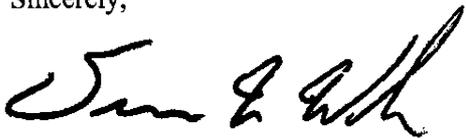
stock performance history, and no budget to hire financial experts to develop models to obtain supposedly accurate valuations. The FASB has offered the intrinsic valuation model for private companies, but this is really another name for variable accounting. If a private company using the intrinsic valuation model goes public, its stock compensation expense will fluctuate wildly each quarter depending on its stock price. The fact that the issue of valuing stock options has been debated for years and that the two recommended methods are both fraught with ambiguity and complexity are clear indications that a reasonable estimate is simply not possible in this area. Ultimately, forcing companies to adopt these approaches will result in a much higher level of subjectivity and lower level of comparability in financial reporting at a time when investors are demanding just the opposite. This combined with the complexity and cost of implementing this proposal makes it impossible for us to support.

- **Rank-and-file employees would be penalized.**

It has become increasingly common over the last 10 years for employers to offer stock options to all levels of employees. It is widely accepted that employee-shareholders are more productive and innovative than employees working only for cash compensation. The widespread use of stock options has undoubtedly contributed to the significant productivity increases the U.S. economy has enjoyed in the last decade. The FASB's proposal is likely to have the unintended effect of eliminating stock options for lower level employees in favor of key executives. In an effort to contain the damage to their income statements, companies are likely to ration their stock options, saving them for those key positions where they are needed for competitive recruitment. This will most likely lead to less innovation, less productivity enhancements, slower growth and less employment.

Add to these the potential confusion and negative impact on productivity the new rules would create with employees, customers, vendors, bankers (bank covenants), etc. We understand and appreciate the desire to reform corporate accounting in the wake of the recent scandals, but penalizing emerging growth companies that are the lifeblood of the economy is not the solution. In fact, as described above, we firmly believe the new standard, if enacted, would be a significant step backwards in terms of fair, objective financial reporting. We urge the FASB to reconsider its position and withdraw the proposed changes to FAS 123.

Sincerely,



Dennis W. Wahr, M.D.
Founder, President & CEO
Velocimed LLC

cc:

Jonathan G. Katz, Secretary, Securities and Exchange Commission
The Honorable Mark Dayton, United States Senate
The Honorable Norm Coleman, United States Senate
The Honorable Jim Ramstad, United States House of Representatives