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**From:** Kevin Klausmeyer [Kevin.Klausmeyer@rlx.com]  
**Sent:** Wednesday, June 02, 2004 11:06 PM  
**To:** Director - FASB; jcdowling@nvca.org; kpaschall@austinventures.com  
**Cc:** Doug Erwin  
**Subject:** File Reference No. 1102-100.

*To the FASB:*

*I will try and be brief. As the CFO of a private, venture backed company, and having previously served in that same capacity with a similar company, I am strongly opposed to the expensing of options. I am also a member of the AICPA Software Revenue Recognition Task Force and in that capacity have discussed my views with numerous public and private technology company CFO's. The substantial majority of such CFO's believe as I do.*

*There are 4 primary reasons for my feelings in this area. Specifically, attempting to quantify the expense and recording such expense in the Statement of Operations, has the following negative repercussions:*

*1. Substantially reduced value of financial statements*

In my opinion, the use of the fair value methodology for calculating the compensation cost for stock options creates less rather than more clarity and transparency to a company's financial reports. Given the degree of subjectivity associated with several of the fair value calculation inputs (i.e. volatility, employee behavior, ...), the results are less comparable across time for a given company or across companies at a given time.

In addition, given that many investors care more about the after-tax cash flows in the process of valuing companies, the proposed reporting requirements make that job harder, not easier for those investors.

Specifically with respect to private companies, investors and creditors pay minimal attention to earnings per share performance. Their collective focus is on cash – cash balance, cash generation, cash consumption and the cash required for the company to reach self-sufficiency. Consequently, I don't see how the expensing of stock options will provide any value to the capital and resource allocation decision processes of the private companies, its investors or creditors. In fact, the reporting requirements will only make the financial statements less helpful in assessing company performance since it will be more difficult to model cash.

*2. Increased administrative costs*

The administrative effort and expense associated with the proposed standard compliance is meaningful. The proposed methods for stock option expensing will require significant effort and cost to perform and audit and will undoubtedly consume management time ensuring the methodologies are applied correctly and the results are interpreted appropriately.

The success of U S companies, both public and private, is predicated on their ability to leverage a dollar spent into multiple dollars of return through the application of their time and talent. The administrative effort and costs of the proposed standard in terms of company dollars and time create no positive return, more likely, negative returns for the reasons outlined above.

*3. Reduced competitiveness*

It is my belief that many of the companies in Asia that do now or will in the future compete with US technology companies do not have to deal with the confusion and cost associated with expensing stock options. This would give those companies a decided advantage in an ever more global marketplace, especially when it comes to hiring the best people.

*4. Possible termination of employee stock option programs*

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Stock options are the primary reason that experience personnel and managers leave establish companies, and take risk by joining small private companies. If they did not do so, the start-ups in the U S would fail at a far greater rate. Fewer jobs would be created as a result.

Please, do not pass this new standard. Lets go with good disclosure, and the automatic impact on EPS.

Sincerely,  
Kevin Klausmeyer

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