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**Kenneth A. Gilbert**

KAG Software Inc.  
1740 Massachusetts Ave.  
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Chairman Robert H. Herz  
Order Department, Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

Director of Major Projects – File Reference No. 1102-100

Letter of Comment No: 3186  
File Reference: 1102-100

Dear Chairman Herz,

**Expensing stock options at an artificial value will make things worse, much worse. What investors need is more transparency; a clear picture of the current liability of outstanding stock options and a clear declaration of past costs of exercised stock options.**

**Today, with stock options not being expensed, the situation is bad because investors can't see the potential liability of granted stock options. This lack of information can lead to bad investments.**

**Tomorrow, if stock options are expensed at an estimated value, the situation is worse. The company's books look worse because there is a large estimated expense lowering its value. Even worse, the investor still can't see the potential liability of the granted stock options. If the estimate was low, there is still a large unseen liability. If the estimate was high, there is a large, invisible windfall. Worst of all, the situation can change dramatically as the underlying stock price fluctuates over time, with no visible effect in the company reporting.**

**The only solution is to extend earning reports to include a specific line item stating the past quarter's cost of exercised options (actual costs) and a specific line item stating the current liability of all granted stock options (cost to the company if all granted stock options were exercised on a selected date in the past quarter, probably the last trading day of the quarter). These new line items must be directly visible (not in some footnote of a footnote). The ability to see the actual costs and the actual liability of stock options over time (quarterly) would enable the investor to make a much more informed investment.**

**Adding more misleading information to nearly unintelligible corporate reports would be a disservice and effectively destroy stock options as a powerful form of compensation for small and expanding businesses. Thank you for your time.**

Sincerely,



Kenneth A. Gilbert  
President, KAG Software Inc.