

Karen Salmansohn

From: Len Tatore
Sent: Friday, January 17, 2003 7:52 AM
To: Karen Salmansohn
Subject: FW: Stock option accounting

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-----Original Message-----

From: Mavity, Bill [mailto:bmavity@cson.com]
Sent: Thursday, January 16, 2003 6:10 PM
To: 'director@fasb.org'
Subject: Stock option accounting

The rhetoric related to this issue has been ongoing for months, and it feels like a snowball rolling downhill that will eventually swallow and absorb all opposition in its path. I have three observations related to the issue, only two of which I have seen voiced to a significant degree.

First, the method of assigning the "cost" of an option is by definition imprecise; if one could accurately estimate the likely progression of stock prices, positive or negative, he or she would be wealthy beyond measure, and could care less about the accounting treatment of options. Second, most charges that relate to treatment of expenses have an ultimate relation to the generation or employment of cash--stock options reflect no cash charges to an issuing entity under normal circumstances. Finally, those who believe that a charge should be reflected should be comfortable with the concept of a credit to earnings if the price of a stock falls below the price at which an option is granted. It is not possible to logically argue this position if a charge to earnings must be recognized on the assumption that stock prices will increase above an option grant price. I can think of little that would be more misleading to investors than to have a possible earnings gain (or loss) that represents no cash impact, that does not result from any action taken by the management, employees, or customer of an entity, and that has no relation to the entity's ability to reinvest or pay dividends.

Sincerely,

William G. Mavity
President and CEO
Cohesion Technologies, Inc.