

Karen Salmansohn

From: Director - FASB
Sent: Friday, January 31, 2003
To: Karen Salmansohn
Subject: FW: Mandatory Expens

Letter of Comment No: 116
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-----Original Message-----

From: Frank Wellock [mailto:FrankW@BERGERBROS.COM]
Sent: Friday, January 31, 2003 9:30 AM
To: Director - FASB
Subject: Mandatory Expensing of Options

Dear Mr. Director,

I'll try to make the case for not expensing options by using my Company as an example. I am the CFO of a \$50M Manufacturing Company that only survived Chapter 11 because it was a public company.

Options have been granted annually to executives, directors and key management personnel to keep them motivated to grow the business and make it a profitable enterprise. The Company filed for Chapter 11 in December of 1991, we came out in April of 1993 and in August of 1994 the case was closed.

What is the value of options granted during this time frame?

A fair guess would be \$0, but that's not what the Black-Scholes method calculates.

The Company was able to get it's balance sheet in order and started to acquire other Companies that complemented it's business in 1997. Since 1997, we have acquired the stock or assets of 5 Companies and have grown from \$20M to \$50M in sales. Even at \$50M we're considered micro-cap and our stock is at best defined as non-liquid. Very small purchases or sales of our shares cause the stock price to fluctuate wildly. What should have been expensed for option issuance during the time period 1997 to 2002? In fairness all options are granted at or above the market price. Black-Scholes does not have a proper measurement for stock that is as non-liquid as ours and to expense these options is a disservice to the holders. Why do you say? We're a small company with very little liquidity, to expense options makes us take an additional hit to earnings when earnings are thin to begin with, also how do underpaid employees pay the taxes on these supposed option values?

Since 1991, not one of the options granted and issued has been exercised and cashed out by a remaining member of the Company's executives, directors or other key management.

So what present value/expense should have been recorded over the years for these option grants? I say \$0 and it will remain \$0 until an exit strategy in the form of an acquisition of the Company occurs - and then at that time, which is the correct time, options will be expensed and recorded properly by both the Company and the Option Holders. The option holders will also then have the ability to pay taxes on the compensation recorded.

Please don't force Company's to expense options. This action is reactionary to the actions of a few bad apples that are only motivated by their own greed. Those people will always be around, how they sleep at night is their own problem. To force the majority of Companies that are properly recording their financials to follow these proposed rules, will make these same companies improperly record actual results!

Thank you for your time and consideration,

Frank Wellock
215-355-1200 x122