

Stacey Sutay

Subject: FW: Accounting for Stock-Based Compensation

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

From: Sokolowski, Rich [mailto:Rich_Sokolowski@Memry.com]
Sent: Wednesday, January 07, 2004 10:09 AM
To: FASB Comments
Subject: Accounting for Stock-Based Compensation

I would like to express my concerns regarding what appears to be the inevitable recognition of the expense (value) calculated on the issuance of stock options. More specifically, my concern is with the method used in the calculation as well as the calculated value.

I could see how using the Black-Scholes or Binomial method to calculate option values for large companies have some merit because their volatility is low and trading volume is high. This is because these shares are widely held by thousands of shareholders - both individual and institutional. In addition, there is an established market for trading options.

However this is the profile of my company:

- 1) Small (\$35MM annual revenues);
- 2) Large number of shares outstanding (25MM) for a small company;
- 3) Most shares are held by very few people;
- 4) Average daily activity is low (70k shares);
- 5) Trading range between \$1 and \$2;
- 6) Very few (less than 1%) of the 3MM options outstanding have been exercised;
- 7) Absolutely no public market for trading options;
- 8) Very difficult, if not impossible, to buy or sell a large number of shares without significantly affecting the stock price.

Consequently, just a few cents of a change in stock price will result in high volatility thereby increasing the Black-Scholes value. In addition, since no one ever exercises their options, the calculated "option-life" is high which also significantly increases the Black-Scholes value.

For example, the option life calculated by our stock option database (Transcentive) is 9.4 years. If I use this as the estimated life, the Black-Scholes value is astronomical. Yet, in a few short months (i.e. @ 10 years), the option would expire worthless!

One thought I had was this:

To continue using Black-Scholes to arrive at a value, but then use some sort of discount to arrive at an adjusted value for companies with these attributes.

Another thought is to do the following:

Calculate the Black Scholes (or Binomial) value for the Dow 30 companies to arrive at an average % relationship of option value to stock price. If, for example, this relationship is 25%, then all public companies should use this % of their stock price to calculate the value of their options. In this case, if my company's stock price is \$2.00, the value of my options would be \$.50 (\$2.00 x 25%).

Regards,

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