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From: Laura Fryberger [laura@quattrisfund.com] on behalf of Kelen, Erwin [erwin@kelenventures.com]
Sent: Tuesday, May 25, 2004 4:47 PM
To: Director - FASB
Subject: File Reference No. 1102-100 - FASB Ruling to Expense Stock Options

Letter of Comment No: 2756
 File Reference: 1102-100

May 25, 2004

Dear FASB Representative:

I am writing to express my comments directly to the Financial Accounting Standards Board (FASB) regarding significant negative effects which would result from the recent FASB Exposure Draft, *the Share Based Payment, and Amendment of FASB Statements #123 and #95*. As anticipated, this new ruling will require that all share-based payments, including employee stock options, be treated as an expense on public and private company Income Statements.

I believe the FASB proposal fails on multiple levels. From a purely accounting perspective, the valuation methods prescribed will not result in a better depiction of a company's economic health or more transparent financial statements. On a macroeconomic level, I do not believe that FASB has given any consideration to the negative impact an expensing rule will have on the nation's economy. Further, the cost of implementing these inaccurate valuation methods will be a much greater burden on startups and nonpublic entities. I believe FASB's proposal if enacted as proposed will ultimately undermine stock options as a tool that has successfully aligned the interests of shareholders with employees and which has been critical in venture capital's ability to foster the companies that have driven the nation's economic growth.

Several unintended consequences from this proposed rule could result:

1. Financial statements of companies small and large will be distorted by guesswork estimates of the future value of stock options. Companies will be required to report quarterly compensation expenses based on estimates of the potential future value of employee stock options.
2. Financial performance of companies will be degraded due to the need to expense the impact of stock options. This will make capital more expensive for these companies and put them at a competitive disadvantage with companies in other countries such as China and India (where stock options are not expensed).
3. The requirement to expense stock options will reduce or eliminate this tool which is critical for small, emerging growth companies to attract and retain employees. The need to expense these options will severely restrict a company's willingness to offer options to employees, thus reducing the possibility for growth of these companies.
4. Small companies create most of the new jobs in the US. Without options as a tool to attract employees, the growth of employment will be suppressed.
5. Expensing stock options could accelerate the outsourcing of quality jobs to other countries such as China and India due to US companies being restricted in their ability to compensate American workers.
6. Expensing stock options at the time of grant would virtually eliminate the use of options. In

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addition, if options are viewed as a compensation event, the recipient of the option might be taxed at the time of the grant of the option. This has happened in countries such as Switzerland, resulting in the death of options for motivating, attracting or retaining workers. Why would a person work for a small, high risk company if they can't share in the upside of the company?

- 7. The costs of implementing this proposal would be overwhelming to small businesses. The complex accounting and formulas would add extensive internal and external costs. This would add to the already overbearing accounting and auditing costs and overhead on small companies.**

It is my belief that options should not be viewed as compensation expenses; they should be viewed as transfer of ownership of the company to the employees. This is a capital event, not an expense.

This ruling, if allowed to proceed to practice, will have a devastating effect on new company formation, job creation, availability of capital, and US Company's ability to compete in the world markets. It would likely have the effect of accelerating the exportation of jobs to countries that don't have these punitive rules.

I hope you will reconsider.

Sincerely,

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