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Letter of Comment No: 2455 File Reference: 1102-100

From: RMTIIR@aol.com

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To: Director - FASB

Subject: File Reference No. 1102-100

I am a member of the AICPA and am the CFO of a publicly traded company. I believe it is premature of the FASB to promulgate a rule requiring the mandatory expensing of stock options. The public policy implications are not fully understood. The accounting treatment and measurement are open to wide debate. There is no effort made to address the wide disparity between Large and Small companies. The FASB will be percleved as acting based on a political agenda as well as calling its independence into question advancing a proposition that is in the financial interest of its membership.

I operate in the small company arena where unlike large companies, stocks are often illiquid and the probability of failure is high. This represents approximately 75-80% of the companies you intend to impose a rule on. These companies may or may not survive. If they don't then your stock option accounting rule could be a contributor to their decline. The world of the small cap company is much different that the large cap multinational world. You should exclude these rules from small companies and if you don't hopefully the SEC will. Everything an investor needs to know is already in the footnotes.

I challenge the fundamental notion used by the FASB that stock options represent compensation. In the small cap world, stock options represent a transaction between the Company and an investor. The investor is asked to invest intellectual capital, extra effort, and take substantial risk for the right to invest at the current market value of the Company, admittedly without having to pay cash until a later date, but having to invest immediately with what may be more valuable, their exeptional skills and limited time. The Company only has to issue stock to the investor if all investors benefit. In the Small Cap world we view this as an investment by the holder of the stock option, not compensation. Their investment is often worth nothing. It can also develop real value for which the investor of the intellectual capital creates personal value and gets a return on investment.

In the large company world, the FASB is concerned about who will be diluted by the option as if a single loaf of bread is now cut into fewer slices.

In the small company world, we are trying to put another dozen loaves of bread in the oven so if successful, there is more bread to go around. This is the fundamental difference in approach. If we are not successful we don't have to worry about dilution, because the original investor is not otherwise impacted. Maybe people in the Large company world don't make much difference as to the success or value creation. However, in the small cap world they make all the difference. By virtue of exeptional ability, skill, effort and result, these investors of intellectual capital can create value. If they don't create value, why is that an expense.

Under the proposed approach, how do you intend to match revenue and expense. Companies will take an earnings charge in one period while the future period may possibly benefit. What happens if the option expires worthless, are you going to reverse the charge.

If you really want to encourage investor confidence, you need to orient your FASB rules to be more cash flow driven. I talk to investors and analysts frequently and what they really care most about is one thing and that is CASH generated by the business. Most view the P&L as the primary vehicle to understand cash generation ability. The more non-cash items in the P&L the less meaningful the approach, the less clearly useful the financial statements to them in valuing the business.

As to uniformity in international accouniting standards, there is no compelling reason for uniformity for U.S. small cap companies, who are the generators of most job creation in the U.S. and are primarily funded by U.S. investors who could care less about your arbitrary non-cash charges. They fully understand options and the share overhang which is fully disclosed in the footnotes.

This proposed rule is a mistake to implement for small companies. It is a mistake because you don't know what you are doing or how to do it. It is a mistake from a public policy standpoint and your forum is no position to make public policy.

I strongly urge you to consider a different approach for small companies, to delay implementation for small companies and to study the impact on small companies in great depth before proceeding with this ill conceived sweeping proposition.

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