## ikon

Letter of Comment No: 3231 File Reference: 1102-100

From:

Cameron, Mary [MCameron@relion-inc.com]

Sent:

Thursday, June 03, 2004 6:37 PM

To:

Director - FASB

Cc:

Werderman, John; Jennifer Dowling

Subject: File Reference No. 1102-100

Attached are our comments on the recent Exposure Draft, Share Based Payment, and Amendment of FASB Statements No. 123 & 95 for your consideration. If you have questions, please contact me.

Thank you.

Mary Henry Cameron, CPA Treasurer and Controller ReliOn 15913 East Euclid Avenue Spokane, WA 99216

509.228.6502 509.228.6510 (fax) mcameron@relion-inc.com



This message and any attached files or documents may contain information that is confidential and considered proprietary to ReliOn, Inc. Any use, transfer, or duplication of the information contained herein is strictly forbidden without the express written consent of Avista Labs. If you believe that this message has been sent to you in error, please reply to the sender that you have received the message in error and delete the message.



ReliOn 15913 E. Euclid Ave. Spokane, Washington 99216 Telephone 509-228-6500 Facsimile 509-228-6510 www.relion-inc.com



May 27, 2004

Financial Accounting Standards Board P O Box 5116 Norwalk, Connecticut 06856-5116

RE: Exposure Draft, Share Based Payment, and Amendment of FASB Statements No. 123 & 95

This letter is intended to express our concerns about the above referenced Exposure Draft. ReliOn is a non public company with a capitalization of about \$15M. We develop and sell fuel cells, a new technology that is evolving, and we use options to attract and retain the talented employees we need to be successful.

The Exposure Draft raises a number of concerns and issues for us, particularly related to valuation and the booking of compensation expense, and our comments follow for your consideration:

- ➤ Valuation: Since our company stock is not publicly traded, the size of the company is relatively small and we are in a unique industry, finding 'comparable' public companies is not practicable. That leaves us with pricing models to determine the value of our options. These models require estimated variables, the most troublesome and sensitive of which is volatility. In the past, the minimum value method allowed for the omission of the volatility variable for non public companies, not the case with the current proposal. Because volatility has a huge impact on the model results, and estimating volatility is so subjective, there is little chance the model results will be 'reasonably consistent' between companies. In our case, volatility whether historical or prospective is simply not known and estimates can be wildly different. This proposal does not present a way to determine a reasonable and defendable option value.
- ➤ Compensation Expense: Option vesting at our company is for the most part based on performance triggers, which add to the uncertainty in calculating vested shares. Considering that both the option price that comes from a pricing model (with flaws explained above) and the number of shares that are subject to someone's guess as to the achievability of the performance triggers, any resulting calculation is arguably not a reasonable/justifiable compensation expense. The volatility of compensation expense in each reporting period could result in substantial swings in net income and be misleading to the reader.

It seems this draft pronouncement is neither intended nor applicable to small, non public companies, nor would it's application be helpful in understanding the real financial position of these companies. We support a revision that would exclude small non public companies, as has been proposed in the House and Senate. Please consider the above concerns and revise the final pronouncement accordingly.

Sincerely,

Mary Henry Cameron, CPA Treasurer & Controller