Letter of Comment No: 478/ File Reference: 1102-100



June 23, 2004

Mr. Robert H. Herz Chairman, Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856

Dear Mr. Herz,

After weighing all the arguments, pro and con, relating to your proposal, one issue stands out -- why does a company paying an employee \$100 "worth" of stock options cause a deduction to net income <u>and</u> an increase in fully diluted shares that further reduces earnings per share? In contrast, a company that pays an employee \$100 in cash, yields an equivalent deduction to net income, but <u>no</u> increase in fully diluted shares and further reductions to earnings per share.

Aside from all the public policy implications of this proposed bias towards cash compensation, I cannot think of a clearer violation of fundamental accounting principles. I fear that instead of being true to these principles, FASB is using accounting to solve recent governance failures and political issues related to excessive executive compensation.

By taking another misguided step towards "fair market value" balance sheet accounting (however arbitrarily that may be defined), we are doomed to making the GAAP income statement irrelevant for emerging companies who rely heavily on equity-based incentives to attract and retain employees.

Under your proposal, I strongly doubt whether Online Resources (a company that I helped found) would be standing today. Nor do I believe, under your proposal, that we can compete as effectively, and continue to grow and create jobs as rapidly.

I strongly urge FASB to re-consider its proposal, based on consistent and conservative accounting principles.

I further urge Congress to delay implementation of the proposal, so that it might consider the serious public policy trade-offs. This might also include a review of other equity-based incentives, including the disadvantageous tax treatment for employees receiving restricted stock and the unfavorable variable accounting treatment required for incentives that are truly performance-based.

Sincerely,

Matthew P. Lawlor Chairman & CEO