



June 23, 2004

Director of Major Projects
File Reference No. 1102-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 5005
File Reference: 1102-100

Re: Proposed Amendments to FAS 123

Dear Director of Major Projects:

I am writing you on behalf of BladeLogic, Inc. regarding our concerns with FASB's Exposure Draft ("ED") which would require the expensing of employee stock options. As outlined below, we believe that (1) the underlying rationale for FASB's conclusions are not theoretically sound, and (2) the ED would create unnecessary expense and administrative burden, particularly for private companies.

BladeLogic is an innovative company that has actively used stock options to attract and retain talented employees. Specifically, BladeLogic is a leader in data center automation software, offering solutions designed to improve the efficiency, predictability and security of data center environments. Broad reaching employee ownership will play a key role in our future success.

Technical Conclusions

We believe that neither existing accounting concepts nor a business view of employee stock options supports an expense in the income statement. Specifically:

- 1) Employee stock options do not meet a typical definition of an expense, which requires either a) the creation of a liability, or b) the outflow of cash. There may be an opportunity cost, but such costs are not reflected in financial statements.
- 2) Stock options, by their nature, are not like "other forms of compensation". Stock options are an incentive for *future* performance; they are not, like a bonus, a reward for prior performance.
- 3) Stock options have no "related cost" in the period they are granted as there is no cash outlay or share dilution at that time.
- 4) There is no objective way to measure "the fair value (of options) at the grant date" since no market exists where these options are bought and sold. There will be no such market in the future because the options are not transferable.

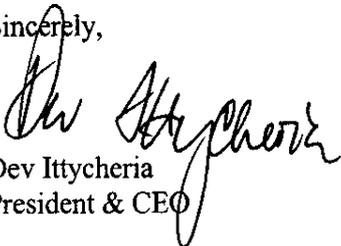
Expense and Administrative Burden – Particularly For Private Companies

- 1) FASB recommended two methods for valuing options, the Black Scholes and the Binomial Method. Both are highly subjective and complex to implement. Determining a valuation for a public company would be a challenge, for a private company it would be essentially impossible since there is no underlying stock performance or option exercise history. For example, key assumptions include the average maturity of the options (impossible to know with a private company, because there is no history) and volatility of the stock relative to the market (also impossible to know because there is no history). Depending on the assumptions, the value of the option varies greatly. Under the proposal, options would be expensed as issued, using at best, guesses as to average maturity and volatility. Proper accounting is based on facts or reasonable estimates, not guesses.
- 2) The FASB has offered the intrinsic valuation model for private companies, but this is really another name for variable accounting. If a private company using the intrinsic valuation model goes public, its stock compensation expense may fluctuate wildly each quarter depending on its stock price. This is no idle concern, particularly for emerging growth companies, since their share prices are often quite volatile. Resulting fluctuations in expense would not enhance financial statement user's understanding of business results but rather would be very misleading to investors, bankers, and employees.
- 3) Calculating the valuations would add at least a double layer of additional cost: some type of valuation expert to perform the initial calculations and significant additional work from the auditors to ascertain their reasonableness.

The FASB's proposal is likely to have the unintended effect of eliminating stock options for lower level employees in favor of key executives. In an effort to contain the damage to their income statements, companies are likely to ration their stock options, saving them for those key positions where they are needed for competitive recruitment. This will most likely lead to less innovation, less productivity enhancements, slower growth and, frankly, less employment.

I understand and appreciate the desire to reform corporate accounting and enhance financial statement comparability, but I believe that the exposure draft as proposed is not the solution. I firmly believe that the new standard, if enacted, would be a significant step backwards in terms of fair, objective financial reporting and would create an undue administrative burden on all companies, particularly private ones. Given that there are so many issues surrounding valuation and considerable debate exists as to whether employee stock options represent expense in the first place, present rules calling for disclosure of both (with non-expensing being the rule and expensing being the pro-forma) continues to make sense. Those who believe that the purported expense is a meaningful number would have it and see its impact on the financial statements. Those who believe the number is meaningless could simply ignore it. I urge the FASB to reconsider its position and withdraw the proposed changes to FAS 123.

Sincerely,


Dev Ittycheria
President & CEO