
From: Tom Goldman [tomg@netbotz.com]
Sent: Tuesday, June 01, 2004 4:10 PM
To: Director - FASB
Cc: jcdowling@nvca.org; kpaschall@austinventures.com; Mike Twomey
Subject: File Reference No. 1102-100

Dear Sir/Madam:

I am writing to you on behalf of my company to express our deep concerns over the proposed changes that FASB is considering with regard to the expensing of stock options. We believe that should this proposed accounting standard change be adopted that our company, like many other small but growing companies, will be put at a significant disadvantage in the marketplace and in fact create an environment where our long-term ability to not only compete, but be viable, will be called into question. There are a number of significant issues which I, and our employees, implore you to consider.

1. Possible termination of employee stock option programs

We have already seen public companies start to award restricted stock grants in lieu of stock options because of their concerns over this FASB ruling. For a small company to compete for the best talent in the marketplace, this change in hiring dynamic has already put us at a significant disadvantage and has changed the hiring landscape substantially. The inability to offer stock options, which is a real possibility should this FASB change take effect, will ensure that the best and brightest are not in companies where their entrepreneurial abilities can best be utilized but instead be relegated to only the large, public companies.

2. Substantially reduced value of financial statements

In our opinion, the use of the fair value methodology for calculating the compensation cost for stock options creates less rather than more clarity and transparency to a company's financial reports. Given the degree of subjectivity associated with several of the fair value calculation inputs (i.e. volatility, employee behavior, ...), the results are less comparable across time for a given company or across companies at a given time and are in fact quite meaningless.

Specifically with respect to private companies like ours, as you know, our investors and creditors pay minimal attention to earnings per share performance. Our collective focus is on cash – cash balance, cash generation, cash consumption and the cash required for our company to reach self-sufficiency. Consequently, we don't see how the expensing of stock options will provide any value to our capital and resource allocation decision processes, our investors or creditors. In fact, the reporting requirements will only make the financial statements less helpful in assessing our performance since it will be more difficult to model cash.

3. Increased administrative costs

The administrative effort and expense associated with the proposed standard compliance is significant. The proposed methods for stock option expensing will require substantial effort and cost to perform and audit and will undoubtedly consume management time ensuring the methodologies are applied correctly and the results are interpreted appropriately. The success of our company is predicated on our ability to leverage a dollar spent into multiple dollars of return through the application of time and talent. The administrative effort and costs of the proposed standard in terms of company dollars and time create no positive return, more likely, negative returns for the reasons outlined above.

4. Reduced competitiveness

It is our belief that many of the companies in other parts of the world, like Asia, that do now or will in the future compete with our company do not have to deal with the confusion and cost associated with expensing stock options. This gives those foreign companies a decided competitive advantage in an ever more global marketplace, especially when it comes to hiring the best people.

These are but a few of the issues that I believe strongly indicate that this proposed accounting change be seriously reconsidered particularly in light of the substantial damage it could inflict on companies like ours and the whole American entrepreneurial engine at large. I, and my employees urge you not to adopt a standard for the expensing of stock options.