
From: John McAteer [jmcateer@colonialtax.com]
Sent: Monday, June 14, 2004 2:03 PM
To: Director - FASB
Cc: jcdowling@nvca.org
Subject: File Reference No. 1102-100

Gentlemen,

I am the President and Chief Executive Officer of an early stage company in Atlanta. As such, I am continually challenged with recruiting, retaining and motivating employees in an environment which is bounded by the dual constraints of fierce competition and limited financial resources. I, as have many of my colleagues in similar situations, looked to gain access to the talent and entrepreneurial spirit necessary to be successful by granting my employees the widest possible participation in the growth in value that their efforts can produce. The tool which I have utilized to accomplish this is an Employee Stock Option plan with the broadest possible participation by all employees at all levels. I am now fearful that if the exposure draft regarding the expensing of stock options as currently issued by the FASB is adopted that it will result in several harmful consequences including a substantial reduction in the value of our company's financial statements, a dramatic increase in our administrative costs, a serious reduction in competitiveness and possibly the need to terminate the employee stock option program itself. Let me address each of these concerns in more detail:

1) *The new standards will substantially reduce value of financial statements.* In my 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, etc), the results are less comparable across time for a given company or across companies at a given time.

Given that many investors care more about the after-tax cash flows in the process of valuing companies, the proposed reporting requirements make that job harder, not easier for those investors. Specifically with respect to private companies, their investors and creditors pay minimal attention to earnings per share performance. Their collective focus is on cash – cash balance, cash generation, cash consumption and the cash required for the company to reach self-sufficiency. Consequently, I don't see how the expensing of stock options will provide any value to the capital and resource allocation decision processes of the private companies, its investors or creditors. In fact, the reporting requirements will only make the financial statements less helpful in assessing company performance since it will be more difficult and therefore almost inevitably more expensive to model cash.

2) *The new standards will cause a dramatic increase in our administrative costs.* Early stage companies such as ours are typically starved for administrative staff. In a small firm the emphasis is rightfully directed at staffing those areas which represent revenue production not administrative overhead. The incremental administrative effort and expense associated with the proposed standard compliance is, therefore, meaningful. The proposed methods for stock option expensing will require significant 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 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.

3) *The new standards will cause a serious reduction in competitiveness.* It is my belief that many of the companies overseas, particularly in Asia, that do now or will in the future compete with companies such as ours do not have to deal with the confusion and cost associated with expensing stock options. This gives those companies a decided advantage as we strive to compete in an ever more global marketplace, especially when it comes to hiring and retaining the best people.

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4) *The new standards may well cause the termination of employee stock option programs.* While I have no current intention of curtailing the use of employee stock option plans in our company, I am concerned about pressure from investors to significantly reduce the use of employee stock options to reduce the associated expense. This could make technology companies and particularly young technology companies, like mine, less attractive to talented people as an employer. This will create an environment which is bad for entrepreneurs in America.

I think that for the reasons stated above, serious reconsideration should be given to the current draft version of the accounting standards for the expensing of stock options. I thank you for the time you have spent in reading this letter and hope that these thoughts will have some impact on your decisions in this matter.

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