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Sent: Tuesday, May 25, 2004 10:35 AM
To: Director - FASB
Cc: jcdowling@nvca.org; kpaschall@austinventures.com; Ken DeAngelis
Subject: File Reference No. 1102-100

Members of FASB:

I feel compelled to comment on the subject proposal. Supportkids, Inc. is a privately held venture capital-backed company. We have approximately 200 employees. All of our employees are participants in our Qualified Stock Option Plan. Over the years, we have viewed the option plan as a critical component of our employment and retention efforts in a very competitive Austin labor market. The imposition of the provisions of the Proposed Standards would cause us to re-think our position and to consider abandoning the broad based plan that we have in place today. I have no doubt that changes to our plan would affect our competitiveness in this market and hurt this company.

From a purely business and non-accounting perspective, having the opportunity to give each of our employees a stake in the success of this business beyond their regular paycheck is a real positive for us in an entrepreneurial community like Austin. Austin is a community where the success of many companies was spurred by the existence of a significant equity stake represented by the existence of attractive option plans. As with Supportkids, many of these options were granted when the future of the company was represented by no more than the vision of a founder and a few angel investors. If that spirit of entrepreneurship is in any way hindered by the burden of the imposition of some level of expense associated with granting stock options at a strike price equal to current fair market value, such a fact is sufficient on its face to warrant serious reconsideration of the whole matter by the FASB. The ability of companies to use options in their early stage of development to attract the raw talent is critical and should not be tampered with in any way.

From an accounting standpoint in looking at the proposed provisions, I strongly disagree with the assumption inherent in the proposal that the granting of an option at market and subsequent changes in the market price of the underlying security are factors that create an expense that deserves recognition in the periodic financial statements of a reporting company. As the lady in the Wendy's commercial once stated, "Where's the beef?" There certainly is no cash cost to an option grant or the fact that a certain number of shares subject to the grant vest periodically. For a private company like ours, cash is king. Cash flow is certainly more important (some would say the most important) than an earnings concept that has evolved into so much "what if" accounting so as to make the earnings statement almost useless in a private company scenario. Every time one of these "what if" proposals is adopted, the earnings statement departs further and further from reality and relevance to the real measure of the success of privately-held businesses. And, I should add, it costs more and more each year to keep up with and audit all this rules-based accounting that doesn't measure in the least what we do to create a viable prosperous business. We want to know if we can pay the bills with the cash flow we are generating and that we ended the day (or week, or month or quarter or year) with more cash than we started with. The earnings concept that you keep tinkering with is a long way from measuring that. If cash did not arise from the creation of a liability, new equity or get used in acquiring an asset, it must be earnings. Simple, isn't it?

It makes a lot of sense to me to have an earnings concept that someone other than the members of the FASB and only a few analysts can understand. The uncertainty of the measures proposed for stock options is only another drop of water on the iceberg that FASB has created. The earnings concept is already so blurred so as to be almost meaningless. Why not spend some time fixing it rather than continuing to cloud the issue with more Black-Scholes, binomial/lattice "stuff" that must consider the *expected* volatility of the price of the underlying security. If we have trouble measuring what has already happened with any degree of certainty, how do you expect that we can be precise about measuring the *expected* volatility of anything; especially the price of a privately held security?

From a public company perspective, it sure seems to me that the market price of a security is going to

reflect the expectation of the impact of existing options on the underlying value of outstanding equity securities. The market turns out to be pretty smart and perceptive about those kinds of things. In-the-money options are going to be figured into the price of the existing outstanding shares. Why further muddy the issue by making earnings measures even less precise than they are now. Don't earnings statements already have enough assumptions and estimates? If you want a reality check, just look at the footnotes to any set of public company financial statements. I expect that any day now I will see a set of financial statements and notes where the notes will state that "The accompanying financial statements are an integral part of the footnotes" rather than the other way around.

The FASB proposal includes a reference to the FASB goal "to issue financial accounting standards that can be read and understood by those possessing a reasonable level of accounting knowledge, a reasonable understanding of the business and economic activities covered by the accounting standard, and a willingness to study the standard with reasonable diligence." This proposal doesn't measure up to that standard and will result in more distrust of the profession and those who practice in it. This might do well in the classroom or in the departments of professional practice of the "Final Four but it doesn't play well in the real world.

In summary, I believe the FASB has the opportunity to either make changes that add value to companies and prospective investors by simplifying the rules and focusing on solid principles, or to further burden companies and investors with complex and meaningless accounting standards based on nebulous theoretical "what if" rules.

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