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Netrake Corporation is a privately funded company that wishes to comment on the issues concerning the exposure draft concerning the expensing of stock options.

It is my opinion that employee stock options should not be expensed. Investors and creditors of private companies are interested in the cash required to fund the company's operations. Treating stock options as an expense will not provide information that will assist with the decision processes, rather it will make the financial statements less helpful in reviewing and evaluating the company's performance.

If the company must expense stock options, the company's ability to become profitable will be delayed and its valuation will suffer. In addition, the costs required for compliance of the proposed standard will be substantial. The management effort involved will consume valuable time for little or no return in terms of effectively stating the companies performance.

Finally, if companies are required to expense stock options, a natural response will be to eliminate stock option programs. These programs have allowed start up companies to compete in the labor markets and offer employees the rewards of ownership. As an employee of a startup company, I would consider that a tragedy. America is a country of unparalleled opportunity for the ordinary person. The eventual elimination of stock option programs would take that opportunity out of their hands.

Having said that, the need to properly state compensation expense is important. The current method that allows for a pro forma standard disclosure of what the income statement would look like if stock option expensing had occurred is an acceptable substitute for expensing. This method allows those who see the need for that disclosure to take the expense into consideration and allows those who do not believe the information has value to ignore it.

The method for determining the stock option expense disclosure should use the most current information available and not attempt to apply subjective formulas to the information. Although there are also problems with using the grant date, vesting date or exercise date, these measurement dates would be more appropriate as they would reflect known information on those dates. Even these measurement dates would create volatility as the expense will reflect the movement of the stock price. The valuation of options cannot accurately occur with a model that attempts to use subjective information to predict what an option might be worth in the future. No experiential data exists to accurately make that prediction in the case of startup company that is developing new technology. The result will be overstated expenses and inaccurate profit and loss statements.

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