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Letter of Comment No: 3191
File Reference: 1102-100

From: Paul Stich [PStich@counterpane.com]

Sent: Tuesday, June 08, 2004 8:18 PM

To: Director - FASB

Subject: File Reference No. 1102-100

Dear FASB Director,

I am writing you today in fervent and steadfast opposition to the concept of expensing stock options in the body of financial statements, rather than in the footnote disclosure. I am the CEO of Counterpane Internet Security, a private security services company located in California and Virginia. My company employs more than 70 U.S. employees and every employee is an equity owner in the business as a result of stock option grants.

There has been substantial debate over the issue of expensing stock options, but the focus on large private companies has overshadowed the impact that the proposal would have on small companies like mine. In particular there are four issues that are particularly pertinent which I believe must be addressed before the approval of any legislation

1) Masking of Operating Results: We do not report our results to a large base of stockholders. We do, however, have to present our financial statements to partners, suppliers, and customers. Since we have only a few years of operating history and minimal cash on the balance sheet, many of these partners rely on our income statement to determine our viability risk. Introducing stock option expense to our income statement will not only confuse our partners, but it will mask the true health of our business. Our success relies on a small number of supplier and customer relationships and therefore we cannot afford to lose one of these relationships because of income statement changes that are simply the result of granting options to our employees.

2) Significant Cost of Implementation: We have a broad-based stock option plan that provides equity ownership to every employee in the company. Currently, I have four people on the finance staff which collectively are responsible for all aspects of the financial health of the company, including the administration of our stock option program. While they are able to handle all of their responsibilities today, the complexity of implementing the FASB proposal will overwhelm them. The argument that this represents a cost of doing business and necessary steps to hire outside auditors or consultants to administer our stock option plan if warranted should be undertaken, misses a key point: Based on our small size, this incremental expense will have a meaningful impact our ability to hire employees in revenue-generating areas of our business, thus stifling our growth opportunities. And for a developing company like Counterpane, every dollar between inception and profitability can make the difference between the company financial success or failure (i.e. bankruptcy).

3) It's Bad Accounting: Candidly, Black-Scholes and the binomial method are less-than-adequate solutions. Exclusive of whether one agrees or disagrees with the concept of expensing stock options, there should be no argument that the only available tools by which to implement these accounting rules (without implementing the intrinsic value approach, which is point #2 above to the Nth degree) is inherently flawed. And flawed to a material degree..

4) It's Counter to Established Public Policy: Encouraging employee ownership of the equity of corporations has been a mainstay of government policy for decades, at both the Federal and State levels. The favorable tax treatment of ISO's, the provisions for ESOP are tow concrete examples. Where the company's revenue is derived from either intellectual property or from the provisions of services, those spring only from the humans who populate the company and a sharing of the value of the company they create is equitable. In old time America, all the equity was held by just wealth shareholders and a very few executives at the top. That's the approach that made people like Warren Buffet one of the richest men in the world, where all the equity is held and never shares. That's the world they love and why people of his vintage oppose share equity with the employee base.

As a CEO, board member, and employee, I urge you to reconsider your proposal and to continue to investigate these issues. Rushing to implement this proposal without working through the issues addressed above could have a

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detrimental affect on my company and the hundreds of others in the U.S. that rely on stock options as a means to grow in a difficult economic environment,

Sincerely,
Paul J. Stich
President & CEO
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