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File Reference: 1102-100

From: Eric C. Broockman [ecbroockman@alereon.com]
Sent: Wednesday, June 02, 2004 11:19 AM
To: Director - FASB
Cc: jcdowling@nvca.org; kpaschall@austinventures.com
Subject: Expense of Stock Option comment - File Reference No. 1102-100

FASB Director:

This letter is in response to your exposure draft regarding the expensing of employee stock options. I appreciate the opportunity to comment on the proposed standard. Unfortunately I am not in favor of this proposal.

My concern with the proposal lies primarily in two areas. First, I do not believe that this proposed requirement would add clarity to the financial statements of any company. Calculating the purported "expense" of an option requires making assumptions which are inherently challenging to support and defend, and it is these fundamental assumptions which drive the resulting calculation. Therefore, the impact to the financial statements is not to add clarity, but rather to add ambiguity in that the statements would reflect the impact of these assumptions.

Second, the real dollar cost to my company to comply with the proposal would be significant. At the very least it would require increasing our administrative staff, and likely would include additional real costs in the form of professional services for appraisal or audit services and the inevitable costs associated with professional guidance. These additional costs do not aid in the development of products and do not add value to the firm. Instead, they increase the overhead burden required, thus reducing the resources available for true value add activities such as the development of new technologies and the support of customers.

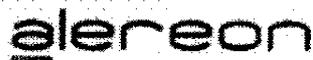
As the CEO of a private company, one could argue that we could use the proposed alternative calculation for private companies, or one could even argue that we are technically not required to follow GAAP. The proposed private company alternative is not viable in that it is essentially a mark-to-market requirement when no market exists for the options in question. It would result in a real cost to track each grant and assign a value without sufficient data to make a reasonable assumption of that value. And while private companies are technically not required to follow GAAP, this assertion does not hold up in the real world due to the requirements of private company investors who require GAAP accounting to prepare for a liquidity event, be it the sale of the company or an IPO.

In summary, the proposed standard requiring the expensing of stock options would add a significant cost burden and would not add any true clarity to the financial statements, and therefore would not add any value. Imposing this burden would reduce available resources for value added development activities and reduce the stock option programs for employees, and in the extreme, could significantly hamper the development of innovative technologies in this country.

I respectfully request that you reconsider this proposed standard.

Sincerely, Eric Broockman

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The logo for Alereon, featuring the word "alereon" in a lowercase, bold, sans-serif font. The letters are black with a white outline, giving it a 3D or embossed appearance.

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