

June 28, 2004

To: Director FASB

From: Tim Einwechter
Chief Financial Officer
Alliance Medical Corporation

Re: Proposed FASB 123 amendments

As the Chief Financial Officer of a private company I am extremely concerned regarding the proposed changes to Share Based Payments. In order to be competitive in our marketplace Alliance needs to have the ability to continue to provide options to both current employees and new hires. The proposed changes to FASB 123 will make this practice very difficult if not impossible to continue.

There are many problems with the proposed amendments with some of them as follows:

- 1) Impact on the bottom line based upon an estimated value assigned to the Company's stock value. At times depending upon the number of options and movement in valuation the impact could be material. The only way for a private company to address this situation would be to hire consultants to complete a valuation of the Company that is acceptable to ones auditing firm. In effect incurring additional hard costs that the Company could better allocate to growing its business. The troubling point here is that this may be required on an annual basis and brings up another area of discussion between the auditing firm and Company. A better approach would be one of providing additional note disclosure to allow investors to see the extent of stock options outstanding and its potential impact on dilution.
- 2) What model will be used to determine financial impact? The models themselves require a number of assumptions to drive valuation and have varying impact on the financial statements. Thereby bringing

additional assumptions into play that could materially impact the Company's financial results.

- 3) Additional overall cost. With limited resources, Alliance will be required to incur costs to hire consultants to conduct the calculation of option expense on a periodic basis. This coupled with additional audit costs will only result in additional level of expenses while not providing the investor with better financial information by which to make investment decisions. While the intent of FASB 123 is to provide improved financial information – the end result is to increase costs with no improvement in financial information.

The question of stock options and their potential impact on dilution to investor can be provided by expanding the level of financial disclosure for both current options outstanding and options in the pool that can be issued, as opposed to the amendments as proposed by the FASB. What in effect is happening is that you are attempting to add a great deal of complexity to an already complex situation. Will it provide superior financial information upon which to make investment decisions? It remains my belief that the answer to this question is – NO.

The proposed amendments to FASB 123 should be reviewed and rewriting and not passed in its current format.

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