

June 15, 2004

Attention: Director of the FASB

Re: Opposition of Stock Option Expensing

Dear Sir:

My name is Ken Denman and I am the CEO of iPass, Inc. iPass is a mid-sized software company. I am strongly opposed to the current FASB proposal regarding expensing of stock options and am sending this letter to set forth the reasons for that opposition. We believe that the current proposal would create confusion among the investment community. Such an effect is obviously not optimal for a regulation that seeks as its aim more full disclosure, not less. Moreover, stock options are an important tool for motivating and retaining employees. This is especially true at technology companies. The current proposal to treat stock options as an expense would have a chilling effect on the use of this important tool. It is my view that it is in the best interest of companies, their employees and the investing community that this regulation not be passed.

FASB seeks to have more clear, not less clear, disclosure around the financial statements of companies. In this case specifically, FASB states that its goal is "to issue financial accounting standards that can be read and understood by those possessing a reasonable level of accounting knowledge, a reasonable understanding of business and economic activities covered by the accounting standard, and a willingness to augment the standard with reasonable diligence". We believe that the current accounting rules already achieve this aim. By contrast, under the current proposal companies are being asked to report on facts that are not historical, but unknown future events. What then does an expense mean in such a context. Is such a fact a valid representation of an expense in such a way that an investor can understand more about the company's business and the health of that enterprise. The question persists here of how the investing community will view the proposed new reporting. Currently, investors can simply "back out" non-cash compensation expenses and develop a sense of where the enterprise is on an actual cash flow basis.

We believe that the proposed treatment of stock options will introduce more, not less, uncertainty into the market. Consider the valuation of options. Vested options can be given a market value in the public company context. However, unvested options (for both public and private companies) and vested options for private companies, would be valued by complex mathematical formulas whose outcomes are subject to the whimsical manipulations of the companies providing their inputs. Volatility, which is a significant component of these formulas, would not be based on historical volatility in most cases.

Instead, companies would be required to consider the extent to which “future experience is reasonably expected to differ from historical experience”. Essentially, companies will be required to predict the impact of future events on their future volatility and convince their auditors to sign off on their assumptions. This approach is obviously flawed as different companies, even companies in the same industry, will make different assumptions. These assumptions will lead to confusion among investors trying to understand and value such companies. Finally, how can we expect CEOs and CFOs to certify results based on such assumptions.

Next, there is a matter of public policy. Holding aside the fact that changing such a long standing accounting principal will lead to confusion in the investment community, the proposal by FASB will have a chilling effect on new company formation and the use of stock options as a recruitment and retention tool. Employees, as you know, are the backbone of any enterprise. Without them the enterprise can not thrive. Stock options provide incentive to employees to maximize the results of the enterprise. If the enterprise is successful, they, through free market trades, are successful. In this way, the interest of the investment community and employees are aligned. The current proposal would chill the use of such options as the impact the financial statements of companies using them may be too negative to continue their use. Moreover, there may also be a chilling effect on new company formation. Venture capitalists and other early stage investors may not be so willing to put in capital to enterprises where they do not feel the employee have the proper incentives. Needless to say eliminating the jobs these enterprises create would not be a positive for the economy and I am sure an unintended result for FASB.

To close, the current accounting treatment of stock options works and is well understood by all parties. It encourages economic growth and aligns the interests of employees, their companies and the investing community. The FASB draft should therefore not be passed.

Sincerely,

Kenneth D. Denman
Chairman, CEO and President
iPass, Inc.