

**ikon****Letter of Comment No: 4182**  
**File Reference: 1102-100**

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**From:** Director - FASB  
**Sent:** Thursday, June 17, 2004 11:46 AM  
**To:** ikon; Karen Salmansohn  
**Subject:** FW:

-----Original Message-----

**From:** Graham Haddock [mailto:ghaddock@prophesitech.com]  
**Sent:** Thursday, June 17, 2004 11:47 AM  
**To:** Director - FASB  
**Cc:** National Venture Capital Asso; kpaschall@austinventures.com  
**Subject:**

June 17, 2004

Attention: Director, FASB  
Regarding: File Reference No. 1102-100

I would like to take this opportunity to register my company's opposition to the FASB's proposal to require the expensing of stock options under FAS 123. While the motivations of the FASB are understandable, we believe that the expensing of stock options will be of limited, if any, value to the investor. It's highly debatable as to whether or not stock options are an actual expense to the company – presumably there is some opportunity cost or dilutive cost, but certainly no cash cost. The value of the option is in the eyes of the holder and that varies widely from employee to employee and cannot be captured by any model. Further, we believe expensing stock options will make the financial statements less clear, not more clear, and that it does not disclose the information that investors actually want.

First, while the calculation of stock compensation may be theoretically precise, the underlying assumptions are far from precise. On a historical basis, they are subject to the vagaries of the stock market (volatility), federal reserve policy (interest rates) and human motivations/general economic conditions (expected life of option). How is one to forecast what those might actually be over the life of the option (the next 3, 5 or 10 years) with anything close to ultimate reality? As such, the valuations will vary from period to period even though there has been no fundamental change in the reporting company's stock-based compensation structure. Financial statements that may already seem unintelligible to the average knowledgeable investor will become even more so and will yield no valuable information regarding the true compensation structure of the reporting company.

Second, because this is a non-cash charge, it will further challenge the investors' ability to ascertain "cash" expenses and expense trends from period to period to understand the actual health of the company.

Finally, in light of recent corporate scandals, we believe that investors are not interested in another "accounting" number.

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They want to know at its most basic level the reporting company's compensation structure -- who received stock-based compensation at what price, what is that individuals' total stock-based compensation position and what is the inherent value in that position, and what has that individual actually realized from stock-based compensation. If this is the goal, then it would be better served by expanding the executive compensation section already existing in SEC filings beyond the "top 5" and expanding the disclosures.

Burdening the income statement with a number that only accountants and mathematicians can decipher will certainly not enhance the purpose for which financial statements are issued -- to inform investors. If the goal is disclosure and information, then disclosure and information should be provided.

Sincerely,

Graham Haddock  
President and CEO  
PropheSi Technologies  
110 Wild Basin Road, Suite 100  
Austin, TX 78746

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