

June 3, 2004

*Via e-mail:*  
*director@fasb.org*

Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

**Re: Proposed Amendments to FAS 123**

Dear Sir or Madam:

In response to the Financial Accounting Standards Board's Invitation to Comment on accounting for employee stock options, I am writing to you as the Chief Financial Officer of TradeCard, Inc. ("TradeCard"), a start-up company that is streamlining the way companies perform global procurement, to express strong opposition to the proposal as currently drafted.

Our opposition to the current draft is based on the following key points:

- There will be a significant increase in the costs, complexity, and subjectivity of TradeCard's financial reporting related to implementing the currently proposed rules; the inclusion of non-cash items like the changes in options valuations will obfuscate, rather than clarify, reports of TradeCard's financial condition, which are often reviewed by customers, investors, lenders, and other stakeholders;
- As a result of the issues above, TradeCard would issue fewer options in an effort to minimize the undesired impact;
- Ultimately this trend could have broad-reaching effects on our company, our industry, and the nation's ability to attract talent to innovative companies.

**Background of TradeCard, Inc.**

TradeCard is a privately-held company that has developed a suite of technology and services to help a global company manage its "financial supply chain", the processes between issuing a purchase order and effecting a payment. The company is small, with only about 90 employees world-wide, but we are already serving the needs of large global purchasers including Nike, Linens n' Things, and JC Penney.

### **Increasing Costs, Complexity and Subjectivity of Compliance**

The proposed rules for estimating the expense related to our stock options will greatly increase the complexity of our financial reporting. The two methods recommended by the FASB for valuing options, the Black-Scholes-Merton model and the Binomial Method, both include highly subjective assumptions as key inputs and are thereby subject to manipulation. Such a process is challenging for public entities; for a privately held, emerging growth company it is unlikely to produce a meaningful result. In the absence of underlying stock performance history, the company must use scarce resources to hire costly financial experts to develop models to obtain valuations, which in turn will be highly subjective.

Expensing stock options in emerging growth companies can be misleading to stakeholders, including investors, bankers, customers, vendors, and employees. For example, key assumptions must be made using the accepted methodology, including average maturity and volatility, for which there is no trading history. Depending on the assumptions, the value of the option varies greatly. Under the proposal, options would be expensed as issued, using at best, guesses as to average maturity and volatility.

Furthermore, if the estimated fair value of the stock falls below the exercise price, the options are "under water"; the employee has received no benefit, while the Company has recorded compensation expense that did not exist, thereby overstating its operating expenses. This issue becomes particularly acute for an early-stage company that must use its financial statements to assure various stakeholders, including key customers, of its financial health. If we are forced to rely on "pro forma" statements or footnotes to explain an accurate financial picture, this will raise skepticism among our stakeholders.

The effects on our financial statements may also cause our effective cost of capital to increase. Investors, bankers, and other potential capital providers rely on our statements to evaluate our financial health. The increase in the volatility of these results due to periodic and changing options expense and the potential overstatement of our overall expenses may confuse capital providers and create a more volatile and negative picture of our results than is truly the case.

Forcing companies to adopt these approaches will result in a much higher level of subjectivity and lower level of comparability in financial reporting at a time when investors are demanding just the opposite. This combined with the complexity and cost of implementing, as well as the certain confusion this will cause to users of our financial statements makes this proposal impossible for us to support.

### **Likely Effects on TradeCard's Options Issuance and Business**

It is likely that one significant result of implementation of the proposed rules would be reduced issuance of options, both in size of grant and in number of employees receiving them. TradeCard believes this will hinder its development and its ability to attract and retain top management talent.

TradeCard is led by a team of world-class senior managers, each recruited by the company from large, well-capitalized Fortune 1000 companies, including Bank of America and General Electric. Before joining TradeCard, each manager thought long and hard about the risks of leaving a comfortable career track with large, established companies in favor of a start-up. The two most compelling reasons to join were 1) the satisfaction to be gained from creating a company from the ground up and helping to revolutionize an industry, and 2) the potential to be rewarded for the value created through stock options.

Without exception, by joining TradeCard from a larger company, each of the senior managers experienced a reduction in his or her cash compensation. In addition, many experienced longer commutes, more grueling travel schedules, and longer work hours at TradeCard. Given the need to husband TradeCard's scarce cash resources and the resultant lack of cash incentives, without the motivation provided by stock option grants, it is unlikely many of the managers would have joined. Similarly, subsequent stock option grants have been an important motivator and have aided our ability to retain our strong team.

Beyond the senior management level, every one of our employees has stock options. We have found that this inclusiveness has helped to create a sense of common purpose and sharpened the focus of all different levels of workers on creating value. By using stock options at levels beyond senior management, we have been able to attract and retain the talented programmers, salespeople, and other staff we need to realize our goals. Our retention of over 90%--despite regular calls from headhunters to staff at all levels--speaks in no small part to our team's excitement at the company's prospects and the value they hope to realize through their stock options.

### **Far-Reaching Effects on People, Companies, and the Nation**

I can only address directly the effects the proposed rules may have on TradeCard, if implemented. However, my experience of over 20 years as a CPA and corporate financial executive leads me to believe that the actions taken by TradeCard will be replicated elsewhere, resulting in far-reaching effects on the people and companies in our most innovative industries, and, ultimately, the nation.

It is clear that TradeCard will issue fewer stock options going forward if the proposed rules are implemented. In addition, it is also likely that those options will be issued to fewer employees to minimize the complexity of our reporting efforts. This effectively penalizes the rank-and-file employees who work so hard to make an early-stage company like ours work.

As it becomes more difficult for our most innovative companies to attract and retain top talent, we can expect that those companies will have more difficulty competing against the larger, entrenched companies in their industries. TradeCard has benefited enormously from the talents that its people brought from larger companies; it is unlikely those same employees would make the risky leap to our company if there were fewer options available to motivate them.

Ultimately, this set of changes could harm the United States' position as one of the most innovative economies in the world. If we make it more difficult for top talent to leave large companies and join the most innovative sectors of our economy, we may give ground to our many competitors around the world. This proposal weakens the capabilities of promising new companies to fulfill their intended missions. Given the increasing level of global competitiveness and its impact upon U.S. jobs, this proposal is the wrong direction at precisely the wrong time.

I believe there is little to be gained and much to be lost by effecting the changes as proposed.

Sincerely,

Jonathan H. Wolk, CPA  
Chief Financial Officer of TradeCard, Inc.