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From: Sent:

To:

Lynn Atchison [latchison@infoglide.com] Wednesday, June 23, 2004 12:04 PM

Director - FASB

Subject:

Reference File No. 1102-100 (Stock Options)

Letter of Comment No:5174 File Reference: 1102-100



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June 23, 2004

Dear FASB Representatives:

I am the Chief Financial Officer for a privately held software company in Austin, Texas. I am also on the Advisory Board of another privately held media company in Ft. Worth. As a CPA with over 22 years experience with emerging, high growth companies, I am extremely troubled by the proposed rules for stock options.

In Austin, stock options have played a significant role in the high-tech growth that we have seen over the past 20 years. Start-up companies are generally cash constrained and stock options allow the recruitment and retention of talented people into often risky and volatile environments. The proposed changes in the accounting for stock options will discourage early stage companies from fully utilizing stock options, which will have a negative impact of their ability to successfully grow their businesses.

The most basic concern I have is that stock options are a way that other shareholders in the business can allow key or all employees share in the success of the business that the employees contribute to build. Stock options are not, fundamentally, a business expense, but reflect dilution of the stockholders. Existing accounting and disclosure rules already consider that this dilution is important for users of the financial statements. The dilution (or potential dilution) is reflected in earnings per share calculations and fully discussed in the Notes to the Financial Statements.

Another key concern I have is that the granting of options is a non-cash activity that may never result in a cash transaction. There is no certainty that the options will vest and be exercised. Termination of the employees and market conditions will ultimately determine the outcome. An agreement to pay a sales professional a commission on sales is not a reportable transaction on the financial statements. The sale(s) may or may not happen in the future. I also believe that emerging organizations will be discouraged from continuing the use of stock options for the following reasons:

- * Charges to earnings will not be able to be planned or forecasted. We all live in an environment where the top line is hard to forecast, however, business owners and managers are expected to be able to control costs and expenses. Future charges to the bottom line will be based on changes in the intrinsic value of the business, which cannot be forecasted). This is not good for stockholders and other users of the financial statements and other financial reports.
- * The requirement for use of a binomial method of determining the expense does not provide clarity or completeness to financial reporting it just adds complexity. Small companies will lack the technical resources to comply and being unable to turn to their audit firms (due to independence issues), it will be easier to drop the use of options.
- * Moreover, the methods of valuation associated with expensing options will create a real burden for entrepreneurial companies. They will add significant cost to the reporting function and create confusion for the readers of the financial statements of these small companies. Absent recent stock transactions, there will exist a huge level of judgment around the value of options, a judgment that most in the financial reporting groups will not have the ability to determine.

I realize the pressures that Congress and other regulatory bodies place on the FASB and abuses that have occurred in certain companies in the area of executive compensation (which includes stock options). It is misguided to take a broad-brush approach for all companies, requiring changes to fundamental accounting as punishment for abuses of others. I believe that better "communication" to stockholders, much of which has been improved

with public company disclosures is the correct course of action. The existing rules of disclosure give shareholders and other users of the financial statements the information needed to make decisions.

Very truly yours,

Lynn Atchison Chief Financial Officer Infoglide Software Corporation www.infoglidesoftware.com

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