

June 30, 2004

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856

Letter of Comment No: 5780
File Reference: 1102-100

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Dear Ms. Bielstein:

On behalf of my partners at ABS Capital Partners, I am writing to offer comments on the impact of the FASB Exposure Draft, *Share-Based Payment: an Amendment of FASB Statements No. 123 and 95*, on small and medium-sized companies in the U.S., both public and private. ABS Capital Partners makes private equity investments in middle market growth companies and has invested \$1 billion in 70 companies since its inception 14 years ago. My partners and I are very concerned that the costs of implementing the Exposure Draft far outweigh any perceived benefit, especially for private, newly-public and small companies. All accounting standards must balance the benefits to the users of financial statements against the internal and external cost to companies of compliance. Furthermore, as users of financial statements, we believe the significant subjectivity regarding the expected future values of the various valuation inputs will reduce the comparability of financial statements, resulting in financial statements which are less useful to the users.

In an attempt to respond to questions regarding the difficulty of determining the value of employee stock options, the Exposure Draft relies on overly complex theoretical models to measure the fair value of options. However, these models require significant assumptions about future stock price volatility, interest rates and employee behavior which may produce an accurate value in theory, but will not necessarily produce an accurate value in practice, and will certainly result in inconsistency among reporting companies. The complexity of the Exposure Draft and resulting variation in reported results will create costs of compliance which far exceed the benefits to the users of financial statements. The cost/benefit imbalance is particularly damaging to small companies which are generally not in a position to absorb burdensome costs which have no discernible benefit to their business. As investors in small and medium-sized growth companies, we recommend that the FASB simplify the Exposure Draft to provide consistency in reporting at a far lower cost. While we urge overall simplification of any final *Statement on Share-Based Payments* to improve comparability among companies and decrease complexity for both users and preparers of financial statements, set forth below are three specific examples of provisions that we believe create costs of compliance that far exceed the benefits to users of financial statements.

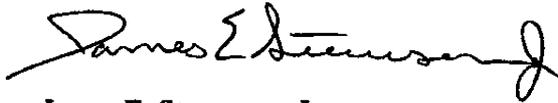
Private company intrinsic value alternative. The Exposure Draft offers private companies the alternative of measuring compensation for option grants based on the intrinsic value at the exercise date. The stated rationale of offering this alternative is to allow private companies to avoid the cost of running complex option pricing formulas. However, the cost of running costly option pricing models is replaced and possibly exceeded by the cost of preparing valuations of company stock for each reporting period. In addition, this is not a viable alternative for any company with the hopes of becoming a public company since the company would be required to account for all options issued prior to becoming public using variable accounting, resulting in unacceptable exposure to future unknown expenses for employee option exercises. We believe that the FASB should adopt a simpler alternative for private companies as the cost of complying with the complex valuation guidelines for private companies far exceed the benefit to users of their financial statements. We believe the minimum value alternative of FASB Statement No. 123 provides a reasonable estimate of compensation cost and promotes comparability among companies.

Binomial models. The Exposure Draft expresses a preference for using a binomial model for valuing stock options that incorporates a plethora of factors such as expected employee vesting, expected employee exercise behavior, expected employee post-vesting termination behavior, expected stock price volatility, expected interest rates, expected dividends, and expected changes in any of these factors over time. The Exposure Draft allows simplifying assumptions if the data isn't available or if the impact is not material. This guidance greatly increases the subjectivity of determining option values, which will reduce comparability between companies and increase costs as companies will be required to provide detailed analyses to support expectations about future employee behaviors, stock price volatility and interest rates. Many small and medium-sized companies will incur burdensome costs to comply with the Exposure Draft since employee stock option expense may be material. As users of financial statements, we believe that all constituents would benefit from a set of greatly simplified guidelines which provide consistency across reporting entities at a greatly reduced cost. At a minimum, private, newly-public and small public companies should be provided a clear set of simplified guidelines to reduce the cost of compliance.

Graded Vesting. The Exposure Draft requires companies who use graded vesting schedules for share-based awards to treat each vesting tranche as a separate award with separate valuation inputs and amortization schedules. This approach greatly increases the complexity of valuing options, as a separate set of valuation inputs must be estimated and tracked for each tranche, while producing a result that is inconsistent with how employees, employers and users of financial statements would view the attribution of service by the employee. Since the compensation expense is adjusted to reflect actual vesting, this increase in complexity and cost provides no benefit to users of financial statements. We recommend that the FASB provide for straight-line amortization of compensation expense related to graded vesting schedules to both simplify compliance and produce a result which is more logical for users of financial statements.

Transition. We believe the effective date for all private companies should be delayed for one year beyond the effective date applicable to public companies. This will significantly reduce the cost of implementation for those companies which generally have less internal resources to devote to new, complex accounting standards. As users of private company financial statements, we believe that the cost of early adoption far outweigh the benefits.

Yours truly,
ABS Capital Partners



James E. Stevenson, Jr.
Partner