NEXIDIA

June 22, 2004

Letter of Comment No: 4776
File Reference: 1102-100

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 / File # 1102-100

Dear Sir or Madam:

In response to the Financial Accounting Standards Board Invitation to comment on accounting for employee stock options, I am writing to you as the Vice President Finance of Nexidia Inc. to express opposition to the proposal as currently drafted. Nexidia is a privately-held emerging growth company, focused on audio search software solutions.

I believe the proposed amendments to FAS 123 would have the strongest impact on privately held, emerging growth companies by substantially increasing the complexity and cost of financial reporting and limiting equity ownership and overall compensation for employees. Both consequences will make it harder to raise capital, retain talented employees, and position the company for long term growth.

Cost Impact. Both methods recommended by the FASB for valuing options are highly subjective and complicated to implement, particularly for private companies with no underlying public stock performance and limited funds to hire the financial experts required to determine accurate valuations. Depending on the assumptions, the value of private company options can vary widely. In the case of an option that becomes "underwater", the company will have expensed a compensation expense that did not exist, with the employee receiving no benefit and result in an overstatement of earnings. This volatility in earnings could negatively impact bank financial covenants, investor reporting, and vendor relationships, or anyone who relies on the company's financial statements.

Hiring and Retention Impact. Nexidia heavily relies on stock options to recruit and retain talented employees incentivized to build value for the company. Emerging growth companies, such as ours, may choose to limit the use of stock options to minimize earnings volatility. A decision to cut back stock-based compensation will reduce our ability to recruit talent from mature companies. Further, the effect may lead to elimination of options for lower level employees in order to ration for senior executives, potentially lowering productivity across all levels of the organization.

While the need to reform corporate accounting and compensation oversight is critical, I believe this standard does not support fair and objective financial reporting, particularly for emerging growth companies. I urge the FASB to reconsider its position and withdraw the proposed changes to FAS 123.

Sincerely,

/S/

Byron J. Arnold
VP Finance / Administration

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