



May 25, 2004

Letter of Comment No: 2758
File Reference: 1102-100

Dear Sirs:

We are writing to express our opinions on the Exposure Draft on share-based payments. We have philosophical concerns. We also have practical concerns about the implementation of the proposed rules. And we have concerns about the impact of the proposed rules on the creation of jobs and the rate of technological advance in the United States in the future.

Our philosophical concern relates to the proposed accounting treatment of share-based payments. The current Exposure Draft proposes that some arbitrary value (please see discussion below relating to the practical aspect of the application of the proposed rules for more on this) be expensed in the Statement of Operations for any company issuing share-based payments. We believe that it is inappropriate for this value to appear on the Statement of Operations.

It is inappropriate, in our opinion, because the Statement of Operations should contain only those items that impact a company's profitability resulting from the company's operations. To include an item that is not derived from any aspect of operations is tantamount to undermining the entire foundation of financial reporting dating back to the earliest pronouncements of GAAP. Once we allow the rules for financial reporting to start down that slippery slope, it will prove impossible to stop.

Currently, there are no such examples of items such as this included in the Statement of Operations. Share-based payments impact shareholders' equity and shareholders' valuation, not the profitability of a company. When the company issues the shares to an employee and that employee later exercises those shares and sells them in the market, that transaction is more closely related to capital formation than an element of a company's profitability for any period of operations. If anything, recognition of share-based payments should be a transaction that is recognized in the shareholders' equity section of the financial statements, not the Statement of Operations.

Therefore, we believe that the Exposure Draft's proposed accounting treatment of share-based payments is fatally flawed with respect to inclusion of such transactions on the Statement of Operations. If that were not enough, there are serious concerns about the application of the proposed treatment, if it is issued as currently drafted.

As currently drafted, the value of the share based payments would be reflected as an expense on the Statement of Operations based on some arcane valuation methods such as the utilization of the Black-Scholes method or the binomial method. These have both

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been widely proven to be problematic when applied to transactions such as employee options because of the substantial changes in valuation that can result from a very small change in some of the assumptions, such as assumed volatility.

This may be less of an issue for more mature companies with a long history of market valuations where some of the more violent market fluctuations can be dampened over time, but in some smaller companies, these flawed models have the potential to cause erroneous indicators of a company's operating performance and financial health. The proposed accounting treatment of share-based payments can easily cause a company's positive net income to become negative which then impacts the company's ability to raise capital and the cost of that capital.

In addition, the valuations to be used for private companies would be virtually impossible to determine with any degree of accuracy using either Black-Scholes or the binomial method. Under the proposed draft, these private companies would then have to use an even more arcane method such as the modified intrinsic method and further, these companies would have to apply this method quarterly and adjust the expense with the Statement of Operations bearing the burden of these recurring adjustments. The administrative burden and the cost of applying this accounting treatment to private companies clearly outweighs any benefit that may be derived from the treatment. For fear of liability, third parties providing these valuations would charge inordinately high rates for their service and this places an additional cost of capital burden on smaller companies.

All these "mechanical" concerns, while significant and important, get lost in the shadow of the largest concern. That concern is, of course, that availability of capital will be less and fewer companies will be created if the proposed accounting treatment is issued.

It is almost universal that all small and start up companies need to husband their most precious resource, which is cash. With the proposed accounting treatment as outlined in the Exposure Draft, these companies will be required to use more cash to recruit and compensate the human resources that create shareholder value. If these companies are forced to depress their earnings by expensing share-based payments, then they will choose not to issue these shares or issue fewer shares. By definition, this means that more cash will be required for these companies to satisfy these obligations.

Since more cash will be required and there is a finite pool of cash available for these types of companies, fewer of these companies will get funded. And those that do get funding will require more frequent "follow on" rounds of capital in larger amounts (compared to history) to fund this larger cash outflow.

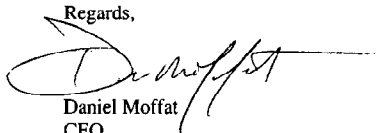
This would suggest, that over time, fewer companies are created. Fewer companies mean fewer jobs and fewer technological innovations.

It is rare that a proposed accounting treatment has the potential to influence so many financial, social and technological issues. Under the proposed accounting treatment (and

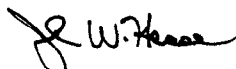
the application of the proposed accounting treatment), all these influences work contrary to the greater good of more jobs and more innovation.

We strongly support the withdrawal of the proposed accounting treatment for share-based payments and urge the Board to reconsider its issuance.

Regards,

A handwritten signature in black ink, appearing to read "D. Moffat", with a long horizontal line extending to the right.

Daniel Moffat
CEO
New Edge Networks

A handwritten signature in black ink, appearing to read "J. W. Hesse", with a long horizontal line extending to the right.

John W. Hesse
Vice President Finance
New Edge Networks