

Letter of Comment No: 3256
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Stacey Sutay

From: Fulton Breen [fbreen@xsinc.com]
Sent: Friday, June 04, 2004 8:43 AM
To: Director - FASB

Dear FASB Representative,

I am writing this letter in strong opposition to the March 31, 2004 stock option expensing proposal. I am the CEO of XS, Inc., a private Internet trading and data management company located in Raleigh, N.C. My company has employed more than 30 U.S. employees since its inception and many employees are equity owners in the business as a result of stock option grants. Stock options and grants have been a powerful motivating force in our company and I feel that they have been a crucial element of our success to date.

There has been substantial debate over the issue of expensing stock options, but the focus on large private companies has overshadowed the impact that the proposal would have on small companies like mine. In particular there are three issues that are particularly pertinent to my business and must be addressed before the approval of any legislation

- 1) Cost of Implementation: We have a broad-based stock option plan that provides equity ownership to many employees in the company. Currently, I have a CFO and one other person on the finance staff who are responsible for all aspects of the financial health of the company, including the administration of our stock option program. While they are able to handle all of their responsibilities today, the complexity of implementing the FASB proposal will overwhelm them, and would likely force us to hire outside auditors or consultants to administer our stock option plan. Based on our small size, this incremental expense will have a meaningful impact on our profitability and our ability to hire employees in revenue-generating areas of our business.
- 2) Masking of Operating Results: We do not report our results to a large base of stockholders. We do, however, have to present our financial statements to partners, suppliers, and customers. Since we have only a few years of operating history and minimal cash on the balance sheet, many of these partners rely on our income statement to determine our viability risk. Introducing stock option expense to our income statement will not only confuse our partners, but it will mask the true health of our business. Our success relies on a small number of supplier and customer relationships and therefore we cannot afford to lose one of these relationships because of income statement changes that are simply the result of granting options to our employees.
- 3) Stock Options are Essential for Startups: It is not easy to attract high quality employees to an early stage company that, by nature, has very little employment stability. In order to attract this talent, we must make our employees equity owners and give them a vested interest in the outcome of the company. We only have 30 employees, so every employee can make a meaningful impact on the outcome of our company, and we must reward them for doing so. Expensing of stock options would make it difficult to implement the broad-based stock option plans that have driven our company, and almost every other successful early stage company.

As a CEO, board member, and employee, I urge you to reconsider your proposal and to continue to investigate these issues. Rushing to implement this proposal without working through the issues addressed above could have a detrimental affect on my company and the hundreds of others in the U.S. that rely on stock options as a means to grow in a difficult economic environment,

6/9/2004

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