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From: Dave Corbin [corbin@cooligy.com]
Sent: Friday, June 18, 2004 2:41 PM
To: Director - FASB
Cc: jcdowling@nvca.ort
Subject: Expensing Stock Options, an entrepreneur's view File Reference# 1102-100

Letter of Comment No: 5124
File Reference: 1102-100

Dear Sir:

I am writing to express my opposition to the FASB proposal calling for the expensing of stock options. I am CEO of a Venture Capital backed startup company in Silicon Valley. This is my second startup company as CEO and my third startup company. In all three companies, I have personally experienced the stock option motivating effect for new innovations and company growth.

Almost all of the innovations generated in my startups have been driven by stock ownership and a shared development goal. Every employee of an early stage company risks personal financial stability, and detrimental impact to family, friends, and neighbors. To innovate, these folks leave stable, large company jobs, begin development in their garage and pay their mortgage with their child's college fund to prove a concept. Concept proven, they often engage Venture Capitalists to fund growth of their company. They hire like minded people to help and all develop products towards a shared goal. Cost of development is managed to the penny...there is no extra cash for items other than R&D in any of these companies because the greatest risks are taken before the company has any products to sell.

Why do people do this? Why do they take this risk? The answer lies in two items: satisfaction of doing something new and substantial monetary reward. I manage cash very carefully for development efficiency. I use stock options as a motivating tool. Most employees take pay cuts to come to tightly expense managed startup companies. Their understanding of the payback for these salary reductions is long term reward through stock ownership.

Stock options in are the only tool I have for employee retention and motivation...especially in tough times. When technology development hits a snag, employees redouble their efforts because they want to make their options worth something. Without that motivation, working for straight wages will slow development, even stifle the innovation needed to break through these new development barriers. Wages are paid whether you work 40 hours a week or 100 hours. Why do people put in the extra effort to innovate? Answer: stock options. Without options, there is no upside reward for doing the extra task or contributing the extra idea.

At my companies, and all the companies I know of in Silicon Valley, all employees are given stock options. From the shipping clerk to the CEO, all know and understand the upside potential personally. Please understand that this is true even when there is no one to sell stock to...these employees are motivated by options even when the company is private. The potential of becoming public in the future is the motivating factor.

It is my view that the current proposal to expense stock options will deter entrepreneurship at all levels in a company. It will deter grants of options to all employees. This proposal removes a key tool for motivating people to work at startups. It will slow or even stop startup companies from growing. Many startup companies will not even begin for lack of motivated founders, CEOs, and engineer. It will dampen job creation in the U.S.

I am also the CFO and Treasurer of our startup company. I spend no cash on option grants. They are not an expense and they have no direct cost. However, options are included in the calculation of fully diluted earnings per share. As such, the true "cost" of these options is in dilution and already taken into account under current accounting treatment.

The FASB proposal requires that the value of these options be determined by complex option pricing models, and it creates both an abstract and highly contingent deduction. The result will be less transparent, less meaningful financial statements. It will also mean

that when we decide to grant options to our employees, we will not be able to calculate with any degree of certainty the expense impact on its P&L in future periods. I won't know that my current and predicted financial statements are correct. As such, it will be almost irresponsible for me to grant an option.

Adding insult to injury, the proposal promises to be very costly and extremely burdensome for me to implement adding overhead and expenses -- all for no benefit. In fact, a real loss in the quality of financial information will be delivered. Wouldn't our country be better served if the money spent to calculate the value of options was instead directed to R&D expenditures on new technologies?

The net result of FASB's proposal will be that fewer privately held, entrepreneurial companies will grant options to their employees. The motivation to start or join a startup company is removed.

On a broader scale, options have been a cornerstone to the success of the U.S. technology industry. This success has been so visible that the burgeoning technology industries in India and China, as well as the government entities that support them, are moving quickly to make stock options an essential element in attracting, retaining, and providing long term incentives for employees in the high-tech industries they believe are essential to their nation's growth and competitiveness. How ironic that at this very moment, when our own economy is still in the very early stages of recovery, and when concerns over outsourcing are in the daily news, FASB proposes changes that will make it less attractive for U.S. companies to do precisely what the Indian and Chinese governments and technology industries have determined is a key component to encouraging innovation.

FASB's proposal fails to distinguish between an expense and stock ownership. An option is not an expense, neither does it negatively impact a company's cash. An option is reflected in fully diluted shares because it is, in effect, stock ownership. An option is an instrument that motivates the employee to do what's best for the company by enabling him or her to share in the financial rewards of stock ownership in a company whose performance has improved precisely because of the efforts of that employee. Remove the incentive, and you'll remove the motivation that leads to higher levels of performance. Remove that incentive, and you'll stifle new company formation, since options are the principal incentive for a talented individual to leave a good, regular job in a stable company for a high-risk company that promises to deliver a unique solution.

The logical conclusion and effect of implementing your proposal is to drive both companies and talented individuals away from the very kinds of entrepreneurial and innovative activities that this country most needs. It drives innovators, risk takers, and motivated employees offshore.

We should build jobs in this country and enable the creation of products and services that improve industrial productivity and the quality of life for our citizens. We must foster innovative small company growth. We must motivate people to take risks and deliver products that improve life locally.

Sincerely,

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