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Letter of Comment No: 5030

File Reference: 1102-100

From: Walter Tandler [wtandler@avalonVI.com]
Sent: Friday, June 18, 2004 6:28 PM
To: Director - FASB
Subject: File ref 1102-100 Stock Options

Dear Sir/Madam:

I was a Big 8 Audit Manager, CFO of public and private companies and now work in Venture Capital as the CFO of Avalon Ventures in San Diego. Over the past 20 years I have been involved with 15 start up ventures. Options are an invaluable tool when it comes to creating a competitive new venture and attracting talent. This is true for an individual company and it is also true for life science and high tech companies in the United States, taken as a whole.

Should options be disclosed? - certainly and they are

Should they be expensed? - This is not clear - the net effect on equity would be zero so over the long term so is there really an expense? Any real expense or cost would decrease equity over time. Secondly, but very important: A rational or meaningful way to value them has not been presented and FAS 123 proves that point. Earnings volatility would skyrocket and the internal cost to prepare and certify the new information and calculations would be extremely high.

Would the current version of FAS 123 benefit financial statement readers? Doubtful due to the variability of the calculations.

Do options benefit employees and shareholders? Come into the parking lot of one of our early stage companies at 7:00pm on a weekday and see how well stock based incentives motivate employees from the CEO to the receptionist. It has created a situation where everyone can benefit. Would Cisco, Intel, Microsoft or GE be where they are today with options? Doubtful and the shareholders have all benefited along with the employees.

Would the current version of FAS 123 benefit lower level and younger employees that work 60+ hour weeks? No, it would penalize them as options would only be granted to a few officers and top managers.

Could FAS 123 hurt the competitiveness of the United States and slow innovation, one of our last true competitive advantages as a nation? - Yes

Sincerely,

Walter Tandler
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