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| **From:** | HROIZEN [heidi@mobiusvc.com] |
| **Sent:** | Tuesday, June 01, 2004 3:55 PM |
| **To:** | Director - FASB |
| **Cc:** | jdowling@nvca.org |
| **Subject:** | Reference File No. 1102-100 |

**Letter of Comment No: 2945**
**File Reference: 1102-100**

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Dear FASB Representatives,

I am a Managing Director for Mobius Venture Capital. In that role I sit on both public and private company boards. Over the past number of weeks, since the release of your Exposure Draft regarding the expensing of stock options, I have received briefings on the draft from both company executives and in my role as a Director for the National Venture Capital Association from the NVCA leadership team. I am extremely concerned about what appears to be a complete lack of understanding surrounding what the exposure draft will cause in terms of expense for compliance, lack of clarity in terms of solution, and the macro effect of hindering new company formation as you remove a major incentive to get people to undertake the start-up risk.

There are several specific items in the exposure draft that I would like to address in this letter.

Recognition of Compensation as Cost-It appears that the exposure draft will no longer allow pro forma disclosures in the financial statements and will mandate mandatory expensing of stock options. I believe that this will create, especially given the proposed methods for expensing, a highly abstract and contingent deduction that will actually lead a reader to misjudge how the company is doing rather provide a valuable basis for determination of progress of the company. Additionally, a company doing very well will be unreasonably hampered by this growing expense, impossible to understand from quarter to quarter, and will in many cases look worse off financially that a company doing poorly that has a decreasing expense quarter to quarter.

The effect on the economy from a macro standpoint is also a significant concern to us. If companies with new technologies that are yet undeveloped and risky have no incentive in the form of stock options to offer employees to leave other positions, we will stifle development and eventually fall far behind governmental development/incentive programs of other countries.

Methods proposed for Fair Value when no Willing Buyer-Seller Validation- Even if you get past the trouble created by expensing options, the massive misunderstanding created by the Black Scholes or The Lattice Binomial models show how far removed FASB has gotten from the real world of investment decision or validation. For private companies these methodologies provide no basis for determining a proper expense. Additionally that expense can vary each period and in reality have no relationship to how the company is truly performing. Perhaps the most important reason these methods lack any viability is because it takes a PhD mathematician to understand how to calculate and interpret the calculations. To believe that the average reader of the financial statements will gain any value from this expense on the face of the Income statement is ludicrous. By way of example, in App. B, ¶ 5 you state the models used should reflect ³any and all substantive characteristics of the instrument². Neither Black Scholes nor The Binomial models can possibly do this. Lastly, these models require a company to predict the impact of future events on their future volatility and then try and convince their auditors to sign off on their assumptions. It seems to me that in an environment where you want to remove assumption and guessing and rely on fact to convince readers as to the correctness of financial statements you would not force companies to guess why and how much future experience is going to be different than historical experience. What is even more outrageous is that with 10 year options, a company would have to do this guessing 10 years out.

Cost of Implementation-Getting past these issues, the next concern I have is related to the cost that will be incurred by private companies to calculate and maintain the [3]correctness[2] of this expense. One of my CEO[1]s informed me that it would require an additional person in investor relations and person in accounting. So now a company trying to prove a product and a market has to spend more on overhead which is a complete waste of very precious cash. Your examples in the exposure draft relate to only one or a limited number of executives in a company. In my experience, my companies have very broad based plans and this will add significantly to the difficulty of doing the calculation and its cost. This gets us back to the point which is the reason stock options are so important to companies in the first place, they do not require cash and provide incentive. Your exposure draft takes both of these major components which have been used for 50 years to promote economic growth and stability and removes them from practical application. I am not sure you have considered the long term consequences that this is going to cause. The one year extension of the effective date will simply not help the nonpublic company and the transition rules proposed only add to the onerous nature of cost as private companies would have to maintain pre and post Draft option values.

It would be one thing if what you provided as a solution would indeed solve the problem, but your proposed methodologies will only create more misunderstanding and increase the growing skeptism of whether or not FASB is providing real world solutions -- and whether the accountants who audit it are simply looking for more ways to charge fees.

In conclusion, your exposure draft says that its goal is [3]to issue financial accounting standards that can be read and understood by those possessing a reasonable level of accounting knowledge, a reasonable understanding of the business and economic activities covered by the accounting standard, and a willingness to study the standard with reasonable diligence.[2] Then you seek comment on whether or not I believe that this proposed statement, taken as a whole, achieves that objective. I have been in business for nearly 30 years, I have started a company, run it to a substantial size, I have worked for very large companies and I have been a venture capitalist for the last 6 years starting numerous new ventures, I can say with all depth of meaning I can muster that this exposure draft not only does not come close to your objective, but it creates much the opposite effect. I strongly urge you to reconsider this exposure draft.

Respectfully Submitted,

Heidi Roizen
Managing Director
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