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June 10, 2004

Mr. Lawrence W. Smith
Financial Accounting Standards Board
P.O. Box 5116
Norwalk, CT 06856

Dear Mr. Smith:

We would like to submit the following commentary for consideration for the proposal to expense stock options in financials at the upcoming FASB roundtables on June 24th in Palo Alto, CA and on June 29th in Norwalk, CT.

We believe the Financial Accounting Standards Board (FASB) proposal to expense employee stock options could have a huge detrimental impact on our companies and our futures. It will also have a negative impact on the drive to innovate, on the U.S. economy, and on U.S. competitiveness.

We understand the evaluation that will be used in the financial statements will be based on a model that could or could not be valid. Recognizing that we reflect diluted earnings per share in our financial statements, and we reflect the effects in accordance with the above mentioned model in a footnote to the financial statements, it seems this is adequate accounting and disclosure.

Although there is tremendous pressure to take action with regard to the accounting treatment of stock options, charging them off as an expense is wrong for several reasons. First, the standard stock option does not meet the Statements of Financial Accounting Concepts (SFAC) definition of "expense". They are clearly not expired assets. Unless the profession is willing to throw out that set of definitions we should not consider expensing options. Second, the value given to those receiving options comes from existing shareholders, not the entity itself. Again, going back to the conceptual framework laid out in the SFAC's, we must measure the economic activity of a distinct entity. If we begin to measure the value given up by existing shareholders then we are mixing the shareholders with the company issuing the options. This is very dangerous.

Stock options have been a wonderful tool for American management to reward the employees and to align employees with the interest of stockholders. It is not possible to accurately measure the expense, and the diluted effect is already included in earnings per share, and

disclosure is adequate. A broad based attack on what has historically been acceptable accounting by the FASB on this particular issue is disappointing.

The goal should be to provide accurate and transparent financial information to investors, while also preserving broad based employee stock option plans.

We encourage you to take more time to listen to employee-investors and others and to field test any new accounting proposal to make sure it won't do more harm than good. Please consider not caving in to the political pressure and instead create neutral accounting guidelines.

Sincerely,

Shannon Rose
Controller

Ron Conway
Founding Partner

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