

Message

ikon

Letter of Comment No: 2757  
File Reference: 1102-100

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**From:** Director - FASB  
**Sent:** Tuesday, May 25, 2004 5:23 PM  
**To:** ikon; Karen Salmansohn  
**Subject:** FW: Reference File No. 1102-100

-----Original Message-----

**From:** Dennis Dougherty [mailto:DENNIS@intersouth.com]  
**Sent:** Tuesday, May 25, 2004 5:03 PM  
**To:** Director - FASB  
**Cc:** jcdowling@nvca.org  
**Subject:** Reference File No. 1102-100

Members of the FASB:

I am a founder of Intersouth Partners, a venture capital fund located in North Carolina. Previously, I was a CPA and an audit partner with Touche Ross. Over the last 20 years, we at Intersouth have backed 75 start-up companies and helped entrepreneurial company formation become an economic engine for this region. I have served on the boards of numerous public and private companies and currently chair the compensation and audit committees of several companies.

It is our long-proven practice for both investors and founders to share the ownership of start-up companies with employees through stock options. Start-up companies are cash constrained and stock options allow the recruitment and retention of talented people into often risky and volatile environments. Stock options are highly motivating to all employees and generate the most discussion in the meetings of compensation committees. Most importantly, all investors have a clear picture of the cost of this practice as measured by "fully-diluted" financial reporting.

This is a simple concept – shareholders agree to give management and the employees a share of company ownership. Expensing stock options is double counting. Moreover, the methods of valuation associated with expensing options will create a real burden for entrepreneurial companies. They will add significant cost to the reporting function and create confusion for the readers of the financial statements of these small companies. This is a painful and unnecessary side effect of your broad brush solution. In creating this solution, the FASB has recommended a fundamental change to an important concept that is a critical driver of America's proprietary advantage and most precious resource – entrepreneurial innovation.

Sincerely,

Dennis Dougherty  
General Partner  
Intersouth Partners

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Dennis Dougherty  
General Partner  
Intersouth Partners