



May 25, 2004

Financial Accounting Standards Board
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Dear FASB Members.

As the Founding General Partner of one of the leading healthcare venture capital firms and as a board member to several public and private companies, I have become familiar with the details of FASB's exposure draft on share based payment. I have been aware of the proposal to expense stock options for some time, but am surprised to see how the proposals have progressed and the negative impact I believe they will have, particularly for the emerging private companies that my firm has invested in and seeks to invest in.

My main concerns regarding the exposure draft are summarized as follows:

1. As a venture capital investor for the past twelve years, both I and my firm make investment decisions and guide our portfolio companies to make business decisions, based on having full and complete knowledge of the costs associated with an individual investment or business undertaking by one of our portfolio companies. As I have read the current exposure draft, I feel that it will be close to impossible to determine the amount of expense associated with the granting of options over the various vesting periods in which options are granted. The impact both to my firm's ability to accurately determine the value of a proposed investment and the ability of a company to accurately manage the factors surrounding its financial results are both impaired by the exposure draft.
2. Another significant impact of the exposure draft on privately held companies is the complexity and subjectivity of determining the current value of the company and therefore the appropriate amount to expense. This is particularly difficult in earlier stage companies where changes in a company's value can occur on a quarterly or even more frequent basis. The ability of privately held companies, and in particular early stage companies, to make an accurate determination of the appropriate expense amount associated with the granting of options will most likely be beyond their internal capabilities. Looking to outside resources to provide the company with guidance in making such determination will not only be costly but in most instances will not yield an accurate result. Since early stage companies are generally cash constrained, diverting scarce resources to complying with the exposure draft will put an undue burden on the company (both from a cash as well as time perspective). As we are all aware, cash and the ability to attract the proper talent are the two most essential resources to new emerging companies. Since early stage companies can not attract the necessary talent to expand and grow their business purely on the ability to pay the highest cash compensation, the granting of equity options is the single largest component for attracting such talent. Under the current exposure draft, the ability to attract the best possible talent for an emerging company will now have to been weighted against the cost associated with the granting of equity options and I fear the results will not only adversely impact real economic growth but more importantly adversely impact entrepreneurial growth.
3. Though the majority of the companies for which I sit on the board of directors are private, there still exists a need to produce financial statements to both lenders as well as key outside contractors that provide crucial services, such as performing certain clinical trials and certain research related functions. The ultimate result of implementing the exposure draft will not have any effect on the companies' cashflow, which for emerging companies is the single most important aspect for survival; it will have a direct impact on the financial statement presentation of the company. Since such lenders and vendors require that companies adhere to certain covenants and financial ratios based from the basic financial statements of the company, the implementation of the proposed exposure draft may ultimately cause a company to be in violation of such covenants and ratios. Though the actual financial condition of the company will remain unchanged, the inability to comply with such

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covenants and ratios will prevent emerging companies from gaining access to much needed capital and key services.

In general, I feel the concept of expensing options to be punitive to emerging companies and confusing to the readers of the financial statements. I feel that the effect of issuing such options has been properly identified in fully diluted earnings per share and properly articulated as to their value in the accompanying footnotes. However, if the FASB feels strongly about placing the importance of reflecting an associated cost with the issuance of options, I feel that there must exist a better alternative to what is currently being presented. I feel any standard to be employed should be completely objective, measurable and predictable at the time a business decision is made, and where the process, measurement and reporting would result in greater transparency to the average reader of financial statements, without putting any undue burden on or inhibiting the growth as well as the entrepreneurial spirit of new and emerging companies. I would hope the FASB will take in to consideration the overall impact the current exposure draft will have on encouraging and fostering the growth of emerging companies.

Sincerely,

Ansbert K. Gadick

Founding General Partner