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From: Chris Melson [chris.melson@augmentix.com]
Sent: Monday, May 24, 2004 5:26 PM
To: Director - FASB
Cc: jcdowling@nvca.org; kpaschall@austinventures.com
Subject: File Reference No. 1102-100 - A bad Choice for the Entrepreneurial Sprit that made America what it is today!
Importance: High

I am confident the proposed expensing of stock options *FASB File Reference No. 1102-100* is bad for America making the United States less competitive globally. In an attempt to thwart a very small minority who may have committed fraud, we once again, take action in a naive attempt to stop this fraud, but end up punishing our economy and global competitiveness. I see the following issues:

Increased administrative costs

The success of my company (or any startup) is predicated on our ability to leverage a dollar spent into multiple dollars of return through the application of our time and talent. The administrative effort and costs of the proposed standard in terms of company dollars and time create no positive return, more likely, negative returns for the reasons outlined above.

The administrative effort and expense associated with the proposed standard compliance is significant and represent a cash outlay with absolutely no value to me or my company. It is once again a rule that only America must adhere to making us less competitive globally. The proposed methods for stock option expensing will require significant effort and cost to perform and audit and will undoubtedly consume management time ensuring the methodologies that should be applied to running the company, not adhering to some valueless accounting practice.

Substantially reduced value of financial statements

In my opinion, the use of the fair value methodology for calculating the compensation cost for stock options creates less, no more clarity and transparency to a company's financial reports. Given the degree of subjectivity associated with several of the fair value calculation inputs (i.e. volatility, employee behavior, ...), the results are far less comparable across time for a given company or across companies at a given time.

In addition, given that many investors are interested in the after-tax cash flows in the process of valuing companies, the proposed reporting requirements make that job harder, not easier for those investors.

Specifically with respect to private companies, their investors and creditors pay minimal attention to earnings per share performance. Their collective focus is on cash – cash balance, cash generation, cash consumption and the cash required for the company to reach self-sufficiency. Consequently, I don't see how the expensing of stock options will provide any value to the capital and resource allocation decision processes of the private companies, its investors or creditors. In fact, the reporting requirements will only make the financial statements less helpful in assessing company performance since it will be more difficult to model cash.

Reduced competitiveness

As indicated previously, it is my belief that many of the companies in Asia that do now or will in the future compete with our portfolio companies do not have to deal with the confusion and cost associated with expensing stock options. This gives those companies a decided advantage as our portfolio companies compete in an ever more global marketplace, especially when it comes to hiring the best people.

Possible termination of employee stock option programs

While I have no intention of curtailing the use of employee stock option plans in my company, I am concerned about pressure from other investors, particularly on public companies, to significantly reduce the use of employee stock options to reduce the associated expense. This could make technology companies and particularly young technology companies less attractive to talented people as an employer, which is bad for entrepreneurialism in America.

Please, this is a bad idea. Do not burden the entire Entrepreneurial Sprit of America as you try to fix the wrong problem.