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Letter of Comment No: 2660
File Reference: 1102-100

From: Scott Collier [scott@TRITONVENTURES.COM]
Sent: Thursday, May 20, 2004 7:16 PM
To: Director - FASB
Cc: 'jcdowling@nvca.org'
Subject: Reference File No. 1102-100

RE: Reference File No. 1102-100 - FASB proposal to force the expensing of stock options

Dear FASB Director:

I am writing to you as managing director of a Texas venture capital fund and, more importantly, as a member of the board of directors of several early stage technology companies, all of which provide incentive stock options to most or all of their employees. Having worked with such companies as a venture capitalist board member for the last 12 years or so, I am alarmed to learn that FASB is again considering forcing companies like these to expense stock options on their income statements.

I am sure there are many qualified accounting professionals that are making well articulated arguments explaining that ISOs are not an appropriate p&l expense. As a non-accountant but someone who is constantly using financial statements to evaluate the operations of a business, I feel that inclusion of an arbitrary and volatile non-cash "expense" such as this would distort income statements and make historical operating expense and income comparisons nonsensical. As to determining the magnitude of such "expense", having personally made Black-Scholes calculations as well as having used other option valuation methods, I am well aware that these approaches were never designed to model values of ISOs given to early-stage private company employees. In fact no such valuation method exists or can ever be devised because it is not possible to measure the "market" value of anything so esoteric and unmarketable. The FASB proposal would require the absurd application of these methods in a completely inappropriate way for thousands of companies. The real cash expense of hiring outside consultants to perform these calculations in an objective way would be an unacceptable cost for small companies.

What all of this leads up to is the fact that passage of the FASB proposal will make broad issuance of ISOs impractical and so I, like many board members, will not be able to justify issuing them except to executives, especially CFOs, who will not join companies without them. For this small group of employees we will probably be forced to bear the added expense and complexity. I have alerted my Congressional representatives as to the damaging consequences of this move and I am confident that they will resist the FASB proposal. For this region of Texas it is an issue with very real examples as companies such as Dell, Tivoli (now part of IBM), Vignette and others issued options to the vast majority of their employees who were able, in due time, to turn the associated equity participation into homes, cars, boats and investments in other new businesses (and venture capital funds!) thereby creating a highly diversified community with a good standard of living. Eliminate broad based options and we will never see such pervasive wealth distribution again.

With his classic "dumb-textile-miller-turned-billionaire" style, Warren Buffet has asked what options are if not an expense. I would answer that options are simply a chance for employees to share in their company's equity upside (if there ever is any upside) despite their current lack of ability to invest cash. The dilutive effect on shareholders should be adequately disclosed so that they can decide if they want to endure such dilution. As a venture capitalist paying real cash for our shares, I will say that we consistently find the negative of dilution (which often runs as high as 15-20% of the fully-diluted shares) balanced by the motivating force that results from broad issuance of employee ISOs. I appeal to you not to remove this valuable tool from shareholders as we invest in America's future great companies.

Sincerely,

Scott Collier
Managing Director
Triton Ventures

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