To: FASB Directors

Letter of Comment No: 554/
File Reference: 1102-100

cc: Jennifer Connell Dowling, NVCA

Reference: File Reference No. 1102-100

## Comments of Peter Fenton to the FASB Exposure Draft entitled Share-Based Payment, and Amendment of FASB Statements No. 123 and 95.

My name is Peter Fenton and I am a Managing Partner at Accel Partners, a venture capital firm in Palo Alto, California. Our firm manages over \$3 billion in capital and has invested in more than 200 early stage companies in emerging markets during our 20 year history

I have worked in the Silicon-Valley for the past ten years as an entrepreneur, strategy consultant, and venture investor and joined Accel in 1999 to focus on software and technology-enabled services investments. Prior to joining Accel Partners, I was an early employee and member of an early stage technology company. I also worked as a management consultant, where I advised high-technology businesses in the Silicon Valley on their product and business strategies. Currently I am on the board of several early stage private high-technology companies.

I have an MBA from Stanford Business School, where I was an Arjay Miller Scholar, and a B.A. from Stanford University, where he was elected Phi Beta Kappa.

As you can see from my background, I have intimate exposure to and interaction with early stage private software companies. I know what it takes to build a successful company to compete with their large multi-billion market cap competitors. The competitors are oftentimes public companies that may or may not offer stock options to their employees, but certainly have the ability to offer large salary and bonus packages. For the tiny companies that I represent and try to build, it is virtually impossible to recruit top talent without the ability to offer something that competes with these competitors, stock option are typically the best weapon available. These little companies are oftentimes funded by the founders/entrepreneurs or early stage venture firms, like the one I represent. Typically, there is never sufficient cash for the development of these fragile companies, let alone a competitive cash compensation package for top talent, and certainly never enough to pay increased audit fees or valuation expert fees to be in compliance with GAAP. My fear is that the FASB's recent exposure draft will create an unintended detriment that may force private companies to stop offering stock options, which impacts the entrepreneurial community and ultimately the average American citizen who is the ultimate beneficiary.

I am not sure why recording an expense for something that is not cash compensation, but is an opportunity cost is beneficial to the presentation of financial statements. It seems to me that this income statement line item will merely serve to skew a financial statement readers' ability to decipher the true expenses of the company? As I review the various valuation options available to these companies I am perplexed. I have done analyses using the methodologies available that produce dramatically different results for the same company. If FASB's ultimate goal is to record a fair market value opportunity cost, which by definition is an oxymoron, how are these variations in valuation methodologies justified? From my research in the investment community there are no willing market buyers for these restricted instruments, so asking our companies to hire additional staff, increase audit fees, and bring in valuation consultants to comply with GAAP, is ludicrous and an outrage. The current footnote disclosure, while still not perfect, is a reasonable method that provides the intended financial statement reader more consistent information to better understand the impact of employee stock options.

It would be a great tragedy if an innovator decided that it would be too difficult to start a new company because of the real costs and the potential competitive disadvantages associated with the expensing of stock options. I know that several public companies have already chosen to stop the issuance of employee stock options. I ask that the FASB please reconsider this proposal and recognize the impact it may have on the average citizen, the economy, and our fragile entrepreneurial community.

Sincerely,

Peter H. Fenton Accel Partners