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To: Director - FASB
Subject: FASB Feedback: File Reference No. 1102-100

Letter of Comment No: 5292
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As the CEO of a private, venture capital backed company, I am concerned about the draft as proposed by FASB. There are several issues pertaining to this proposal that are troublesome:

Treating Stock Options as an Expense

As a private company, stock options do not constitute an expense in the classic sense. They do not create a current or future cash flow for the company. As such, it is not appropriate or beneficial for a private company to treat them as an expense. It is unlikely that either our shareholders or holders of debt will see the benefit of any ruling that requires the management team to spend time or money to generate reports that do not help us track, manage, and report our true cash activities and provide insight as to how they relate to generating a successful business.

Visibility

It is my understanding that the proposal is intended to facilitate greater insight into the financial status of a company. The proposed treatment would dramatically impact financial statements with non-cash transactions and would significantly reduce their effectiveness in providing insight. The P&L would show sizable non-cash compensation expenses that could easily mask smaller but more meaningful information for assessing the operations of the company. The balance sheet would have significant shareholder equity positions created by expensing the options that would mask true shareholder positions and make it difficult to assess paid in capital information. Since true cash flow impacts on each of the financial statements are necessary to run the business, additional non-GAAP financial reports will be needed for running the company and reporting to shareholders.

Accuracy

It is also my understanding that part of the intent of the proposed change is to provide greater accuracy in financial statements. Since there is generally no "willing seller – willing buyer" transaction to use as a basis for fair value of illiquid options, various models are proposed to create the desired insight. For the nontradable, nontransferable employee stock options for a private firm, however, the models being used will result in very detailed calculations that rely upon guesses as their inputs. As an example, the expectation to model early exercise behavior of employees will be guesswork at best. Although it has been suggested to group according to role (executives, management, individual contributors, ...), in reality early vesting behavior is frequently driven by non-company issues, such as buying new houses, children reaching college age, and proximity to retirement – parameters which are not only difficult to obtain but in many cases illegal for management to seek to ascertain. Hence, the models will generate very "accurate" calculations based upon guesses being processed into unconfirmed suppositions that will be impossible to audit for other than the process.

Cost of Implementation

Although the expenses being reported by the new rules will be non-cash in nature, the cost to track, document, audit, and report will be a very real impact on cash. By the new rules, for example, every vesting increment for every employee with options will become a new transaction for tracking. Like many private companies, our monthly vesting schedule would force the generation of hundreds of new line items to be tracked every month. For a private company, the dollars necessary just to track and report the information will be substantial and the support costs for an audit will go up dramatically. For a venture, every dollar spent to track and report this information is a dollar that is not contributing to the success of the company or its shareholders. In a time when U.S. based ventures are already under cost pressures from off-shore firms, this additional cost burden will be yet another reason for investment dollars to move outside the United States.

Although there are further comments that could be made, I will conclude by stating that I don't believe the proposed

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changes are in the best interest of U.S. private companies. The investors and stockholders in private companies are most interested in effective management and utilization of cash and in procedures and reports which facilitate gaining insight into that process. Any proposal that makes it more cumbersome and/or costly to provide insight into cash utilization will not be viewed as beneficial. Any proposal that increases costs for ventures executed in the U.S. will provide further impetus to investment dollars moving off-shore.

Sincerely,
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