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**From:** Kortschak, Walter G. [wkortschak@summitpartners.com]  
**Sent:** Thursday, June 24, 2004 9:36 PM  
**To:** Director - FASB  
**Cc:** 'jcdowling@nvca.org'  
**Subject:** Employee Stock Option Expensing | File Reference No. 1102-100

**Letter of Comment No: 5286**  
**File Reference: 1102-100**

To the Director of FASB,  
I am a managing partner of Summit Partners, a private equity and venture capital firm in Palo Alto, California and have been investing actively for approximately twenty years. I am writing to you to express my concern about the current FASB proposal especially as it relates to non-public entities. We at Summit invest exclusively in privately-held companies and I have served on over thirty public and non-public boards. My concern is that the proposal you have outlined for employee stock option expensing using either the Black-Scholes method or binomial methods while being problematic for even public companies, will simply not work for non-public companies because we as investors and directors of these companies have no way of calculating a key input variable, the volatility, which renders the methods you propose for valuing the option useless. The current standard of using minimum value is the only reliable and time-tested method for private company option valuations. I believe you have also proposed as an alternative to the Black-Scholes or binomial methods an intrinsic value method. By using this intrinsic value method, the employee stock expense would need to be recalculated every quarter or month (depending on the reporting period) which creates variable accounting as the stock options are marked-to-market. In summary, the valuation methods you propose will not result in more transparent financial statements. Employee stock options are critical to small companies in this country and my concern is that FASB has not given consideration to the negative impact these expensing rules will have on the nation's economy. Further, I believe that the cost of implementing these inaccurate valuation methods will be a much greater burden on startups and non-public entities. We believe FASB's proposal, if enacted as proposed, will ultimately undermine stock options as an incentive tool that has successfully aligned the interests of shareholders with employees. Sincerely, Walter G. Kortschak

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