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From: Sent: Tom Chavez [tom.chavez@rapt.com]

To:

Friday, June 04, 2004 5:47 PM Director - FASB

Cc: Subject: 'jcdowling@nvca.org'

Opposition to Stock Option Expensing - Rapt

To: the Director of the FASB

From: Tom Chavez - Rapt Inc.

Re: Opposition to Stock Option Expensing File Reference No. 1102-100

Dear Sir:

I am the Founder and Chief Executive Officer of a pre-public, venture-backed software startup. I am writing to urge you to abandon FASB's recent proposal for stock option expensing. First, it relies on valuation methods that are inaccurate. Second, and more important, I believe that it will depress innovation and risk-taking critical to long-term economic growth.

Letter of Comment No: 3249 File Reference: 1102-100

If a robust accounting procedure existed for valuing incentive stock options - particularly private company ISO's tied to illiquid equity such as my company's shares - then rational minds should entertain and possibly apply it. As you already know, current methods for costing incentive stock options are far from generally accepted and in practice lead to illogical results. It makes little sense, then, to expense something whose cost cannot be credibly, reliably ascertained. Suspending momentarily the question of whether stock options should be expensed, I ask you to consider whether the proposal in its current form meets the rigorous, rational standards to which FASB generally adheres.

I do believe, further, that expensing stock options is wrong-headed because it would jeopardize our nation's long-term economic health. This is of course a grand assertion, one that I aim to defend in more personal terms.

When I was in the sixth grade, I told my friends that one day I was going to start my own company. Like many local entrepreneurs before me, I went to graduate school at Stanford, picked up an engineering degree, and started working in a local technology company. About six years ago I left that job, cashed out my 401K, sold my car, started charging up credit cards, and effectively cratered my credit rating to start my software company.

Today I'm at once embarrassed and stupefied that I could ever be so rash. With a little more wisdom and hindsight, it occurs to me that I did those things first because I was passionate about my company's mission, and second because I felt that the reward justified the risk. There is no question in my mind that FASB's proposal would put an enormous chill on entrepreneurial risk-taking for people like me. If you artificially reduce the profitability of companies like mine by degrading our bottom lines to reflect costs that never actually occurred, you suppress the economic incentives required to start new companies that in many cases (e.g., Cisco, Oracle, Microsoft) have transformed the industries they serve.

Risk-taking is fundamental to capitalism. Capitalism is premised on the idea that capital flows freely to possibilities that deliver growth. Where there is growth, there are compelling returns for capital providers as well as the entrepreneurs who were willing to sell their cars and cash out their 401K's to build the companies that generated that growth. In this sense, the free flow of capital and the risk-taking required to energize that capital are mutually reinforcing. Anything that dampens risk-taking threatens the longer-term equilibrium and fundamental health of our economic system.

I said that I wanted to defend my assertion on personal terms, so I feel compelled to add one more bit of texture. I come from a family of five children and first-generation parents, neither of whom attended college or learned English as a first language. Every day at our dinner table, our mother emphasized the connection between hard work and reward

and the possibility of achieving reward in the United States — reward that was not within reach in the 'old country,' especially for people who were not born into it. My folks set a strong example of delayed gratification and personal sacrifice; on a household income of \$55,000 they managed to send all five children to Harvard. Their hope, and mine, is that other immigrants who begin from similar conditions will have the opportunity to rise up, take risk, and share in the possibility that their hard work be amply rewarded.

Please consider the far-reaching, negative implications of the FASB exposure draft. The proposal in its current form should be scrapped and reworked. Better alternatives are within reach.

Thank You,

Tom Chavez Chief Executive Officer Rapt, Inc. 625 Second St. San Francisco, CA 94107