

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

Dear FASB Director:

I am the Executive Director of Austin Entrepreneurs Foundation, a regional non-profit which accepts and manages donations of private company stock options, typically taken from our donor companies' employee stock option pools. Our mission is to facilitate the donation of these options, which are illiquid and of questionable value at the time of donation, such that if and when the underlying shares can be liquidated at a gain, AEF will direct the resulting funds to area charities. We thus give cash constrained startup companies a way to share any value they are able to create with the community that helped them become successful. Over the three years we have directed more than \$600,000 to Central Texas charities as several of our option positions were liquidated when donor companies were acquired. Furthermore, we are expecting additional distributions that could exceed \$1,000,000 later this year based on stock options from several of our other donor companies. All of this is possible only because the venture-backed private companies that donate these stock options to AEF believe in broad distribution of stock options to the employees and other stakeholders that will enable their success. **FASB's proposal to force private companies to expense stock options and to invest precious resources to determine the values of those options will drastically restrict who receives stock options and will make it difficult if not impossible for companies to justify donations of options to AEF.** I am therefore writing to ask that FASB not pursue this damaging course of action.

The AEF board of directors, as listed in the below signature block, includes members of the venture capital, legal and entrepreneurial communities. These individuals believe that FASB's proposal as presented in its exposure draft would result in the following:

1. Requiring private companies to expense stock options on income statements would distort those statements and make them less useful as indicators of operational health of the business. Venture backed companies typically issue options to most or all employees and such holdings often comprise as much as 20% of a company's fully-diluted ownership, most of which is subject to monthly vesting schedules. Under the FASB proposal, this relatively large position could create a significant and ever-changing non-cash compensation expense that would be very cumbersome to compute. More importantly, FASB's intent to require use of Black-Scholes or binomial method modeling would produce nonsensical numbers as these approaches were never intended to predict values of private company stock options.
2. Early stage companies would be forced to spend significant amounts of precious cash to pay for consultants to provide objective opinions as to the "correctness" of the nonsensical stock option based compensation numbers that they would compute. In addition, a company's auditors would spend time validating these results which would impose further cash costs.
3. Expensing stock options would be a confusing "double count" of the impact options have on shareholders. Private company shareholders, especially venture capital

investors, already understand the dilutive impact that creation of stock option pools has on their ownership of a company. Shareholders consistently accept this dilutive impact because the benefits of having employees that behave like business owners compensates for the dilution. FASB's proposal to create a compensation expense in addition to the equity event would hit earnings per share twice by both reducing income and increasing shares outstanding as the result of a single option grant.

4. The practical reality is that the significant problems created by FASB's proposal would be resolved by substantially restricting the issuance of stock options. CEOs and other senior executives would probably continue to receive ISOs, but private company boards would have great difficulty justifying broader distribution to lower level employees, advisors, consultants or organizations like ours based on the hassle and expense involved.

Take a moment to visit the AEF website at [www.takestock.org](http://www.takestock.org) and you will see the substantial breadth of what Austin Entrepreneurs Foundation is accomplishing as a result of the terrific support of over 100 Central Texas companies that have donated stock options. **All of this activity is ultimately funded by proceeds resulting from stock option donations and therefore all of the good that we are doing in the community is in jeopardy if our prospective donors quit issuing broad-based stock options.** I would therefore urge FASB to withdraw or drastically reduce the scope of its proposal to expense stock options.

Sincerely,

Randi Shade  
Executive Director  
Austin Entrepreneurs Foundation

Directors of AEF:

Bill Bock  
General Partner  
Centerpoint Ventures

Scott Collier  
Managing Director  
Triton Ventures

Paul Hurdlow  
Partner  
Gray Cary Ware & Freidenrich

David Lee  
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