

To: the Director of the FASB

From: James R. Swartz – Accel Partners

Re: Opposition of Stock Option Expensing

Dear Sir:

I have been a venture capitalist for over thirty years, and have served on many, many (over 50) boards of directors of emerging private and public companies. From time to time, I have served as Chief Executive Officer with some of these companies. In addition, I am a former Chairman of the National Venture Capital Association.

I am writing with a clear and unequivocal plea to reconsider the concept of expensing stock options in the body of financial statements, rather than the current method of footnote disclosure.

Enron and other terrible financial transgressions on public trust were not CAUSED by options. If options did not exist, these individuals would have found other ways to enrich themselves at the public trough. The biggest users of options, young venture backed technology companies, are virtually scandal free. Linking FASB's long-term desire for option reform with Enron like transgressions is terrible public policy.

Option cost is a theoretical non-cash opportunity cost that cannot be measured. If the pending rules are adopted, there will be mass confusion and a greater proliferation of proforma results and reconciliations. FASB should have a goal of proposing accounting rules that are useful to investors and generate GAAP financial statements that can be used without having without constant readjustment.

The current method of accounting works extremely well. The option count is included in the calculation of earnings per share, so the dilution of capital caused by options is properly reflected and disclosed. The footnote disclosure is available to those who like to ruminate on the theoretical implications of using options.

Encouraging employee ownership has been a mainstay of government policy for decades. Widespread sharing of options, which is common in the technology industry, is the only wealth sharing arrangement that I have ever seen work. Adoption of these arbitrary rules will have a very chilling effect on the American growth and wealth sharing engine which is the envy of the world.

In summary, these rules are very bad public policy and should be withdrawn.