

To whom it may concern:

My name is Joe Costello. I am the Chairman and CEO of think3, a private software and services company focused on improving the product development of small and mid-sized manufacturers. I have been the CEO of think3 for the last 5 years. Last year we did about \$35M in revenue and grew at greater than 80% year over year. We have about 370 employees worldwide today and by the end of the year we will have well over 400. All of our employees are granted stock options in the company. We consider stock options to be a critical component of long term compensation and motivation. In fact, stock options are viewed by our board and our management team to be the most important compensation program to align our employees with the long term goals of the company. A good fraction of the employees of our company and certainly all of the management team has chosen to join a small, entrepreneurial company because of the upside equity incentive provided by stock options.

Prior to my joining think3, I was the CEO of Cadence Design Systems from 1987 until 1997. When I started as CEO, we were a private company with revenues of about 2.5M per quarter. We had an identical philosophy on stock options to the current program at think3. We experienced tremendous growth, achieving nearly \$1B in annual revenue by the time I left; became a company listed on the NYSE and had a market cap of over \$5B. Certainly one of the reasons that I joined another small company like think3 was based on the tremendous upside I, along with thousands of employees, had achieved with stock options at Cadence.

The reason that I have asked to speak at this FASB roundtable is that I am dismayed by the FASB proposal to change the rules associated with the accounting for stock options. I realize that for over 10 years FASB has been trying to make a similar change to the accounting rules, but it has never had the political backing to make it stick. Given the egregious behavior of a handful of companies and corporate executives over the last 5 years and the bad publicity surrounding these events, FASB sees the chance to ride the political winds to make the desired change. The political calculus may be good, but let's make sure that this is really what we all want.

I have one fundamental objection to the proposal. Stock options are a fantastic compensation tool for helping to build a small or start up company. There can be little dispute that this approach to building companies has worked thousands of times in the last decade. It is a proven winner. The proposed accounting rules significantly blunt this weapon that we have used so successfully to foster creativity, innovation and the entrepreneurial spirit. Why are thinking of so casually tossing it away? The real answer is that the excess of the corporate chiefs of a few corrupt large companies has turned options into a four letter word. The bad faith and greed of a few is now being used by FASB as a political weapon to change the entire policy and in my view to throw the baby out with the bath water.

I predict that if FASB does indeed make this change, we will be revisiting the ruling within the next few years. Why? Because our country and our economy will be missing its current positive benefits.

At the same time that the political winds are howling about the greed and excess of corporate executives and their outrageous stock options, there is another shrill cry: outsourcing. Americans, both white collar and blue, as well as politicians are worrying more and more about the competition of low cost labor from other countries. This is a real and significant threat to the health and welfare of our future economy and job market. We need to quickly and continuously migrate our work force to higher value jobs, industries and occupations. Already politicians, economists and policy makers are trying to figure out how to stop the flow of jobs overseas in the short term and in the long term to build vibrant new industries that will grow the demand for American workers. You can hear in much of the commentary that the focus for job creation must be on innovation. We must build new markets and new companies to create these jobs. I am sure that the government will be looking for ways to foster these new markets and industries. But this is what the entrepreneurial spirit is all about. And we actually have a mechanism that exists today that fosters this kind of market and job creation. It is called the stock option.

FASB is certainly right to say that options have value – every entrepreneur and every employee of a small company will agree to that. FASB may also be right from a pure accounting point of view that value should somehow be acknowledged on a company's books. I am not an accountant, so I won't opine on that issue. I will let others argue how the accounting issues are best addressed. In my view, that isn't the fundamental issue. However, FASB decides to treat the stock options from an accounting point of view, don't change the current way that it is handled for the small or start up company. If FASB wishes to say that this is a form of subsidy for young companies, so be it – and agree on quantifying it, if need be. That is fine by me. This is a great subsidy. It has already been proven to work. It costs us very little in real tax dollars. And there is no waste, because it only provides a benefit when there was success. Name another government subsidy that is so effective.

My proposal would be that FASB agree on a stock option accounting method for the large companies and their executive management. Let the accountants figure out a fair and accurate way of attributing the value of any stock options given to those companies. But for young, growing private companies, grant them an exemption to foster the kind of entrepreneurial activity that we need to grow a healthy new job base in our country. In this way, we get the best of both worlds. We create a disincentive for large companies and their executives to abuse stock options, while still allowing the great benefits of the current treatment of stock options for start up and small companies that are likely to create the next wave of jobs in our country.