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Letter of Comment No: 2731
File Reference: 1102-100

From: Zack Rinat [zack@modeln.com]
Sent: Wednesday, May 26, 2004 5:27 PM
To: Director - FASB
Cc: 'jcdowling@nvca.org'
Subject: Re File Reference No. 1102-100

Dear Sir or Madam,

As a founder of three successful software companies in Silicon Valley, I hope you will give my views on the proposed plan for Private Company Option Expensing a fair hearing.

I believe that the new rules would "kill the goose that laid the golden egg" and effectively choke off venture-backed company formation in the US. My current company, Model N, and the previous two I founded, NetDynamics (sold to Sun Microsystems:SUNW) and TradingDynamics (sold to Ariba:ARBA) are among the 3% of small companies that grant employee stock options. Venture-backed start-ups, which have been responsible for creating 10 million jobs and over 11% of annual US GDP, must compete with established companies not only for business but also for employees. Until now, our greatest asset in the competition for employees, and our only mitigation for the greater risk our employees must necessarily take, has been our ability to offer them ownership in the company through low-priced stock options.

Since private companies cannot rely on market valuation for their stock, FASB has proposed several accounting methods. While not an accountant, I can see that all the various methods under consideration for expensing these options will be extremely problematic from an auditing point of view. They also would be unlikely to improve the quality of financial statements for private companies and, in fact, may have negative impact. Worse, as a CEO I believe the cost of the required calculations would be prohibitive for small companies. Our standard practice of granting every employee options with four-year vesting as of their hire date would be a nightmare under your proposed "graded schedule." To win in the marketplace, our company must run lean and cannot afford the large team of CPAs that would be needed to manage our stock plan. I believe, therefore, that if these new rules go into effect we will be forced to abandon our stock option plan entirely or at minimum to limit it to senior executives only.

If stock options cease to be a viable way to attract and align employees, I am pessimistic about the future of venture-backed start-ups in the US. Despite the recent recession, such companies have been a key engine of US economic growth that other countries are only now beginning to exploit. We put this engine at risk at our peril.

Zack Rinat

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