

Letter of Comment No: 6395
File Reference: 1102-100

To: FASB Directors
cc: Jennifer Connell Dowling, NVCA

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**Comments of Theresia Gouw Ranzetta to the FASB Exposure Draft entitled
*Share-Based Payment, and Amendment of FASB Statements No. 123 and 95.***

My name is Theresia Gouw Ranzetta and I am a Partner at Accel Partners, a venture capital firm in Palo Alto, California. Our firm manages over \$3 billion in capital and has invested in more than 200 early stage companies in emerging markets during our 20 year history. I have worked in the computer and communications industries since the late-1980's as an entrepreneur, consultant and venture investor. Prior to joining Accel Partners, I was founding Vice President of Business Development & Sales at Release Software, a venture-backed company that developed products to enable encryption and payment technologies for the software industry. I was also a key member of the senior management team and was instrumental in growing the company from \$0 to \$15M in revenue. Before that, I worked as a management consultant at Bain & Company and a product manager at Silicon Graphics.

Since joining Accel in 1999, I have led investments in several early stage companies. I currently serve on the Board of Directors at several early stage companies. I hold an Sc.B. in Engineering from Brown University, magna cum laude and an M.B.A. from Stanford University.

I implore FASB to reconsider the requirement to expense stock options. Aside from the exorbitant costs associated with implementing the requirement, there are several other reasons why I am vehemently opposed to the proposal. Not only will the expensing of stock options misrepresent a company's true financial position and render their financial statements useless, but it also has the propensity to dampen something very near and dear to my heart, innovation.

From a cost perspective, how does the FASB intend to account for the additional costs associated with the proposal? How many accountants and valuation experts will need to be hired to opine on the right valuation methodology? These are real costs to companies, particularly companies that do not have the appropriate budgets for such work, an early stage technology company that is maybe started in the garage of two founders, trying to compete against a corporate giant? Is it the FASB's intent to burden these companies, such that they do not have a fighting chance? Never before has an accounting pronouncement had the potential to stomp on our fragile entrepreneurial community, and I am quite certain that it was not the intent, but it is turning out to be the reality.

I am not an accountant, but I certainly know enough about financial statements to recognize some glaring issues, as listed below:

- Where else in financial statements do you require a company to expense an opportunity cost vs. an out of the pocket cost? Essentially, that is what is required and to my knowledge, this will be the first time.
- Where else does the FASB require and estimate to be "trued up"? Financial statements have estimates and accruals, but none to my knowledge that require a company to reconcile on a regular basis.
- What is the notion of fair value? As I understand the FASB's general definition of fair value is a "willing buyer, willing seller." I recently asked one of my investment bank

contacts if they would be willing to buy a private company stock option and it was received with a resounding chuckle. The restrictions typically imposed on these options makes them unmarketable, so to my knowledge, there are not willing buyers, that would coincide with the definition.

- Valuation of these options is very problematic if only because any one of the methodologies chosen for the same company can yield results that vary greatly. This is of particular interest as it relates to private companies, how do you measure the volatility of a stock option for a private company? The current standard allows for a private company to set volatility to zero when using Black-Scholes, while the new proposal forces companies to estimate stock volatility? To the extent that FASB prefers the binomial method, how is the additional use of estimates a better proposal? It seems to me it only adds to the cost of implementing this accounting rule, so companies will be required to line the pockets of the accounting and valuation professionals. Even the intrinsic value methodology, touted as being simpler and less costly requires companies to re-measure the price of the underlying common stock every reporting period.

Aside from the technical issues detailed above, I want to close with my greatest fear, the fear that our economy will be impacted and there will be a halt to innovation. Stock options were created to reward any person that is willing to go out on a limb and fight for an idea and compete with a corporate giant. These private companies do not typically have the funds to compete with the corporate giants, so in terms of real dollar compensation available to attract the best and the brightest, they are at best crippled. Stock options allow companies to provide an incentive to someone that is willing to fight for the dream of building a company and obtaining ownership. These are the companies that have and continue to create disruptive technologies and medical innovations that have changed the world and have impacted lives. These companies simply do not have the financial wherewithal to make it possible to hire the leaders in the field without the ability to offer stock options. We already know that this proposal has caused some large public companies to cease their stock option issuance, as they do not want to take the phantom "hit" to their financial statements. A private company may not even get off the ground to have an opportunity to make that choice; they simply will not be able to afford it.

Please reconsider this proposal, for the future of our economy. Allow our private companies to compete and continue to innovate for today and for our future.

Sincerely,

Theresia Gouw Ranzetta
Accel Partners