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To: Director - FASB

Cc: jcdowling@nvca.org

Subject: File # 1102-100

If you have difficulty reading this letter, I have also included it as an attachment:

As a venture capitalist, who has financed more that 65 U. S. companies and sat on the Board of Directors of 15, I am opposed to the expensing of stock options for small private companies. I have three main arguments:

Letter of Comment No: 400 File Reference: 1102-100

I. BEAUTY LIES WITH THE BEHOLDER — It has been my experience that management is attracted to venture financed companies by the prospect of becoming very rich. Everyone sees himself becoming a millionaire, the way so many employees at Microsoft did. This is the American ideal.

But, while some options really pay off, most do not. Probably less than 50% of new ventures prosper. A very large majority never meet their business plans.

So, if we now value an option at "fair value", will we have trouble attracting employees, as we have now voiced the opinion that most options will not prove highly valuable? Its not that employees are duped; it is that they wish to believe their options will be highly valuable. So do we venture capitalists. Must we kill this dream?

II. SUE ME — I have sat on several audit committees; I am sensitive to what appears in the financial statements. I think its very hard to set a value on private company options. What if we do wrong?

If we undervalue an option, and the company later goes public, will I be sued for having overstated earnings in an earlier year?

If we overvalue the options, and even if we stay private, will I be sued by an employee for misleading him as to the value of his compensation?

III. NO MODEL EXISTS — Black-Scholes was developed for large capitalization stocks with good markets. But with 30-40% of venture financed companies not surviving 5-10 years, how can we value their options?

Black-Scholes relies heavily on volatility. Given the grim record of venture financed companies, which is certainly worse than that of seasoned public companies, we should use a volatility factor of well over 50%. This means that we will be overstating the expense for companies that do make it, and still understating the expense of the companies that fail.

And we will use Fischer-Scholes, as we all want our numbers to be "comparable" in case we go public.

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