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Letter of Comment No: 2832  
File Reference: 1102-100

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**From:** Greg Prow [gpro@mobiusvc.com]  
**Sent:** Friday, May 28, 2004 4:34 PM  
**To:** Director - FASB  
**Cc:** Jennifer Dowling  
**Subject:** Re: File Reference No. 1102-100

Dear FASB Representatives,

I am a Managing Director and Chief Operating Officer for Mobius Venture Capital. I sit on a number of private company boards. Over the past number of weeks, since the release of your Exposure Draft regarding the expensing of stock options, I have received briefings on the Draft from both company executives and numerous accounting and law firms. My concern relates mostly to the belief that expenses ought to be expensed currently and if they are, the methodologies you have chosen to require to reflect that expense.

Should Stock Options be expensed-Given there are so many issues surrounding valuation and considerable debate still exists as to whether stock options represent an expense in the first place, disclosure of both (with non-expensing being the rule and expensing being the pro forma) would make sense. You get the best of both worlds in this case. Those who somehow find it meaningful can view the pro forma results and those who find it meaningless can simply ignore it. FASB has sanctioned pro forma statements in the past and this would only serve to reinforce the considerable valuation problems that exist around the methodologies. A private company that is performing very well will have a greater component of non cash expense applied to its income statement whereas a company performing very poorly would be allowed to decrease its expense amount thus improving the way it looks to investors. The ability to modify these amounts quarterly will simply make it impossible for the investor to evaluate based upon the financial statements, the health of the underlying assets.

The proposed methods of expensing- The exposure draft provides two methods for computing the expense. Putting aside for the moment that a reasonable individual cannot compute the expense under either of the methods, the draft says you want flexibility so that new methods can be developed. While this is admirable, a careful reading of the draft seems to preclude the use of any model other than Black Scholes or the Lattice models. Not only must a model used contain the Black Scholes inputs, but the model must be based on established principles of financial economic theory that are "generally accepted by experts in the field ( 9)". The reference to Paragraph 9 refers only to lattice and Black Scholes models. Perhaps the most important reason these methods lack any viability is because it takes a PHD mathematician to understand how to calculate and interpret the calculations. To believe that the average reader of the financial statements will gain any value from this expense on the face of the Income statement is ludicrous. Additionally, these models require a company to predict the impact of future events on their future volatility and then try and convince their auditors to sign off on their assumptions. It seems to me that in an environment where you want to remove assumption and guessing and rely on fact to convince readers as to the correctness of financial statements you would not force companies to guess why and how much future experience is going to be different than historical experience. What is even more outrageous is that with 10 year options, a company would have to do this guessing 10 years out.

Cost of complying with the exposure draft-Getting past these issues the next concern I have is related to the cost that will be incurred by private companies to calculate and maintain the "correctness" of this expense. A company trying to prove out a product and a market has to spend more on overhead which is a complete waste of very precious cash. Your examples in the exposure draft relate to only one or a limited number of executives in a company. In my experience, my companies have very broad based plans and this will add significantly to the difficulty of doing the calculation and its cost. This gets us back to the point which is the reason stock options are so important to companies in the first place, they do not require cash and provide incentive. Your exposure draft takes both of these major components which have been used for 50 years to promote economic growth and stability and removes them from practical application. I am not sure you have considered the long term consequences that this meddling is going to cause. The one year extension of

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the effective date will simply not help the nonpublic company and the transition rules proposed only add to the onerous nature of cost as private companies would have to maintain pre and post Draft option values.

In Conclusion, your exposure draft says that its goal is "to issue financial accounting standards that can be read and understood by those possessing a reasonable level of accounting knowledge, a reasonable understanding of the business and economic activities covered by the accounting standard, and a willingness to study the standard with reasonable diligence". Then you seek comment on whether or not I believe that this proposed statement, taken as a whole, achieves that objective. I have been in business for nearly 25 years, I worked for a Big 8, 6, and 4 for most of my career and have seen continued regulation destroy many good things unintentionally. I have started a company, I have been a venture capitalist for the last 6 years starting numerous new ventures, and I can say that the current exposure draft gives me true cause for concern. You have created a fix here that will prove to be untenable for companies and their investors. I strongly urge you to reconsider this exposure draft.

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