



May 30, 2008

Mr. Robert Herz  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856



LETTER OF COMMENT NO. 43

RE: FASB Preliminary Views on Financial Instruments with Characteristics of Equity

Dear Mr. Herz:

As President of the National Venture Capital Association (“NVCA”) and on behalf of the NVCA and our constituent members comprising venture capital funds and firms, our organization would like to comment on the FASB Preliminary Views on Financial Instruments with Characteristics of Equity (the “PV”), which was issued in November 2007, in anticipation of an Exposure Draft and proposed Statement of Financial Accounting Standards.

We understand the FASB is concerned with reducing complexity and increasing comparability of financial statement information for its users. We further understand that the FASB expressed a preference in the PV for the Basic Ownership Approach for purposes of characterizing financial instruments as debt or equity. While the Basic Ownership Approach may be thought by some to advance the goals of reducing complexity and increasing comparability among *public* companies, we believe the Basic Ownership Approach will have significant negative impacts on the typical venture-backed *private* company. These negative impacts include the increased complexity of fair value accounting for preferred securities that are *convertible to common stock and financial statements that are less meaningful to users of such statements*. As a result, if any changes to current accounting principles are necessary, we believe that the Ownership-Settlement Approach provides a better reflection of the distinction between equity and liabilities for venture-backed private companies.

Venture-backed companies are typically private, start-up companies in which the common stock is held primarily by the companies’ founders and management. The founders have generally contributed little or no cash in exchange for this equity. A venture capital fund (or syndicate of venture capital funds) that invests in a start-up company provides cash capital – often, the company’s only significant cash capital – and typically receives preferred stock that is convertible into common stock. Usually, each financing “round” is established as a separate series of preferred stock. The exit strategy for a venture-backed company typically involves a sale of the company or a public offering. The preferred equity allows the venture capital fund to protect its cash investment by receiving a priority return in the event the company does not

generate sufficient returns to cover its investment. If the company is sold or goes public in a successful transaction, the venture capital fund will convert its preferred stock to common stock and participate in the returns alongside the founders and management.

The complexities associated with the Basic Ownership Approach would be time-consuming and expensive for private start-up companies. Under the Basic Ownership Approach, convertible preferred stock would be classified as a liability and any changes in the fair value of that stock would need to be recorded in the income statement of the company. Because venture-backed companies are illiquid and typically have a long gestation period, the ability to value the enterprise prior to sale or public offering is time-consuming and expensive. Therefore, having to ascertain the fair value of convertible preferred stock would put these fledgling companies in a competitively disadvantageous position in the global environment.

Users of financial statements of private companies that employed the Basic Ownership Approach would likely get less useful or comparable information than under different approaches. Because of the typical capitalization of venture-backed companies (as set forth above), such companies will often have “negative equity” under the Basic Ownership Approach since the cash capital provided by venture capitalists provides the equity necessary to fund start-up losses and expansion of these companies. Lenders to venture-backed companies often provide financing based on the amount of venture capital equity invested in the company since this equity capital supports the company’s ability to stay in business and service the debt. To have this equity classified as a liability will not be meaningful to lenders in making credit decisions. In addition, financial statements which reflect venture equity capital as a liability may cause suppliers and customers to refuse to do business with venture-backed companies or impose more onerous terms due to unnecessary concerns about whether such companies have sufficient capital to stay in business.

Furthermore, if a private company has no requirement to redeem a security for cash (as is the case in the typical venture-backed company), changes in that security’s value should not be reflected in the company’s income statement since there is no obligation (other than in liquidation) that could potentially impact the company’s assets. This is especially true if the changes in fair value are attributable to the ability to convert to common stock. To show an increase or decrease in earnings based on changes in the value of the underlying common stock is not relevant and could be potentially misleading to many users of the financial statements.

Venture-backed companies engage in the job creation, innovation and technological advances that enhance and stimulate the United States economy. Implementing a financial accounting principle that would increase the costs of such companies based on increased complexity and render financial statements less meaningful to users would be detrimental to their competitiveness in the global economy.

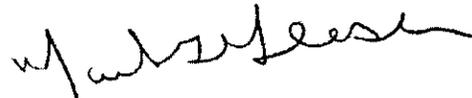
Although the Ownership-Settlement Approach to characterizing financial instruments as debt or equity is not without flaw, it more accurately reflects the obligations of a private venture-backed company with respect to their typical financing and capital structures. Because equity, under this approach, includes instruments that are settled by delivery or receipt of common stock and that has a fair value that is derived from the fair value of common stock, we believe that the

convertible preferred stock financing structure typically used by private venture-backed companies would be characterized as equity. For the reasons set forth above, we believe such instruments should be characterized as equity in order to reduce complexity and more accurately reflect the financial position and results of operations of venture-backed companies to the users of the financial statements.

We hope you will take these concerns into consideration as the Board explores this issue further and as you continue your efforts to reduce complexity and enhance relevance and comparability of financial statements.

Thank you for your support of the venture capital industry and for your willingness to work with us on this and other issues. Please feel free to contact me or Jennifer Dowling at 703.524.2549 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark G. Heesen". The signature is fluid and cursive, with a prominent initial "M" and a long, sweeping underline.

Mark G. Heesen  
President