



Letter of Comment No: 6518  
File Reference: 1102-100

June 24, 2004

Director of Major Projects  
File Reference No. 1102-100  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, Connecticut 06856-5116

This letter presents the comments of St. Paul Venture Capital in regard to the above referenced invitation to comment.

We are writing to alert you to an impending crisis in the US financial and job markets. This crisis is related to the significant negative effects which would result from the recent Financial Accounting Standards Board (FASB) Exposure Draft, *the Share Based Payment, and Amendment of FASB Statements #123 and #95*. As anticipated, this new ruling will require that all share-based payments, **including employee stock options**, be treated as an expense on public and private company Income Statements.

We believe the FASB proposal fails on multiple levels. From a purely accounting perspective, the valuation methods prescribed will not result in a better depiction of a company's economic health or more transparent financial statements. On a macroeconomic level, we do not believe that FASB has given any consideration to the negative impact an expensing rule will have on the nation's economy. Further, we believe that the cost of implementing these inaccurate valuation methods will place a dramatically disproportionate and potentially crippling burden on startups and nonpublic entities. *We believe FASB's proposal if enacted as proposed, will ultimately undermine stock options as a tool that has successfully aligned the interests of shareholders with employees and which has been critical in our ability to foster the companies that have driven the nation's economic growth.*

We believe several unintended consequences from this proposed rule could result:

1. Financial statements of companies small and large will be distorted by guesswork estimates of the future value of stock options. Companies will be required to report quarterly compensation expenses based on estimates of the potential future value of employee stock options.
2. Financial performance of companies will be degraded due to the need to expense the impact of stock options. This will make capital more expensive for these companies and put them at a competitive disadvantage with companies in other countries such as China and India (where stock options are not expensed).
3. Expensing stock options at the time of grant would virtually eliminate the use of options. In addition, if options are viewed as a compensation event, the recipient of the option might be taxed at the time of the grant of the option. This has happened in countries such as Switzerland, resulting in the death of options for motivating, attracting or retaining workers. Why would a person work for a small, high risk company if they can't share in the upside of

the company? This issue is particularly relevant to the California/Silicon Valley economy and population. A key method for our employees to have any chance at a down payment on a home in this expensive Silicon Valley housing market is through the use of stock option capital gains.

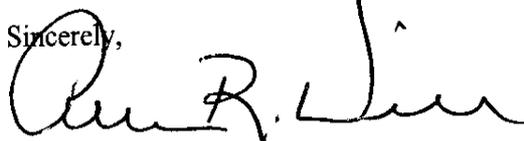
4. The requirement to expense stock options will significantly reduce or eliminate a tool that is critical for small, emerging growth companies to attract and retain employees. The need to expense these options will severely restrict companies' willingness to offer options to employees, thus reducing the possibility for growth of these companies.
5. Small companies create most of the new jobs in the US. Without options as a tool to attract employees, the growth of employment will be suppressed.
6. The medical device industry relies upon start-up companies to provide critical life- and cost-saving technological innovation. Without stock options as a vital motivational tool, medical innovation will be smothered.
7. Expensing stock options could accelerate the outsourcing of quality jobs to other countries such as China and India due to US companies being restricted in their ability to compensate American workers.
8. The costs of implementing this proposal would be overwhelming to small businesses. The complex accounting and formulas would add extensive internal and external costs. This would add to the already overbearing accounting and auditing costs and overhead on small companies.

It is our belief that options should not be viewed as compensation expenses; they should be viewed as transfer of ownership of the company to the employees. This is a capital event, not an expense.

This ruling, if allowed to proceed to practice, will have a devastating effect on new company formation, job creation, medical innovation, availability of capital, and US companies' ability to compete in the world markets. It would likely have the effect of accelerating the exportation of jobs to countries that don't have these punitive rules.

Thank you for your time and the opportunity to submit our views regarding this matter.

Sincerely,



Allan R. Will  
General Partner  
St. Paul Venture Capital  
1600 El Camino Real  
Suite 290  
Menlo Park, CA 94025

cc: Jennifer Connell Dowling - NVCA