

Letter of Comment No: 6379  
File Reference: 1102-100

**Stacey Sutay**

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**From:** David E. Goodman, MD [david@thegoodmans.com]  
**Sent:** Tuesday, June 29, 2004 6:14 PM  
**To:** Director - FASB  
**Cc:** mpotter@delphiventures.com; jcdowling@nvca.org  
**Subject:** File Reference No. 1102-100

June 29, 2004

**VIA E-MAIL**

Ms. Suzanne Bielstein  
Director of Major Projects – File Reference 1102-100  
Financial Accounting Standards Board 401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: Proposed Statement of Financial Accounting Standards  
Share-Based Payment, an amendment of FASB Statements No. 123 and 95

Dear Ms. Bielstein:

As the Chief Executive Officer for a private investor-backed company, I am writing to respond to the *Proposed Statement of Financial Accounting Standards, Share-Based Payment, an amendment of FASB Statements No. 123 and 95*, dated March 31, 2003 (the "Exposure Draft"). The private companies I am involved in, and others like them, drive the private investment of billions of dollars in the United States, and provide much needed jobs in high-tech industries. The practice of issuing stock options to employees within these companies is a powerful tool in attracting and retaining highly qualified and motivated personnel.

I am writing to express my personal concern, and that of my colleagues regarding this draft amendment. While we understand the circumstances and concerns that have prompted this amendment, we do not believe that the proposed amendment will enhance financial reporting, or that the proposed valuation models will provide shareholders (or potential investors) better information with which to evaluate companies. Further, we believe the proposed amendment to be an undue burden on small private companies that traditionally lack the financial resources or personnel required to properly implement the complicated requirements of the amendment.

We do not believe that the Black-Sholes or binomial methods can be properly applied to employee options, especially for a nonpublic entity. The proposed method of applying a volatility prediction based on a comparable public entity assumes that a "similar" public entity exists. Furthermore, companies that have comparable market values at one point in time may still vary greatly with regard to their employee vesting and contractual terms or other unique characteristics of employee options. There is a high level of discussion in the business community regarding the validity (or lack of validity) for both of these models in properly valuing employee options.

We also do not believe that the granting of employee stock options gives rise to recognizable compensation cost or a true expense as the term has been traditionally defined and recognized by those

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that provide accounting standards and guidance. Stock options, however they may be used as inducements for employment or to provide potentially valuable benefit, are not a true form of recognizable compensation.

There is considerable disagreement in both the business and accounting communities regarding whether or not stock options should be recorded in the financial statements, and if recorded, by what instrument they should most properly and effectively be measured. For this reason, and for the other objections stated above, we strongly oppose the adoption of the proposed amendment until such time as greater consensus can be achieved. We believe that the adoption of the amendment in the face of such concerns defeats the purposes of both informing and protecting the users of financial statements.

We ask that you consider our comments as well as those from others within our industry and re-examine your proposal.

Sincerely,

**David E. Goodman, M.D.**  
Chief Executive Officer  
Interventional Therapeutic Solutions, Inc.  
6 Parkside Way  
Greenbrae, CA 94904

415.672.4427 tel  
415.461.9341 fax  
[david@thegoodmans.com](mailto:david@thegoodmans.com)