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Letter of Comment No: 5647
File Reference: 1102-100

From: Doug Burns [dburns@courtsquareventures.com]
Sent: Monday, June 28, 2004 5:21 PM
To: Director - FASB
Cc: jcdowling@nvca.org
Subject: Reference File No. 1102-100

Dear FASB:

I am writing to express my concern over the proposed concept of expensing stock options. As a former CPA auditing technology companies and a current venture capitalist, I have been familiar with this issue for nearly ten years.

1. The issuance of shares is not an expense. Companies do not recognize an expense when they sell shares to investors, whether it be privately or on the public markets. If an investor wants to see stock activity, the statement of retained earnings itemizes all issuance of equity, whether to investors or for options. Counting options as an expense flies in the face of the core concept of equity.

2. Proposed methods for determining the "expense" related to options are unrealistic. Black-Scholes valuation is a valuable tool for some trading activity in the public markets, using it on privately traded securities is useless. Other options that trigger variable plan accounting are extremely problematic to companies preparing reports and investors trying to understand them. The confusion caused by these estimates will result in a reduced understanding by readers of financial statements, thus having the opposite effect of trying to educate investors.

3. Financial statements are reports of historical activity, not future events. The proposed methodology using estimates is an attempt to predict future activity and thus reduces the ability to rely on these documents.

Sincerely,
Douglas A Burns

Douglas A. Burns
Court Square Ventures
Zero Court Square
Charlottesville, VA 22902
434.817.3300 x3 (p)
434.817.3299 (f)
dburns@courtsquareventures.com