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FASB FINAL STOCK OPTION RULING LACKS REAL WORLD APPLICATION

Future of Young, Emerging Growth Companies, IPO Market at Stake

December 16, 2004 Washington DC -- The Financial Accounting Standard Board's (FASB's) final ruling today, which mandates the expensing of employee stock options, is poised to cause serious harm to small, private companies later this year unless regulators and legislators work together to protect this critical sector of the US economy. According to the National Venture Capital Association (NVCA), the stock option expensing mandate will place an undue burden on start-ups and small companies that need to offer employee options to attract talent but have not been given the necessary tools to accurately reflect an expense. Despite hundreds of public requests for the FASB to address the problems associated with the stock option proposal, the final ruling fell far short.

"Now that the FASB has issued its final ruling, it's time for policymakers and regulators to step in on behalf of our country's entrepreneurs and fix the quagmires that have been created here," said Mark Heesen, president of the NVCA. "We are now looking for the SEC and Congress to accomplish through implementation guidance and further interpretation what the FASB failed to do -- reach a reliable, workable solution."

The NVCA and hundreds of other American businesses have long asserted that the FASB proposal does not provide an accurate method for valuing employee stock options, particularly for private companies whose stock does not trade. Ironically, the result of today's ruling will be financial statements that are less reliable and comparable to one another as companies will be able to choose from a number of discredited valuation models. Further, the expense of hiring the necessary experts to perform these inaccurate, but mandated valuations -- assuming that the experts actually exist and are available to work with private companies-- will be cost prohibitive for the young start-up companies that fuel the nation's public markets.

"So much of the debate around this issue has been centered on publicly-traded companies. But regulators should understand that this rule will have a significant impact on *private* companies," continued Heesen. "Private, venture-backed companies have been the job-creating engine of the American economy. There are major unanswered questions with respect to how options will be valued under this new rule; how the rule will affect the thousands of private venture-backed companies who give ownership in the form of options to *every* employee; and in practice whether it will make income statements more reliable or *less* reliable. The FASB has not thought through these issues, and the SEC and the Congress should do so before driving the job-creating startup economy over a blind cliff."

In recent months, the FASB made some small concessions, indicating recognition of some of the problems associated with its proposal. In October, the FASB delayed implementation for private companies until December 15, 2005. Within the last month they made allowances for private companies to use an industry or market index that matches their business model to measure volatility rather than derive it from scratch.

“A market index is a small step in the right direction, but it didn’t go nearly far enough, commented Heesen. “Not all private companies have a market index that is relevant. And delaying bad public policy did not do anything to solve the myriad of problems here. The SEC has historically taken a practical approach to interpreting the law when it comes to small business. We are hopeful, for the sake of our country’s emerging companies, that will be the case with this ruling as well.”

About the NVCA

The National Venture Capital Association (NVCA) represents approximately 450 venture capital and private equity firms. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy, and support entrepreneurial activity and innovation. According to a 2004 Global Insight study, venture-backed companies accounted for 10.1 million jobs and \$1.8 trillion in revenue in the U.S. in 2003. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provides reliable industry data, sponsors professional development, and facilitates interaction among its members. For more information about the NVCA, please visit www.nvca.org.