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Bob Pavey Speaks Out Against Expensing Stocks in *Washington Times*
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In the aftermath of corporate scandals, Congress currently is debating what to do about stock options. There is a lot at stake since the Financial Accounting Standards Board in March mandated the expensing of employee stock options. It was a sharp blow to our economy's risk-takers, who historically have been at the forefront of U.S. job creation and innovation. The board's proposal threatens to obliterate the one financial incentive that young venture-backed companies rely on to grow.

While employee stock-option programs have become more mainstream within large, publicly traded corporations in recent years, it is the venture capital and start-up communities that have relied upon stock-option incentives for decades to create tremendous value out of new ideas and driven individuals.

America has differentiated itself economically through its venture capital, entrepreneurial and employee stock-option systems. No other economy in the world has been able to duplicate the successful risk-reward models that we have built in the United States. Our risk capital system works because it rewards all stakeholders — not just investors. Founders and employees work long hours on groundbreaking efforts in the hope that there will be a just reward for success.

Venture capitalists often insist that employee stock options be granted to all employees because no other financial tool creates commonality of interest between workers and investors. It is our ability to create this commonality that makes our entrepreneurial culture possible — something that other cultures have failed to do.

The proposal by the Financial Accounting Standards Board will change this dynamic. It's extremely challenging for any business to place a value on employee stock options, but it's next to impossible to place a value on employee stock options of a private, entrepreneurial company. The company's stock is not tradable, there are often no similar companies in existence to benchmark and its future is highly uncertain. Any value derived from using existing valuation models is guaranteed to be highly inaccurate.

Under the board's proposal, young companies would be required to spend scarce resources to hire outside expertise to work through complex valuation models resulting in fictitious figures in their financial statements. A likely result will be entrepreneurs taking their free enterprise endeavors to other countries, such as China, where stock options are being recognized as excellent incentives and being widely adopted. Clearly not the outcome the Financial Accounting Standards Board, or anyone else for that matter, is pursuing.

Venture capital and stock options are proven drivers of economic growth. Companies that were originally venture backed accounted for 10.1 million U.S. jobs and \$1.8 trillion in gross domestic product in 2003. Venture funding has also been credited with the creation of entire industry sectors, such as software and biotechnology. It will be the venture-backed companies that create the next wave of innovation and job growth in nanotechnology, clean energy and genomics — provided these organizations can still leverage options plans to attract the talent required for success.

In absence of the Financial Accounting Standards Board's recognizing the needs of America's risk takers, Congress currently has legislation poised to protect our start-ups. The Stock Option Reform Act of 2003, sponsored by Rep. Richard Baker of Louisiana and supported by a large bipartisan contingent, mandates the expensing for the top five executives and exempts small companies from expensing through three years after an initial public offering.

While Congress is understandably hesitant to involve itself in accounting issues, the Financial Accounting Standards Board may leave it no choice but to pass this bill in order to shield U.S. start-ups and our economic leadership from irreparable harm. Let us hope it does not come to that, but be thankful that our legislators are watching over the situation with our economy's best interest at heart.

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