



**TESSERA**

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**Letter of Comment No: 2825**  
**File Reference: 1102-100**

May 28, 2004

Director, Major Projects and Technical Activities (MP&T)  
Financial Accounting Standards Board  
401 Merritt 7, P. O. Box 5116  
Norwalk, CT 06856-5116

Sent via email and U.S. mail

Re: File Reference No. 1102-001

Dear MP&T Director:

Tessera Technologies, Inc. appreciates the opportunity to comment on Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and its Related Interpretations, and IASB Proposed IFRS, Share-Based Payment.

After reviewing FASB's recent exposure draft on this topic, reading many of the related comment letters submitted to date, and holding numerous discussions with financial executives and accounting professionals on this topic, we wish to raise three concerns.

1. The Concept Probably is Flawed

The recently published book, "In the Company of Owners: The Truth About Stock Options and Why Every Employee Should Have Them" by Joseph Blasi, Douglas Kruse and Aaron Bernstein concludes, after a study of economic evidence on this subject, that employee stock options are not labor income but rather are capital. We agree and believe that this capital impact is included in the increased share count associated with the issuance of options. Mischaracterizing a capital transaction as compensation expense diminishes the quality of financial reporting, in our opinion.

2. The Methodology is Flawed

Should you proceed despite this concern over the conceptual basis for your proposal, we believe you should add a project to your agenda to develop a more appropriate and accurate methodology for measuring the value of options.

As you know, the proposed Black-Scholes and binomial option pricing models were designed to value short-term, freely-tradable options rather than employee stock options. As a minimum, some adjustment has to be made for the lack of transferability of employee stock options.

The proposed pricing models probably will overvalue employee stock options but, in any case, they will fail to value them accurately, as we all know.

This is because two variables in these models, standard deviation and expected value, can create major fluctuations in the value of the options. To accurately value the options, one would need to know the future value of these variables which is not possible. Historical values for these variables, except possibly for a short-term period, would rarely be a reliable predictor of future values.

Why degrade the quality of financial reporting in this way? Why not take the time to develop a better methodology rather than using ineffective off-the-shelf methodologies?

3. The Implementation is Flawed

If you are undeterred by this concern over flawed methodologies, we believe you should add a project to your agenda to develop a more consistent, standardized way of implementing the option pricing models so as to at least preserve some measure of financial statement comparability amongst companies. Remember, for many companies this expense could be larger than another estimated expense, namely depreciation.

We believe you should select one, and not two, basic pricing models. Moreover, we believe you should set forth some specific guidelines or standards for the key parameters to be contained in these models.

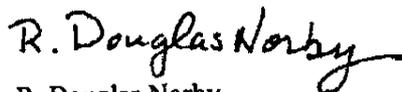
Without these steps, we again could diminish the usefulness of financial statements in terms of comparability and credibility.

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We believe your proposed solution will detract from the usefulness of GAAP financial statements and lead to a widespread adoption of proforma income reports. This would represent a failure of our accounting standards if companies have to construct their own metrics and financial statement presentation conventions.

We again appreciate your invitation for us to comment on your proposal. It is a healthy process for you to hear both agreement and disagreement with your proposals. We submit our comments sincerely out of a real concern over the possibly negative impact your ideas may have on businesses at a time when we face a need for increased credibility in our financial reporting.

Yours truly,

A handwritten signature in black ink that reads "R. Douglas Norby". The signature is written in a cursive style with a long, sweeping underline.

R. Douglas Norby  
Senior Vice President &  
Chief Financial Officer