Letter of Comment No: 3091 File Reference: 1102-100

To: Financial Accounting Standards Board

From: Kim Polese, Founder and former Chairman and CEO, Marimba, Inc.

Re: Request for comments on the Proposed Statement of Financial Accounting Standards

I am providing this statement to provide additional information related to my request to appear at the Board's Roundtable meetings on the Proposed Statement of Financial Accounting Standards – File Reference No. 1102-100.

I am the founder and former CEO and Chairman of Marimba, Inc., a software company that fostered innovation and grew through the use of employee stock options. I have concerns that the Board's proposal will result in inaccurate valuation of employee stock options and will have a detrimental impact on employee ownership. I would like the opportunity to discuss the following issues in detail, based on my experience at Marimba.

As founder and CEO of Marimba, I assembled a talented technical team by granting stock options in a new company. Stock options have been a key factor in the ability of young technology companies like Marimba to attract and motivate a talented workforce. In fact, enabling employee ownership through stock options has long been a cornerstone for emerging growth companies in industries like biotech, Internet and software. It has given workers a stake in the success of their firms and fueled America's entrepreneurial culture.

Every new Marimba employee received stock options. Marimba's employees knew that the stock options held no guarantee of ultimate value, and would only be worth something one day if they worked hard to build sustained value in the company over time. With this incentive, Marimba's employees created a company that became a leader in the systems management market, supplying business-critical software to companies such as Charles Schwab, Procter & Gamble, Cigna, Washington Mutual, and hundreds more. As a result of their hard work and the resulting growth of the share value over time, many rank-and-file Marimba employees have been able to achieve financial goals that were previously unattainable, such as paying off college loans, purchasing a first

home, and better providing for their family's future. The pride these employees feel is clear when talking to them, and their collective contribution to the company's growth has been substantially beneficial to Marimba's customers and investors.

I am concerned that the Board's proposal fails to recognize the importance of options to building and motivating a talented workforce in new and growing companies that rely on innovation and entrepreneurial talent. Because of the limitations of existing option pricing models, the Board's proposal will result in inaccurate valuation of employee stock options that will make it prohibitively expensive for companies to grant stock options to a broad base of employees. Ironically, the result will be a concentration of employee stock options in the hands of senior executives.

Clearly, financial accounting standards must require the fair presentation of the economic substance of business transactions. The Board's role is appropriately to ensure that accounting rules accurately reflect the values of liabilities of corporations for the benefit of investors.

I think we should look carefully at whether these proposed rule changes really improve the financial reporting model. I believe they do not.

First, I do not believe that employee stock options constitute an expense. However, setting aside this threshold issue, I have specific concerns about the valuation models which the Board has proposed.

Specifically, the Board's proposal would require companies to rely on the Black-Scholes or binomial option pricing models and to develop estimates of future volatility. The volatility of technology and growth company stocks is significant and unique to these industries. This volatility depends on technology breakthroughs, rapidly changing markets and new product developments. As a result, future volatility is highly unpredictable and extremely difficult if not impossible to estimate with accuracy. Marimba's stock, for example, has experienced significant shifts in value do to a range of events which could not be predicted in advance.

The stock has ranged in value from as high as \$60 to as low as \$1. The stock is currently valued at \$8.

Incorrect estimates can cause option values and resulting expense numbers to fluctuate significantly.

Further, the Board's proposal does not allow the unique attributes of employee stock options to be taken into account. Specifically, in my experience, early exercise behavior is not consistent and does not follow a predictable pattern. I do not believe that such behavior can be estimated with accuracy.

Other unique attributes of employee stock options which are not fully taken into account include vesting requirements, and lack of transferability or hedgability. The resulting "values" arrived at through use of the Black-Scholes or binomial models will grossly overstate the "value" of employee stock options, resulting in an inaccurate expense number.

I am also concerned that, for smaller companies, the Board's proposal will impose prohibitive costs associated with purchasing software and consulting expertise necessary to apply the new, binomial models.

The importance of broad-based employee ownership has been overshadowed by recent corporate abuses. I share concerns about these corporate abuses and believe they should be addressed. I believe, however, that we need to keep intact the incentives that will continue to attract Americans to the technology industries that are so vital to ensuring our nation's global economic competitiveness. Granting equity to employees in the form of stock compensation is among the most important of these incentives.