Letter of Comment No: 5447
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June 28, 2004

Financial Accounting Standards Board

Dear Sir, ,

I am writing to express my concerns over the proposal to require the expensing of stock options. I have two major concerns regarding this issue: 1) the poor methods available to value stock options; and 2) the discouraging impact this could have on entrepreneurship.

I rate myself as a sophisticated investor. I have been an investor in the stock market for 32 years. I purchased my first shares of stock while in college at the age of 21. This was hard earned money as I was paying my own way through college. I invested in the market in order to earn a return higher on my money compared to other alternatives at the time. I continued to invest in the market while in graduate school funding my entire Stanford MBA through my stock profits. My friends thought I was foolish investing my tuition money in the market while still in graduate school. I however was willing to take the risk as the economy and the market was trying to pull itself out of the '73 oil embargo and the '73/'74 bear market. I continue to invest in the market with the majority of my assets invested continuously since the early '70s.

As an investor, I tend to be a long-term holder as opposed to a short tem investors and momentum players. There are times when I have shorted a stock as I felt the stock was overvalued. And there are times that I purchase shares on margin when it seems appropriate. I have not purchased or sold options in the open market but have studied them numerous times.

As a sophisticated investor and the Chief Accounting Officer for a public company, I have calculated the value of the options issued by my employer during the past 7 years for the FASB 123 disclosures. Our stock has been volatile during this time period. Under Black Scholes, our options typically valued in the 70 to 80% range and have been as high as 96% of the stock price. **Any sophisticated investor is not going to pay 70% or more of the actual stock price for an option i.e. why pay $7 for an option which gives you the right to pay an additional $10 for a stock selling at $10 in the open market today.** That would be ludicrous. As a sophisticated investor, I would simply buy the stock for $10 today or purchase it on margin. Either way, I would skip the option at such a high price.

I have watched Hollis-Eden's stock price fluctuate between $3 and $36 during the past seven years. **When the stock price is low, the strike price and option expense is low and when the stock price is high, the strike price and option expense is high.** And yet, I and other employees would rather have an option with a low strike price as opposed to a high strike price. **The intrinsic value of an option to an employee is highest when**

the stock price is low and vice versa. Yet, any model developed to value options puts a higher value when the stock is higher priced and a lower value when the stock price is low. If you stop and think about it, this makes no sense. If you work for a company where the stock fluctuates over a wide range, you will always want to receive options when the stock is at the low end of the range (and therefore a low strike price) as opposed to the high end of the range. Your opportunity to be rewarded from the options improves tremendously with a low strike price. The calculations provided in the exposure draft and for FASB 123 are nice mathematical calculations and make sense when viewed from an accounting standpoint. But when looked at from an investment standpoint, they make no sense. The options are not close to being worth what the models calculate. They just do no reflect the real world. **Investors in the open market would not purchase options for the values calculated by any of the models.** I believe the Board should talk to investors regarding the value of these options to put some reality back into the calculations and not simply rely upon models that seem right. If stock options are truly worth that much to investors, Wall Street would have found a way to sell options to investors for small companies as opposed to stock. This way, the company will be paid twice, once at the time the option is sold and also upon the exercise of the option. **Why sell stock for $10 per share if you can sell the option for $7 today and collect $10 at a future date when the option is exercised?**

For the last 21 years, I have worked at six start-up companies in the computer hardware, software and medical fields. During this time, I was willing to give up my career in corporate America for the chance to hit a home run in a start-up company. At the same time, I was willing to work for a lower salary and benefits in exchange for stock options. Therefore, stock options do have some value and do provide a form of compensation to employees willing to take a risk in a start-up company. **The complexity of calculations proposed in the exposure draft will kill stock options for small companies.** The cost of implementing the expensing of options will make it easier to select another for of compensation. **Without stock options, the chance for the home run in a start-up company is diminished and therefore, those willing to take the risk will diminish as well.** During the 1970's, the high federal tax brackets discouraged venture capital because the after-tax upside potential was outweighed by the after-tax downside. The major tax cuts by Reagan during the 1980's caused the venture capital funds to take off and led to a huge upswing in entrepreneurship and small business development. The eliminations of stock options will reduce the number of individuals who are willing to leave corporate America and take a risk in a small start-up company. I believe this will lead to a slow down in small business development and have an impact the long-term future of American business. I have been willing to take many risks by working for start-up companies most of my career but I did so because of the stock options. Without stock options, others and myself would probably still be working for corporate America with higher salaries and better benefits.

Sincerely,

Robert Weber