June 8, 2004

Letter of Comment No: 3777
File Reference: 1102-100

Mr. Robert H. Herz
Chairman
Financial Accounting Standards Board
401 Merrit 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Stock Option Expensing

Dear Mr. Herz:

As both a compensation professional for over 31 years and an independent investor in securities for nearly 40 years, I would like to offer my comments to you regarding the Exposure Draft for Proposed Statement of Financial Accounting Standards-Share Based Payment.

I recognize that you have already received and/or reviewed substantial information and data on this subject, so I will try to be brief.

The principle behind expensing stock options is an honorable one. However, the impact of expensing stock options is, for the most part, bad for high technology, bad for the Silicon Valley, bad for the State of California, and bad for the economic recovery underway in America. The reason it is bad is that it will, without question, lead to the discontinuation of stock option and stock purchase plans that have benefited both investors and rank-and-file employees. You only have to look back at the period 1992-2000 to see that rank-and-file employees, the very people that stock option expensing will injure, helped fuel the largest economic growth period in history.

As I understand FASB's contention, stock option expensing will increase transparency, accuracy, and comparability of financial statements, thus rebuilding investor trust in American business. Further, that expensing goes hand-in-hand with the purposes set forth in the Sarbanes-Oxley Act of 2002. I, of course, support your position in principle; however, the FASB proposal does not provide an option-pricing model that allows for accurate valuation. As you are aware, neither Black-Scholes nor the lattice-based binomial model with flexible inputs meet the clear and accurate test of determining "fair value" at grant. Regardless of how badly FASB may want to expense stock options, the flaws in these models are too great for consideration as effective predictors of expenditures on a financial income statement. Given these considerations, I suspect that investors might be more confused than ever before with your intended rule.

I also reviewed FASB's stated mission statement/action steps and reflect on them in this particular case. FASB is supposed to (1) establish and improve standards essential to the efficient functioning of the economy; (2) improve the usefulness of financial reporting focusing on reliability and qualities of comparability and consistency; (3) keep standards current reflecting changes in the economic environment; (4) improve common understanding of the nature and purposes of information contained in financial reports; (5) be objective and neutral; (6) weigh carefully the views of it's constituents; (7) promulgate standards only when the benefits exceed the perceived costs; (8) bring about changes that minimize disruption; (9) accommodate the need for relevance, reliability, comparability and consistency. In reflection, I do not see how this new stock option rule meets these high standards as constituted by your organization.

Mr. Herz, since these standards are in fact essential to the efficient functioning of the economy, I would urge you to consider (a) the merits of conducting a market-based test of the accuracy of "fair value" models, (b) delaying the implementation of a new accounting standard for employee options until that test is concluded and found to be free of any gaps or problems, and/or (c) the contents of The Stock Option Accounting Reform Act as introduced in the House of Representatives (Baker-Eshoo, H.R. 3574 IH, 11/21/2003) and the Senate (Enzi-Boxer, S. 1890 IS, 11/19/2003).

Sincerely,

David L. Nieto
1084 Ticonderoga Drive
Sunnyvale, California 94087

cc: The Honorable Anna Eshoo
Member of Congress
14th District, California