

ikon**Letter of Comment No: 3650**
File Reference: 1102-100

From: Troy McFadden [Troy.McFadden@Sun.COM]
Sent: Thursday, June 03, 2004 11:34 AM
To: Director - FASB
Subject: File Reference No. 1102-100

To Whom It May Concern:

The broad-based employee stock option plan here at Sun Microsystems, Inc. has made a huge difference in my career as well as for the US economy and US competitiveness. I believe that US innovation, competitiveness and employee ownership will be impaired if stock options were to be accounted for as an expense.

Along those lines, employee stock options should not be considered an expense to the company. The cost is not to the corporation, but actually to the stockholders via stock dilution. This impact can and should be shown in the quarterly and annual reports through full disclosure of outstanding shares and their status -- something which my company, Sun, already does.

Current models grossly overvalue, and therefore penalize, broad-based employee stock option plans. The Black-Scholes and binomial models advocated by FASB for valuing options at grant date do not take into account their unique nature. In particular, FASB has not fully taken account of the fact that these options are: nontransferable; cannot be hedged; are long-term with typical vesting periods of four years and exercise periods of 10 years; generally forfeited if an employee leaves the company or is terminated prior to vesting; and, most importantly, that no market currently exists for trading employee stock options.

In addition, FASB has not permitted any means to "true-up" an expense in later years. For example, in July 2000 Sun granted options that under Black-Scholes modeling would have resulted in a \$647 million hit to my company's bottom line. Currently, all of these \$45.09 options are now deeply underwater, yet under the FASB proposal Sun would have no opportunity to correct, or true-up, the financial statement.

Thank you for your consideration,

Troy McFadden

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