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Letter of Comment No: 2764  
File Reference: 1102-100

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**From:** Jeff Solof [Jeff.Solof@Sun.COM]  
**Sent:** Thursday, May 27, 2004 10:15 AM  
**To:** Director - FASB  
**Subject:** File Reference No. 1102-100

Dear Sir,

I am writing in regard to file reference number 1102-100, to express my strong opposition to the mandatory expensing of stock options.

Stock options, which are broadly distributed at Sun Microsystems -- over the past five years, 87% of all options have been granted to employees below the rank of Vice President -- provide a number of powerful benefits to the company and its shareholders. They incent entrepreneurial behavior: my options are only valuable to the extent that the company grows and prospers, which means that all my efforts are directed to this end. They incent long-term commitment: because they vest over a five-year period, I am much more interested in sticking with the company over the long-haul, versus flitting from employer to employer based on the best short-term compensation package. Particularly in volatile economic times, their long-term potential balances the short-term risk particular companies, like Sun, face in particular industries, like high-tech. Stock options keep me in my seat, working hard for the company's long-term benefit -- which, in fact, aligns my interests 100% with those of our shareholders. Stock options make this company my company, and its success, my success. There is no more powerful tool to accomplish this. (To the suggestion that shares of stock, rather than stock options be granted: shares of stock have value whether the company prospers or fails to prosper. Stock options, conversely, have no value unless the company grows.)

Some have written to you, I am sure, describing how much stock options mean to them personally. The stories of secretaries-turned-millionaires are heartwarming, I'm sure. But what do my personal interests mean to you, to Sun shareholders, to tax payers, to the citizens of our country? What should they mean? In this free market economy, not much. What is important to all of these constituencies, however -- what is absolutely vital -- is the economic competitiveness of our country, and our country's high-tech industry, which represents the leading edge and engine of our economy. Mandatory expensing of stock options will make otherwise profitable companies appear unprofitable to the average investor. Capital will flee to global competitors who are not required to treat options as an expense. And as global competitors will be able to provide much more compelling long-term incentives to employees, particularly in the high-tech industry, where stock options have been a staple for many years, our best and brightest talent will sign on to work for them rather than for the US companies which, heretofore, have been at the head of this vitally important, strategic industry. We've seen manufacturing jobs leave our shores; high-tech jobs will follow *en masse* if others can offer long-term incentives we no longer can.

I am also quite concerned as to the methodology you are proposing for calculating stock option-related expenses. To give you one example from my tenure at Sun, my first two option grants, in the spring of 2000, were originally projected to be worth \$138,000 and \$144,000, respectively, after five years. Specifically, I received 3,000 options at a strike price of \$46, and 3,600 options at a strike price of \$40. Sun used an estimated projection of 15% compound annual growth rate in the stock price to show a doubling in share price over the course of the five year vesting period, which resulted in these values. Today, our stock price is hovering around \$4 per share, and it's unlikely that these options will ever be worth anything before they expire at the end of eight years. So what is the right way to expense them? At \$282,000? At \$0? With no facility for true-ing up the actual value of the options when they're exercised, this attempt to provide financial transparency will in fact make financial statements more arbitrary and disconnected from reality. The reality is, in fact, that stock option grants represent a dilution of shareholder value -- which dilution is currently reported as it should be, rather than treated as a hard expense.

I understand your desire to provide this additional transparency -- and would assert that this is the wrong way to accomplish this goal. And I certainly understand your desire to prevent more egregious episodes of executive greed

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and malfeasance. But I would assert that requiring the expensing of broad-based stock options is again, the wrong way to accomplish this goal. And that it will hurt our high-tech industry, our national competitiveness, and the shareholders of our companies, whose interests are best served by a highly-talented workforce whose interests are 100% aligned with their own.

I ask you to withdraw or substantially modify your proposal to address these issues, and thank you for your consideration.

Regards,

Jeffrey R. Solof

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Jeff Solof  
Director, Editorial Office  
Global Communications  
direct: +1 781 442-0224  
fax: +1 781 993-1027  
mobile: +1 508 783-8394

Sun Microsystems, inc.  
1 Network Drive, MS UBUR02-203  
Burlington, MA 01803-2757  
internal: x20224  
<mailto:jeff.solof@sun.com>  
<http://www.sun.com/>