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Letter of Comment No: 2157
File Reference: 1102-100

From: matt morris [matthew.morris@Sun.com]
Sent: Wednesday, April 28, 2004 5:43 AM
To: Director - FASB
Subject: Reference No. 1102-100

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Dear Sir/Madam

It is with a great deal of gravity and concern that I became aware of the current proposals in respect of expensing stock options granted not only to me by my company, but also all the other companies who will be affected by this proposal in the wake of the bad practices of Enron and World com.

Firstly I'd like to make it clear, I'm an ordinary rank and file professional, and in no way do I command the salaries that staff at board level command. Stock Options are granted by Sun Microsystems, the company I work for, pretty well across the board as a way for everyone to share in our companies success in the market place, and are not confined to just the hierarchy. I would also go on to say in recent years the share price has shown volatility that would defy any formula being considered by today's proposals. In reality it's debatable they'd work in practice even under the most favorable circumstances of year on year growth, by definition a booming market.

What does this mean to the ordinary workers and industry?

How this affects me personally would be to take away reward for effort and commitment to the company I work for. It would certainly compromise the future of my children's further education. I don't want my daughter to leave University \$20,000 dollars in debt before she's done a real days work. This is our respective countries future talent being penalized here and by implication, jeopardizing future entrepreneurs, key to our countries continued economic growth and prosperity. What teenager wants to take a degree in whatever chosen field, knowing that on the day of graduation he or she is now in debt? I as a father want to be able to support her education, it's her right after all, but then in order to achieve this I will have to take out an additional mortgage at the expense of my wife's and my future security in order for her to achieve her ambition. Clearly this will impact our lifestyle, when my wife and I are approaching a time where everything should be paid for. That's the whole reason for working hard in the first place, yet somehow everything we've strived for would, over night, become meaningless.

By implementing these measures it will undoubtedly retard innovation. Why? Because it removes the incentive and promotes apathy, therefore the ground-breaking innovation that prevails in our industry today will clearly slow down and in turn have an adverse effect on outside investment, profitability, and ultimately the balance of payments. Average becomes the normal, it becomes the **'benchmark'**, hardly a term associated with today's market leading companies, of which the majority exist in the US. Workers will leave, businesses will struggle to the point where even the most loyal people will leave to follow a career elsewhere overseas. You only have to look at British Industry over the years to see the effects of over taxing and restrictions. Most of the top talent left that country to pursue careers overseas, and here's some irony, to the US in the main. Today we have the climate of opportunity, do we really want to become a country without a home grown industry to speak of? Do we want to become a nation of shopkeepers, service suppliers and importers? I think not. For many years countries have looked to us to take the lead in ground breaking innovation, be it in new technology, medical research, or new discoveries in space exploration. I can't imagine it being any other way, but to implement any of the measures being discussed could easily be the start of an industrial decline that would make it virtually impossible to recover from.

I have several observations on the various methods being put forward, aside from the fact that none of them are workable, certainly where my own stock options are being considered. I have taken time to look at some of the various

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possible valuation models that are being suggested as a way to be able to expense employee Stock Options, below are my thoughts

- If the Black-Scholes Option Pricing formula is being considered, it assumes that both the option and stock trade in liquid markets. It also assumes that the risk free interest rate and the stock's share price remain constant throughout the vesting period. Clearly the chances of this being the case in a long- term vesting period are remote. It's not that likely even in the short term. Since July 2001 our stock has gone from \$65.00 a share down to \$4.30!!
- If one looks at the Intrinsic Value method, Stock Options are valued at zero on the date of the grant, when the strike price and underlying stock price are similar. However, this understates the Stock Option value by ignoring their time value and therefore the opportunity for appreciation before expiration.
- The Minimum value method looks at buying the Stock Option at the current share price, but defer payment until the end of the Options vestment period. The draw back being it doesn't take into account the volatility of share prices. Just look at the last few years history of our share price for example, who could predict that?
- The BSM model with FAS modifications, substitutes the average time to exercise a Stock Option but does not take into account the lack of transferability during vesting period.

None of these methods seem to work whatever the circumstances. In the light of this I respectfully suggest that any attempt to expense Stock Options is pure folly and would be to the detriment of employee careers, standards of living, and impair industrial growth and investment worldwide.

Yours Sincerely
Matt Morris

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"It takes 20 years to build a reputation and five minutes to ruin it.
If you think about that, you'll do things differently." -- Warren Buffet
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