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From: Ponzer, David M [david.m.ponzer@intel.com]
Sent: Thursday, May 06, 2004 8:15 PM
To: Director - FASB
Subject: File Reference No. 1102-100

To whom it may concern,
I am writing today to express my views on the proposal to expense employee stock options.

By treating employee stock options as an accounting expense, it disregards three fundamental issues. First, employee options are not freely tradable. How do you value something that has no market? How do you put a price on something if it's not for sale? The answer is that you cannot. There is no accurate way to value these options without an open market.

Second, employee stock options are subject to lengthy vesting periods—typically four or five years. If the employee changes jobs before the options vest, they are forfeited.

Finally, employee stock options will be exercised only if the stock price rises above the strike price. How does one predict future stock prices with any degree of certainty? There are entire industries dedicated to such a practice, yet no one is able to predict with significant certainty what a stock price will be over a given length of time.

This FASB exposure draft is sure to be greeted with relish by our competitors in Asia and beyond. Entrepreneurs in China, Singapore and India will not just continue to focus on software development or other low-tech industries. They will create global economic powerhouses there which will be listed on those stock markets. In its latest five-year economic plan, the Chinese government explicitly calls for broader use of stock options to attract and retain key talent in China.

It is ironic that a communist country, the People's Republic of China, is encouraging the wider use of stock options, while in the U.S. the FASB wishes to make option grants to employees much more difficult and expensive. This FASB proposal will harm the ability of Americans to innovate and drive our nation towards second tier status.

There are other fundamental considerations regarding this proposal. One of the initial net effects of this change will be to reduce Federal and State tax income in a time when budgets are tight all over. Corporations will have an immediate expense that will serve to reduce profits and therefore reduce tax liability. Additionally, if employee stock option plans are restricted or reduced as a result of the change you will see a longer term impact to employee income and therefore to Federal and State tax revenues.

Also, the change will drive increased accounting complexity. Trying to accurately predict a stock's future value five to ten years out is a rather wild idea. Then you must track the net effect of the actual stock option execution against the prediction. Accounting costs go up and barriers for entrepreneurial ventures rise.

Treating employee stock options as an accounting expense runs against accounting practices that have stood the test of time. Fundamentally, something that cannot be valued accurately should not be treated as an expense. If we must change the current accounting practice then we should perhaps consider reflecting options as a liability that floats year-to-year based upon an index price. This liability should only be reflected on options that have reached their "exercisable date" and that have not reached their "expire date".

Thank you for your consideration, 
David M Ponzer

5/7/2004