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From: Mesler, Mark [Mark.Mesler@kla-tencor.com]
Sent: Thursday, May 06, 2004 1:17 PM
To: Director - FASB
Cc: Laboy, Tracy; Mesler, Mark
Subject: File Reference No. 1102-100

Chairman Herz,

I am deeply troubled and concerned by FASB's proposed accounting rule to expense stock options and ESPP plans. If the proposal were to be implemented, there would be two extremely grave consequences to the US economy:

- (1) Less transparency into companies' TRUE financial condition who expense stock options, and
- (2) The stifling of entrepreneurial motivation, innovation and productivity.

The simple truth is that mandatory expensing of stock options and ESPP plans is **BAD ACCOUNTING**. Given the number of variables and various broad assumptions (especially for "implied volatility") made to derive the valuations, the FASB proposal will cloud financial statements more than ever. These methods will unrealistically overstate expense valuations and will ultimately mislead investors as to the TRUE financial condition of the company. This does not create transparency or accuracy in financial reporting! The REAL COST of employee stock options is the potential dilution of each investor's share of company ownership. That cost is already reflected in companies' financial statements through "diluted earnings per share."

High tech business in Silicon Valley and around the world moves at the speed of light. Continuous innovation is the key to maintaining competitive advantages in this sector. The advances that the US has made in high tech innovation over the past decade has enabled us to create vast shareholder value - my company, KLA-Tencor, has itself generated greater than \$8B in market cap alone since the early 90s! Additionally, the technological advances that have been made here in the US have allowed us to become the most productive country in the world. These technological advances and productivity gains were a direct result of entrepreneurial motivation -- specifically, employees' ability to participate in the success of their companies through broad-based stock option programs. The US's ability to compete globally (especially against China, where companies issue stock options and don't expense them) and to maintain its technological innovation leadership will be seriously curtailed, should you chose to adopt the current draft plan. If companies are forced to expense stock option plans, they will be forced to limit the use of these plans, negatively impacting morale, productivity and innovation.

Broad-based stock option programs and ESPP plans are good for shareholders because employees are rewarded only if the company's stock value increases (creating shareholder value). Stock options have benefited my family and community in very significant and meaningful ways:

- (1) my wife and I were able to purchase our first home through the use of stock options,
- (2) my wife and I were able to purchase a new car because of my company's ESPP program,
- (3) I plan to pay off my graduate student loans through exercising stock options, and
- (4) my wife and I will fund our children's 529 college savings plans with our companies' ESPP plans.

As a finance professional, I am firmly against the proposed plan to expense stock options and ESPP plans. The proposal does not create additional transparency or accuracy, which are the hallmarks of accounting, and actually creates an environment to stifle entrepreneurial innovation and productivity, which are the hallmarks of the US economy. I urge you not to adopt the proposed set of accounting standards.

Respectfully submitted,
Mark J. Mesler
KLA-Tencor Corporation