

June 29, 2004

5204 E. Ben White Blvd. Austin, TX 78741 Tel (\$12) 385-8542

Director of Major Projects - File Reference No. 1102-100 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Letter of Comment No: 5746 File Reference: 1102-100

Re: FILE REFERENCE No. 1102-100: Invitation to Comment on Accounting for Stock-Based Compensation

Dear Sir or Madam:

On behalf of Advanced Micro Devices, Inc. (AMD), I am writing to comment on FASB File Reference Number 1102-100 regarding Accounting for Stock-Based Compensation.

AMD currently employs more than 5,000 people in the U.S., many of whom are compensated in part through stock option grants. In addition, most of our U.S. employees are eligible to participate in our Employee Stock Option Purchase Plan. If FASB requires stock option grant estimates to be reported on income statements, all of these employees would be negatively affected.

# Stock Option Expensing and Valuation

FASB seeks comments on whether employee stock options are an expense. AMD strongly believes that stock options should not be required to be reported as an expense for the simple reason that stock option value is extremely difficult to accurately predict and therefore could represent a scriously flawed expense charged to company annual income statements. Given the controversy surrounding valuation, the current method of allowing pro forma disclosure of what the income statement would have looked like if expensing had occurred is an appropriate means to provide notice to those who may believe that estimated stock option expenses provide useful information.

## Options Do Not Represent An Expense

While estimates, such as depreciation estimates, are commonly used for earnings statements, stock option estimates involve a relatively high degree of uncertainty. In the case of depreciation, a company knows the amount that it paid for an asset being depreciated. Under accounting rules, however, a company is not allowed to expense the entire amount paid in the year of acquisition. Instead, the company must estimate the useful life of the item and expense a pro-rata portion each year. The estimate in this case is one of timing, not value, because there is certainty with regard to the cost of the depreciated item.

With stock options there is no reliable measure of "cost." In fact, there is no certainty that the option will be exercised at all. Employee stock option grants are designed to help companies attract and retain the best available employees. Stock option grants also serve as an incentive for increased employee productivity. Thus, the purpose of an employee stock option does not result

TIN 30 2004 16:50 512 602 7427 PAGE.02



Page 2

AMD FASB Comment Re: File No. 1102-100

in the creation of a quantifiable liability – instead, they represent a means of allowing employees to reap the rewards of ownership. As a result, the granting of employee stock options does not meet the accounting definition of an expense. Instead, options represent dilution of ownership.

#### Materiality

AMD believes that current accounting rules rightly require detailed disclosure on option grants, including their potential dilutive effects. Market share prices directly reflect diluted earnings per share, therefore the cost of stock options is already reflected in the market price of stock. Impact on earnings per share and dilution caused by option grants is information that should be made available in a consistent manner to shareholders. If an additional expense was added – in addition to calculating dilution – the effect of options grants would essentially be counted twice.

# Employee Stock Purchase Plan (ESPP)

Stock option expensing would also place at risk AMD's Employee Stock Purchase Plan (ESPP). Proposed changes would require expensing of any options granted with more than a 5% discount. It is possible that many technology companies like AMD, which currently offer a 15 percent discount to most full-time U.S. employees, will discontinue their ESPP program to prevent destabilizing and negative consequences. If this happens, companies will lose an important compensation and incentive tool that allows them to attract and retain talented workers, and employees will lose an important source of income.

### Keep The Current FASB Standard

The current FASB standard is an effective means of providing investors with accurate information while avoiding potentially misleading expense charges in company financial statements. Simply put, the disclosure-based standard embodied in FASB Statement 123 is an appropriate approach to employee stock option accounting.

Thank you for considering our opinion on this important matter.

Sincerely

Robert J/Rivet

Executive Vice President & Chief Financial Officer