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Letter of Comment No: 5705 File Reference: 1102-100

From:

Mike Paisley@cree.com

Sent:

Wednesday, June 30, 2004 11:32 AM

To:

Director - FASB

Subject:

File Reference No. 1102-100, Comment on FASB Stock Option Proposal



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Dear Mr. Robert Herz:

I am writing in reference to FASB's invitation to comment on its exposure draft, "Share-Based Payment," an amendment of Statements No. 123 and 95. I think stock options are a corporate expense but they are already disclosed in the financial statements. The problem in treating stock options as an expense is how to fairly value them. To use Black-Scholes and related formulae, is absurd. Recent history provides a good example. If options had been expensed in 1999, they would have valued extremely high. With the market decline that ensued, an option holder might well have found his options worthless. This represents an extreme expense to the company with no value at all to the option holder. I currently hold a number of options that may well expire worthless, or perhaps at a trivial premium to their strike price.

The only realistic alternative is to expense the options at time of exercise. This would provide a fair and accurate assessment of the true value of the option. This is similar to the treatment of employee stock purchase plans for income tax purposes. The value-added to the employee is not taxed UNTIL the stock is actually sold, because the sale price may vary materially from the strike and purchase prices.

Unfortunately, for purposes of clarity in accunting, expensing options at time of exercise does more harm than good. In addition, the oompany will have to spend more money and time to track all of these transactions, with a small increase in accounting accuracy, and a likely LOSS of clarity in the financial records.

It seems apparent to me that the furor over stock options is more about executive compensation packages and less about accounting. I am no fan of most executive compensation packages, but this fix seems to generate a great deal more harm than good. Companies like mine, that offer stock options to nearly all employees, would almost certainly stop issuing options. This would hurt the average employee and in turn the company.

Please consider these points carefully in your review. Thank you for your time.

Sincerely,

Mike Paisley Cree, Inc. 1903 Ford Gates Drive Garner, NC 27529