

January 31, 2003

BY E-MAIL

Financial Accounting Standards B MP&T Director – File Reference 11 401 Merritt 7

P.O. Box 5116

Norwalk, CT 06856-5116

Letter of Comment No: 245 File Reference: 1102-001

Date Received: /-3/-1)3

Re: Invitation to Comment on Accounting for Stock Options

Dear Sir or Madam:

Wind River Systems, Inc. offers these comments in response to the FASB's Invitation to Comment on Accounting for Stock Options, released November 18, 2002, File Reference No. 1102-001.

The FASB's invitation was generated by the IASB's proposed IFRS, Share-Based Payment. FASB properly wants to know if the goal of international convergence in accounting standards calls for any changes in U.S. accounting standards, given that the IASB wants stock option grants to employees to be expensed. Wind River supports international convergence generally, but certainly not in this instance. We agree with the viewpoint Chairman Herz expressed in his speech of December 12, 2003, that the "overriding goal" of accounting standards is not convergence, but "sound accounting and informative disclosure." The IASB's proposal is fundamentally flawed and should not be emulated by the FASB.

Financial statements will not be made more transparent, reliable, or comparable by the mandatory expensing for employee stock options proposed by the IASB, for these reasons:

 Current option pricing models are incapable of accurately computing the value of employee stock options. Current option pricing models were designed to value short term, tradable stock options, not employee stock options. Employee stock options typically vest and are exercisable over long periods of time, they are also not tradable, they may be subject to insider trading restrictions and other company policies that restrict their exercise, and they are subject to forfeiture and cancellation. Option pricing models do not account for these unique features of employee stock options, and the adjustments called for in FASB Statement 123 and those proposed by the IASB are insufficient to address the shortcomings.

- 2. Stock price volatility further confounds option value computations, and especially harms comparability for technology companies. Current option pricing models include estimates of stock price volatility in their calculations, and these calculations are very sensitive to small changes in the estimates. Indeed, in most models the volatility variable has the greatest influence on the results. Furthermore, the higher the volatility, even if the stock price is trending downwards, yields a higher option value under current option pricing models an absurd result. Companies in technology industries are especially disadvantaged, because technology industries are characterized by above average stock price volatility.
- 3. The costs associated with option grants to employees are reflected by the dilution impact on earnings per share. No additional cash outflows, consumption or impairment of corporate assets, or additional liabilities are created. Therefore, we believe expensing option grants in addition to reporting the potential dilution effect will produce a "double hit" in earnings per share calculations.

For these reasons, we believe that the FASB's conformity to with the IASB's proposed IFRS would provide inaccurate and misleading information to investors and damage the transparency, reliability and comparability of financial statements. We much prefer a standard of comprehensive, quarterly disclosure.

Thank you for considering our views on this critically important accounting issue.

Sincerely,

WIND RIVER SYSTEMS, INC.

Michael W. Zellner

Vice President, Finance and Chief

Financial Officer