Letter of Comment No: 1698A
File Reference: 1102-100

Stacey Sutay

Subject: FW: File Reference No. 1102-100

-----Original Message-----
From: Hinckley, Brian [mailto:brian.hinckley@intel.com]
Sent: Friday, April 23, 2004 12:59 PM
To: Michael Tovey
Subject: File Reference No. 1102-100

Mr. Tovey:
I am writing in reference to movement by FASB toward requiring the expensing of employee stock options. FASB's efforts are misguided in this area. I must caution you against such a move, as I believe deep consequences will be felt for negative, across a broad spectrum. There are several facts which support my assertion:

- It's terrible accounting.
- Expensing stock options is a knee-jerk reaction to recent accounting scandals, and yet it does nothing to deter such scandals. Stock options were not at the root of Enron, Global Crossing, or any of the recent corporate melt-downs. At the root was corrupt management. Do you really believe that expensing stock options will serve to enlighten corrupt managers? Not a chance! I believe that for FASB, stock options have become an easy political target so as to appear to be active on the subject of accounting scandals. Your focus is grossly mis-placed. Do you really believe that after expensing options, a corrupt corporate thief cannot find another way to fleece the stockholders? Your attempts are sorely mis-guided!
- Expensing stock options will have 1 sure effect. Rank-and-file employees, such as myself, will no longer receive stock options. Only top brass will continue to receive them. No company can afford to expense options for a broad-based employee grant program, especially where the lion's share of the expense is not a true expense. Options may expire under water, employees may move prior to exercising them. There's no good way to estimate the value of an option granted at today's price. Instead, corporations will be forced to revert to only granting options to board members and senior executives. This is a kick-in-the-teeth to middle-income earners lucky enough to receive stock options. And sadly, those responsible for the excess and corruption that you should be targeting will continue to receive options.
- The American taxpayer will pick up the tab for your folly! After corporations cut the rank-and-file employee out of the stock option program, they'll continue to grant them to executives. Expensing these options will serve to artificially reduce the earnings of these companies, which in turn see their tax bill greatly reduced. It will serve as a tax windfall for the corporation, and America's budget deficit will worsen. The average American taxpayer will have to provide the difference, through higher income taxes.
- There is no sure way to value stock options. Because of the numerous ways to interpret the vague requirements that you'll establish, transparency of financial statements will actually be worse with options expensed. We have better transparency of financial statements now, through the footnotes and diluted EPS. At least they are consistent measures. No financial analyst will be able to read the statement and understand what's going on in the corporation. In fact, you'll only provide more hiding places for those corrupt corporate managers that you currently target; not to mention providing fodder for legions of attorneys, ecstatic to drag corporations through our legal system because they guessed at the wrong interpretation of your vague rules. Does corporate America improve then? No, only the legal profession is buoyed.
- Numerous options are granted by corporations, and later expire un-exercised due to job changes or negative exercise value. How can an accounting board, people who supposedly desire accurateness, actually favor requiring a company to expense something which has no value?
- In a global economy, US companies will be held to different standards than their foreign competitors. Foreign governments are currently encouraging their corporations to offer broad-based stock option plans. They view options for what they are - a strong driver of financial growth. If FASB continues down its current path, you will seriously cripple the competitiveness of the US economy. I'm sure China, Singapore, Taiwan, and India must think we're the most intellectually-challenged country on earth, that our government makes such strong attempts to cripple our best companies. You don't see Japan looking for ways to hamper Toyota's competitiveness, yet the US government puts a target on Microsoft, inviting Europe to

recently do the same. Now FASB puts a target on any company enlightened enough to offer options, in an effort to kill America's most globally-competitive industry. It's absurd!

China, a communist country, is encouraging the wider use of stock options. The U.S. through FASB is doing all it can to kill stock options for all but the elite corporate managers. FASB's rules will not kill options. Corporate managers will evolve, like Darwin presupposes, and just cut middle-income-earners out of the picture. This FASB proposal will not only harm the ability of America to innovate, but will literally rip money from the hands of middle-America's children.

It's absurd. It's bad accounting. It's grand larceny of middle-income America. It does nothing to fix the corruption problem.

Please reverse course immediately!

Sincerely,
Brian Hinckley
8393 South 5220 West
West Jordan, UT 84088