Len Tatore

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From: Stephens, Phillip D [phillip.d.stephens@intel.com]
Sent: Thursday, April 22, 2004 6:32 PM
To: Director - FASB
Subject: File Reference No. 1102-100

Good day,
I am writing you today to provide you with my comments regarding the proposal to require firms to expense stock options. I strongly believe this is a bad idea and is miss guided in nature. While we have seen a rash of firms operating in un-ethical ways, the method you are currently pursuing will do nothing to stop the types of activities we have seen over the last few years and will in effect punish employees such as myself. In addition, at a time when employee productivity is a key ingredient to our economy's recovery, removing key incentives like employee stock options (which will be the impact of forcing firms to double account) will directly impact what have been strong results.

By treating employee stock options as an accounting expense, it disregards three fundamental issues. First, employee options are not freely tradable. How do you value something that has no market? How do you put a price on something if it's not for sale? The answer is that you cannot. There is no accurate way to value these options without an open market. This will in effect punish those firms who utilize stock options as an incentive program which in turn keeps our economy growing. In addition, employee stock options are subject to lengthy vesting periods—typically four or five years. If the employee changes jobs before the options vest, they are forfeited. Finally, employee stock options will be exercised only if the stock price rises above the strike price. How does one predict future stock prices with any degree of certainty? There are entire industries dedicated to such a practice, yet no one is able to predict with absolute certainty what a stock price will be over a given length of time.

This FASB exposure draft is sure to be greeted with relish by our competitors in Asia and beyond. Entrepreneurs in China, Singapore and India will not just continue to focus on software development or other low-tech industries. They will create global economic powerhouses there which will be listed on those stock markets. In its latest five-year economic plan, the Chinese government explicitly calls for broader use of stock options to attract and retain key talent in China.

It is ironic that a communist country, the People's Republic of China, is encouraging the wider use of stock options, while in the U.S. the FASB wishes to make option grants to employees much more difficult and expensive. This FASB proposal will harm the ability of Americans to innovate and drive our nation towards second tier status.

I hope you will take these points and the views of many Americans who care deeply about this issue and will reverse your current opinion.

Regards,

Phillip Stephens