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Letter of Comment No: 1792
File Reference: 1102-100

From: Stark, James C [james.c.stark@intel.com]
Sent: Friday, April 23, 2004 11:11 AM
To: Director - FASB
Subject: File Reference No. 1102-100

Dear FASB Board Member,

I am writing to you to express my concern with the direction you are taking regarding expensing of employee incentive stock options in the United States. Having worked at Intel for almost 20 years, I can say with 100% certainty that mandating companies like Intel to expense stock options will greatly affect the company's competitiveness, as well as do enormous harm to the average employee.

I am not an Intel executive, and probably will never be one. However, with incentive stock options, I have been able to give my family a better than average living standard. Be expensing stock options, companies like Intel will end up eliminating them as an employee incentive, which will result over the long term in a much reduced standard of living for myself and especially for those employees who do not have the length of service in the company as I do.

Here are some of the fundamental issues with expensing stock options:

- 1) Employee stock options are not traded freely. Therefore, it is impossible to place a market value on them. They are only sold when they are exercised, which in some cases may be as long as 10 years after they are granted to the employee.
- 2) The vesting period for employee stock options can range from 5 to 10 years, depending on the option plan. If an employee leaves the company in that time period, the options are forfeited. If companies are required to expense options, it would be impossible to accurately account for this in any type of responsible accounting practice.
- 3) The employee stock option price is fixed at the time it is granted to the employee. If subsequently the stock price goes up, the employee can exercise the option and realize a gain. If subsequently the stock price goes down, the employee will not exercise the option. Looking at a three year history in the price of Intel stock, from 1995 to 1998, the employee would definitely have realized a gain. But what about the three year period between 2001 until now? How could anyone have predicted that the stock price would be the same or lower in that time period? How could a company expense the option in 1995 versus 2001, with any degree of certainty of what that expense should be?

If the intent of FASB is to dampen the abuse of options by corporate executives, there are much better ways to do it than by implementing an accounting mandate of expensing options. The greater harm will come to the average company employee. I urge you to desist from implementing this mandate.

Please feel free to contact me directly.

Sincerely,

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