Letter of Comment No: 1657
File Reference: 1102-100

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**Sent:** Thursday, April 22, 2004 6:45 PM

**To:** Director - FASB

**Subject:** File Reference No. 1102-100

Dear FASB
I am writing to you today regarding your consideration of mandating the expensing of employee stock options.. I am concerned that by taking this action you are going to deal a blow to a valuable compensation tool that Intel employees as well as many others in the technology industry use to reward employees. The expensing and valuation of options is impossible to accurately calculate and the likely outcome will be many companies will eliminate the practice of broad based stock option plans to better limit their exposure. This will result in options being limited to senior executives only vs. the broader employee base.

There are several points I would like to make about this possible action:

- 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.
  - Second, 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 (and thus irrelevant).
  - 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. Not to mention there are many companies out there today with stock prices BELOW any targeted option price (including options held by many employees at Intel).

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.

Don't penalize the employees of many of the nations most innovative companies because of indiscretions by a few (i.e. Enron). This action doesn't 'reign in' corporations but will likely lead to lower compensation for millions of Americans and further drive a competitive gap between America and emerging economies.

Thank you for your consideration.

Regards,

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