ikon From:

Corless, Preston L [preston.l.corless@intel.com]

Sent: Friday, April 23, 2004 2:50 PM

To: Director - FASB

Cc: Corless, John; Corless, Preston L

Subject: File Reference No. 1102-100

To whom it may concern:

I'm alarmed by the direction the FASB has taken regarding expensing employee stock options. I've had this conversation many times with my dad, an accounting professor at CSU Sacramento. As a financial analyst working at Intel, I have a very personal issue with the proposed changes to option accounting: I doubt I will ever exercise more that 20% of the options I've been granted while working here. The proposed accounting changes seem blind to this issue, and that feels like really poor accounting to me. Expensing the full 'value' (hard enough to forecast the future value of options in the first place, especially employee options) of employee stock options takes the accounting P&L further and further away from the true cash flows that really matter to shareholders.

Letter of Comment No: 1755 File Reference: 1102-100

I doubt that I'm a statistical outlier in saying I will not exercise more than 20% of the options I've been granted, but the proposed accounting rules make no provisions for this. Employee stock options are subject to lengthy vesting periods—typically four or five years. If an employee changes jobs before the options vest, they are forfeited with no expense to the company. Likewise, if the stock never rises above the strike price during the vesting period...the options will expire with no expense to the company. That's one of the fundamental benefits of using options for compensation. Employee options are only valuable if the stock price appreciates. As such they are an incredibly powerful way to incentivize employees to do the right thing for the good of the company, especially in the long term. I can think of no better way to align the interests of employees with those of shareholders.

It would make far better sense to expense exercised options rather than granted options. That's a true cash outflow (assuming the company repurchases shares to offset dilution) and something investors can and should see either in the statement of cash flows (as currently reflected) or on the income statement (with option expensing).

It seems like employee stock options have come under a lot of scrutiny in the aftermath of the stock market decline and the accounting scandals since uncovered at Enron, MCI and elsewhere. The campaign to expense employee stock options has become associated with the reaction to those scandals...and the desire to look out for the interests of investors. Ironically, if the FASB gets it's way, it's likely that companies will reduce their use of employee stock options as an incentive tool, thus harming the interests of investors. Accounting standards should improve the quality and transparency of the financial data that shareholders use to make investment decisions, but not dictate the business practices which ultimately determine the return shareholders get on that investment.

I welcome your thoughts on this issue.

Sincerely,

Preston Corless

preston.l.corless@intel.com 1614 SE 38th Portland, OR 97214 503-677-4900w 503-332-4158m