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From: Sent:

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Friday, April 23, 2004 9:49 AM Director - FASB

To:

Subject:

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Director:

Three fundamental issues are not well considered when treating employee stock options as an accounting expense:

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- 1. How do you value something that is not tradable? There is no market for employee stock since they cannot be traded. Consequently, there is no accurate way to value these options.
- 2. 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.
- 3. The value of employee stock options depends entirely on the stock price sometime in the future; they have no value until the end of the vesting period. Additionally, they will be exercised only if the stock price rises above the strike price. There are entire industries dedicated to predicting future stock prices, yet no one is able to predict with any degree of certainty what a stock price will be at some given time in the future.

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.

Andy Standen