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To: Director - FASB
Subject: File Ref # 1102-100

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June 1, 2004

I am writing to express my concern over the proposed mandatory expensing of employee stock options.

First, employee stock options make a difference, for individual employees, for corporations and stockholders, and for the economy. Options give the employee ownership in the company, an incentive beyond that afforded by salary. Incented employee/owners are driven to make their companies successful, since a successful company means a valuable option. Successful companies create jobs and drive innovation in technology, resulting in economic recovery and leadership in the world marketplace.

Second, employee stock options create no expense for the company. Any cost associcated with the option is borne by the stockholders of the company, via stock dilution, but not by the company. This cost already accounted for in the diluted earning per share calculation, which is readily available. Moreover, whatever that cost is, it is offset by the increased value of individual shares created by the increased value of the successful company.

Third, if options are to be expensed at the time of their issue, how are changes to that cost resulting from changes in the market during the time between issue and excercise to be reconciled? Under Black-Scholes modeling, a company must claim an expense it has not incurred. There is, however, no avenue for correcting the erroneous expense item in the event that the options are never excercised (This is very common, when changes in the market are such that the open market price of a share is lower than the option price.)

Fourth, the Black-Scholes model is inappropriate for employee option valuation. Black-Scholes was intended to value short-term, tradable stock options. Employee options are neither short-term nor tradable. The result of the inappropriate model is necessarily misleading accounting information, since the value of the employee option is speculative at best, and contingent on the actions of the market over an extended period (options typically vest over 5 years, and carry a 10 year excercise period.)

Regulators are motivated to develop solutions to address three very real issues, and rightly so:
1) more understandable, accurate information for investors
2) an end to executive compensation abuse
3) improved corporate governance.

Given these stated objectives, consider what mandatory expensing will accomplish:

1) lost productivity and innovation in the corporate sector
   a) expensing would have a disproportionate effect on companies with broad-based stock option plans, reversing the trend of greater employee ownership that has led to innovation, risk-taking and entrepreneurship. These companies have been the driving force behind our economy.
   b) A recent study conducted by the Employment Policy Foundation shows that

by 2030 we will be facing a critical shortage in the U.S. workforce of 35 million workers. Without enterprise-wide options programs, what incentives will workers have for choosing American firms over more lucrative offers from foreign competitors?

2) investor information that is less accurate (and therefore less useful:)
   a) since the transaction must be claimed by company (who did not and will not incur it,) at a completely artificial cost, since the real cost is unknown until the options are exercised.
   b) the expense is claimed before it occurs, with no way to correct (either up or down) for changes in the market place that affect that "cost".

There is nothing in mandatory expensing that addresses executive compensation abuse, or corporate governance.

So. Given the stated problems, which are real, and the ineffectiveness of mandatory expensing in addressing these problems, what are we to do?

1) The "Broad-Based Stock Option Plan Transparency Act of 2003," HR 1372 and S. 979, requires greater disclosure to give investors more useful and accurate information, places a three-year moratorium on mandatory changes to stock option accounting, and mandates a study by the Department of Commerce to evaluate the effects of broad-based stock option plans on employee recruitment and retention, innovation, economic growth, and U.S. competitiveness.

2) The "Stock Option Accounting and Reform Act," H.R. 3574 and S. 1890, requires
a) expensing of stock options granted to the top 5 corporate officers using means reflecting the impossibility of accurately predicting future stock price volatility and exempting small business and recent IPOs, and
b) a prohibition on mandatory expensing of broad-based plans unless and until the FASB develops a "truing up" mechanism and a similar study as in HR 1273 has been completed.

These bills provide a reasoned approach to this issue that is more correctly addresses the problems that are at issue here. I urge you to support enactment of either bill.

Patricia O'Brien
Sun Microsystems, Inc.