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Letter of Comment No: 1782 File Reference: 1102-100

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Sent: Friday, April 23, 2004 12:00 PM

To: Director - FASB

Subject: File Reference No. 1102-100

## Dear Sirs,

Let the people that buy stock decide how to view companies that give their employee stock option. They are the ones buying the stock, not you and it is their responsibilities to understand the issues around it. Expensing stock option is a fool hardy solution to much about nothing as I will point out below and is counter-productive. As we face increased pressure to send jobs to the world economy, stock options can be a key to keeping down base pay here in the States as part of a variable pay scheme that may improve our competitiveness with India, China, and South East Asia.

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. You should know that we change jobs every 5 years and in most cases these stock option are lost.

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.

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.

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