

**Karen Salmansohn**

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**From:** Director - FASB  
**To:** Friday, January 31, 2003 12:58  
Karen Salmansohn  
**Subject:** FW: The Brainpower Economy Needs Options

-----Original Message-----

From: Wayne Boylston [mailto:Wayne.Boylston@thoratec.com]  
Sent: Friday, January 31, 2003 12:52 PM  
To: Director - FASB  
Subject: The Brainpower Economy Needs Options

To many investors, this may sound like an arcane debate among accountants. In fact, the stakes are enormous. Stock options have a proven power to transform industries and accelerate national prosperity. But if companies are forced to treat options like salaries or manufacturing costs, many will decide they can't afford to continue this form of potential compensation. To avoid that mistake we need to remember how companies grow.

When given the right incentives, the American economy roars. That is the lesson of the last two decades when entrepreneurs, new companies, capital risk takers, and ambitious visionaries changed the world and moved its fulcrum to America.

But would this competitive edge cease to exist if promising new companies could not attract talented employees and give them performance incentives? Why should the most skilled engineers, marketers, or the most talented software developers leave a well-established firm to take a chance on a bold new venture?

In most of the world they won't. They stay put. But in America, aspiring companies have found new ways to attract talented people who want to share in the American dream without the cash or established stock of more mature companies. They use stock options to attract the best and the brightest.

In the process, America became a magnet for human capital from all over the world. Stock options have helped our companies cultivate subsequent generations of entrepreneurs - and keep alive a prosperous cycle of risk-taking, job creation and economic growth.

High-profile instances of corporate misconduct have raised questions about systemic integrity and have encumbered the cycle with uncertainty. Some see the lure of stock options as a corrupting influence and believe curtailing their use by treating them as an expense will promote greater transparency and restore confidence.

But expensing options will only serve to further obfuscate a company's financial situation and punish its employees.

Although it will not solve any known financial problem, expensing will surely harm the 25 percent of publicly traded companies that have used options as an effective way to recruit and reward its employees. Far from being an incentive solely benefiting senior executives, nearly 60 percent of high-tech firms make stock options available to all their employees.

It's no coincidence that the most dynamic sectors of the American economy are also the ones that use stock options most extensively. It stands to reason that companies such as Microsoft and Intel will be those that suffer most from the elimination of one of their most effective compensation tools. And what about the thousands of promising companies that no one has heard of yet? Without the ability to attract talented performers and give them a stake in the future, these companies may never grow into the next generation of high-tech multinationals.

The details of this accounting debate are complex. But forcing all companies to expense stock options would do little to enhance corporate conduct or end accounting abuses.

Instead, it will diminish the ability of emerging companies to attract the talent they need to succeed. It will limit entrepreneurial opportunities

to advance new ideas and develop new technologies. It will jeopardize the competitive advantage of American firms. And it will cost Americans jobs.

According to a recent study, eliminating stock options would cut 3.5 percent off America's GDP over the next decade - a staggering \$2.3 trillion loss of economic output.

The FASB has a daunting mandate - to help restore confidence in American business. But it also has a challenging responsibility to fix what is broken without harming what is not. Stock options are not the problem and expensing them is not a solution.

The key to America's unprecedented economic prosperity is a system that recognizes the best talent and ensures that it is always available to the most promising ventures. Stock options play a crucial role in that system. Sacrificing that competitive advantage for a "feel good" change in accounting rules may appeal to some today, but it will prove to be horribly shortsighted in the years to come.

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