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November 21, 2002

To: John C. Bogle, Ken Brown, Dick Grasso, Andrew S. Grove, Robert Herz, Joann S. Lublin, Michael Schroeder, Hardwick Simmons, Sir David Tweedie

Re: Employee/Executive Stock Options

Ladies and Gentlemen:

The issue is, and has been, excessive and/or unauthorized grants, i.e., the number of option shares awarded. To rein in the abuse, I would call upon shareholders, specifically institutional investors. I would ask the institutional investor community what percentage of a company's total outstanding shares do they deem unobjectionable in terms of the number of option shares that may be granted by independent board members ("Compensation Committee") in any given year (net of options forfeited by employees leaving the company) without first obtaining shareholder approval. I expect that institutional investors, as a group, would readily prescribe an annual percentage limitation, perhaps by industry. The limitation would then be enacted. Should the Compensation Committee see a need to grant more option shares than the legal limit they must then take their case to the company's shareholders and obtain approval.

Assuming the enactment of an annual limitation in lieu of expensing options, we should then expect to see an increase in the use of performance-based as opposed to fixed-price stock options; the latter vest over time without any requirement that performance goals are met. In fact, we might consider mandating the use of performance-based options. Under this model of governance, we would attack the root of the problem, the granting of excessive quantities of stock options. Also, we avoid the real and complex issues of determining the fair value of employee options, company by company, industry by industry.

Conversely, I believe that over time a requirement to expense options will prove to be ineffective in curbing excessive awards of option shares. I expect securities analysts will, soon enough, carve out stock option expenses as a 'noncash charge' (especially because the dilutive effect of the option shares is otherwise included in earnings per share) and evaluate companies without regard to these expenses, paving the way for companies to once

again misuse options. Here, for example, is a quote from a GE press release regarding projections for 2003: "Immelt said earnings from operations should increase 10% or more, offset by the effects of ... and option expense."

Remember, expensing stock options has a negative impact on both the numerator and denominator of earnings per share. To my knowledge, such treatment is unlike the accounting and reporting applied to other issuances of common stock for cash (e.g., stock offerings to raise capital).

Respectfully, an equities investor and an American