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Letter of Comment No: 3018
File Reference: 1102-100

From: Natalie.Shuttleworth@Sun.COM on behalf of Natalie B
[Natalie.Shuttleworth@Sun.COM]
Sent: Tuesday, June 01, 2004 10:01 PM
To: Director - FASB
Cc: Natalie.Shuttleworth@Sun.COM
Subject: File Reference No. 1102-100

Dear Sir/Madam:

I respectfully encourage you to reject the proposition of forcing U.S. companies to expense stock options. It makes no sense. The \$ value of stock options is unknown unless/until such stock options are actually exercised. They could be \$0 realized value, if the market drops or the employee leaves the company without exercising.

Broad-based employee stock options make a difference. Not only for employees like me, but also for the US economy and US competitiveness. I believe that US innovation, competitiveness and employee ownership will be impaired without justification.

Equally important, stock options now are widely granted to many levels of employees in good companies - such as Sun Microsystems. The majority (80% or more) of stock options at Sun go to employees OTHER THAN VP's and other Executives! That was also true at Apple Computer and at Oracle, during the years that I worked at each and I suspect is still so.

Current models grossly overvalue, and therefore penalize, broad-based employee stock option plans. The Black-Scholes and binomial models for valuing options at grant date do not take into account their unique nature. Options are: nontransferable; cannot be hedged; long-term with typical vesting periods of four years and exercise periods of 10 years; generally forfeited if an employee leaves the company or is terminated prior to vesting.

Most importantly, that NO MARKET currently exists for trading employee stock options.

Employee stock options are not an expense to the company. The cost is, instead, to the stockholders via stock dilution. This impact can and should be shown in the quarterly and annual reports through full disclosure of outstanding shares and their status. Sun already does this. I suspect most reputable companies do.

If you force companies to expense stock options, it will undoubtedly curtail broad-based grants to many employees. This will negatively affect morale and the important culture of "broad-based ownership" in such companies.

I trust you will fairly consider all inputs during this review period. Thank you for your attention.

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