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To Whom It May Concern:

My name is Bernie Blegen and I am the Director of Corporate Accounting for Xilinx, Inc. Xilinx is the world's leading supplier of complete programmable logic solutions. Xilinx develops, manufactures, and markets a broad line of advanced integrated circuits, software design tools and intellectual property.

Xilinx's stock option program is a broad-based, long-term retention program that is intended to attract and retain talented employees and align stockholder and employee interests. Nearly all of our employees participate in the plan, with 14% of the options going to the top five listed officers and 86% going to the rest of the employees.

Overview of Concern

Following the breakdown in corporate governance, ethics and good judgement, which resulted in the Enron and Worldcom debacles, the purpose and accounting for stock option programs has become an issue of debate. The tone of current opinion in the press on how corporate accountants should treat the granting of stock options suggests that stock options are primarily a substitute for payroll related costs and there is a causation between stock options and breakdown in corporate governance and ethics. As such, stock options are deemed to be a form of expense to be recognized in the income statement. I would like to examine some varying circumstances and argue in favor of increasing disclosure on company option plans, but against expensing options through a company's income statement.

Start-up companies

The CEO of my company tells the story of how his father held down two jobs at the same time; one was managing his own grocery store and the other as a paid laborer. His father always seemed to have extra energy and time to make his grocery store successful, whereas his other job was a source of income, not energy.

An interesting analogy can be drawn between a start-up company's stock option program and compensation to the owner of a self-managed business. In establishing a small self-managed business, the owner accepts lower pay and a lack of a dividend in order to help sustain and develop the business into a successful enterprise. No cost is placed on his 'sweat equity' investment or charged to the income statement of the owner-managed business in their attempt to grow the capital value of the business.

Likewise, start-up companies, particularly here in the Silicon Valley, try to attract the best talent available to grow and develop the company. Stock options are an important part of attracting this talent as it gives these employees a stake in the ownership and success of the company. In nearly all instances, salaries are less than that available to employees of similar ability who are working elsewhere. Where this occurs, however, it is part of the investment that the employee is making in the company's success. It is their vested capital investment in the business.

In both examples the employees /owner are investing capital in the business, are trying to make it successful and are hopeful of a capital return on this investment. In both instances employees and owners take on a significant risk. Empirical evidence (*In the Company of Owners – The Truth About Stock Options*; Blasi, Kruse, Bernstein, Basic Books, copyright 2003) supports the theory that employees who receive stock options will work longer hours for somewhat less cash compensation with increased risks and related personal cost.

No other industry has shared so much of the company ownership with the employees as the high technology industry. Likewise, no other industry has been responsible for so much innovation or for so many world-wide productivity gains.

The proposal to value stock options with the intent of determining an expense in the income statement unfairly impacts the financial performance and profitability of the start-up company with a stock program compared with the owner managed business. From a measurement perspective there is clearly a different result when comparing the businesses when the only difference is one owner versus many owners.

Publicly Traded Companies

The majority of publicly traded companies have established stock option programs. These vary from companies that issue stock options only to senior officers of the company to companies that embrace broadly based stock option plans.

Companies that broadly issue stock options can demonstrate that this makes employees more significant stakeholders in the business and encourages productivity, competitiveness and the profit motive improving the return to all stockholders.

This is certainly the case for our company, Xilinx, Inc., which was named the fourth best company to work for by Fortune Magazine. Xilinx was the number one publicly traded company to work for and the number one technology based company. At a press conference with California Governor, Gray Davis, our CEO, Wim Roelandts noted, "One of the reasons why employees like to work at Xilinx is because they share in the company's gain when the stock goes up. When people come to work in the morning they behave like an owner. They're willing to accept some of the pain… because they know it's in the interests of the shareholder."

"This stock option issue", he said, "can impact a lot of companies who use them to attract good talent. If we have to expense the options that could critically hurt the high-tech industry and bring it into a less favorable position."

Again the presumption that stock options replace other forms of payroll remuneration can be refuted. It is assumed that employees in receipt of stock options are lower paid than their counterparts in companies that do not have a stock option program. While it is possible that this can occur it is not an appropriate generalization for large and/or publicly traded companies.

It is generally accepted that broadly based stock option plans are prevalent in companies in the high-tech sector and in some emerging business sectors. There is a propensity of high-tech companies based on the west coast of the U.S. It is also true that the San Francisco Bay Area salaries are amongst the highest in the U.S. thus demonstrating that stock options do not necessarily substitute for payroll and should not be viewed solely in that context.

From the perspective of companies that issue stock options only to senior officers of the company, it is not necessarily the case that payroll related earnings of those officers are lower than that of officers in other companies where stock option programs are less generous to senior officers. Neither is it the case for those companies that do not have stock option plans. Thus the purpose of stock options is primarily to give employees an equity stake in their company and align employee interest with those of its investors.

Public Policy and Expensing Options

Make no mistake, stock option programs and executive compensation programs were abused by a number of CEO's and their boards. Between 1990 and 1999, total stock value for a pool of 100 publicly traded companies increased by an astounding 350%. Compensation to CEO's for those same companies increased in excess of 1000%. This is wrong, it led to a breakdown of trust between companies and their shareholders, and it needs to be addressed. Major public policy initiatives, such as the Sarbanes-Oxley act and increased stock option disclosures in SEC filings, will help provide stricter compliance and increased visibility on company performance and senior manager compensation.

Forcing companies to change accounting methodology will create other far reaching impacts and these need to be balanced against the perceived benefit of the accounting change. Under currently proposed methodology, companies having stock price volatility or where their stock prices are increasing will incur a higher stock option expense than a lower performing company. Non-cash compensation costs could increase faster than revenue growth only because the company is performing well and generating higher cash flows. An accounting methodology that causes a company to report lower margins or results when cash flows are increasing is wrong. And as a consequence, companies may need to abandon stock option programs and/or restructure stock option programs. Adoption of either of these alternatives will likely reduce employee ownership in companies and impact the performance of employees without necessarily solving the problem of excess CEO compensation. Management will still get options, but employees will be hurt.

As mentioned by Wick Simmons in his editorial which appeared in the January 31, 2003 edition of the Wall Street Journal,

'If these sorts of side effects weren't galling enough to discourage the regulators from such ill-advised efforts on behalf of 'transparency,' the new stock option accounting will also cost Americans jobs. According to a recent study, eliminating stock options would cut 3.5% off GDP over the next decade – a staggering $2.3 trillion loss of economic output."

Conclusion:

The US has enjoyed world-wide dominance in the high tech industry because of innovation. Our competitive advantage has been directly linked to broad based stock option programs, which has attracted and kept the world's best innovators on our shores. Companies having broad based stock option programs are more productive. By comparison, the tech industries in Germany and Japan, which do not offer broad based stock option programs, have stagnated during the last decade. Our dominance, however, is being threatened by the appeal of many Asian countries offering aggressive stock option programs. Changing the accounting rules won't level the playing field; it will tip the balance in favor of the rest of the world.

Implementing accounting rules that produce results counter to the economic activity of an entity is not an acceptable means of forming public policy. The concept of determining the fair value of options is wrong whether it is applied to a privately held start-up or a publicly traded, multi-national company.

The answers to the problems that gave rise to the stock option abuses are improved disclosures, increased accountability by management and the board, and a better system of checks and balances (ie. SEC oversight and auditor independence). I hope you will give due consideration of these points as you seek to determine proper accounting for stock option programs.

Thank you.

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