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January 31, 2003

Ms. Suzanne Q. Bielstein Director of Major Projects and Technical Activities File Reference No. 1102-001 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Re: Invitation to Comment – Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-based Payment

Dear Ms. Bielstein:

Dell Computer Corporation ("Dell") appreciates the opportunity to respond to the Financial Accounting Standards Board's ("Board") Invitation to Comment dated November 18, 2002, entitled Accounting for Stock-Based Compensation. A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and International Accounting Standards Board ("IASB") Proposed IFRS, Share-based Payment. Because investors rely on credible, transparent, and comparable financial information, high caliber accounting standards are vital to the efficient functioning of the world's economy. Dell fully appreciates the Board's due process in giving us ample opportunity to comment on the projects the Board is considering.

We feel strongly about the conceptual framework around stock option expensing. Although there is arguably a compensatory element to the granting of stock options, we are strong proponents of the disclosure-only alternative provided for under Statement No. 123 until such time as option-pricing models are developed or refined that reasonably reflect the fair value of long-lived, nontransferable employee stock options ("ESOs"). We also prefer this alternative until the Board develops a more reasonable approach for handling post-grant events, such as forfeitures, which have a significant impact on the expense associated with ESOs. We believe there are salient points to support our position as discussed more fully below.

Dell believes that present US accounting for stock-based compensation, while less than perfect, has served the financial community well. In our view, there currently is not convincing evidence that the expensing of ESOs using existing pricing models would improve financial statement reliability, comparability, or transparency. Although we do recognize that the Board is not seeking comments on whether stock options should be expensed, we strongly support the continued disclosure-only alternative for stock-based compensation costs. Our support of disclosure is based on the following reasons:

> The value received by an option holder at exercise does not equate to the cost to the issuing corporation.

- The debate on fair value is so widespread that it will be impossible to come to agreement on a reliable methodology applicable to all financial statement preparers because grant date fair value will always be an imprecise and volatile estimate of the ultimate value, if any, realized by the employee upon exercise.
- The expensing of stock options further disconnects net income from cash flows; expensing a "hypothetical" fair value could be misleading and confuse the investor as to the relationship between net income and cash flows.

Although stock options can provide the employee with a valuable benefit, the only value an employee ultimately realizes from a stock option grant is the intrinsic value recognized upon exercise of the vested option. However, the value realized by the employee upon exercise is irrelevant to the cost incurred by the issuing company. The value of an ESO to the employee (however calculated) does not equate to the cost to the issuing corporation. The issuance of stock options does not result in a cost that affects net income. The only true cost of an employee stock option to the issuing corporation is in the form of potential dilution to shareholders, which is measured in the EPS calculation. With respect to the compensatory element, not only is the value not reliably measurable at the time of grant, it may bear no resemblance to the value, if any, ultimately realized by the employee. For instance, Dell ESOs that have realized by far the most intrinsic value are those that were granted in the mid-1990s and prior. The application of the Black-Scholes valuation model to those ESOs resulted in insignificant fair values at the time of grant compared to their realized intrinsic values. Conversely, Dell ESOs granted during our fiscal 2000 and 2001 fiscal years resulted in enormous fair values while the actual grants are now significantly under water. It does not seem logical to require recognition of compensation expense in the basic financial statements when the actual outcomes can be so significantly disconnected from the theoretical fair value.

In addition to the disconnect described above, we are concerned that current pricing models (irrespective of their level of sophistication) do not generate a reliable fair value of an ESO. The current models tend to overstate the fair value of a nontransferable ESO, and these models require the input of highly subjective assumptions. Current option pricing models yield varying and misleading results because they disregard the unique, restrictive aspects of ESOs, such as nontransferability and inability to benefit from stock volatility during the vesting period. And as we alluded to above, the fair value of an ESO at grant date is not adjusted for declining stock prices; however, such declines significantly affect an employee's decision about whether or not to exercise an ESO. It is counterintuitive that a company would incur an expense at any time for options that expire out-of-the-money. If the Board insists on moving forward on expensing ESOs at the time of grant, Dell believes the Board's efforts would be best served to develop improved option-pricing models for ESOs that, although perhaps still imperfect and imprecise, would provide more consistent and comparable results across companies and industry sectors.

We also believe that the Board should consider how expensing of ESOs will cause a further disconnect between net income and operating cash flow. Investors tend to keenly focus on cash flows generated by a company's on-going operations and their respective claim to such amount because cash flows are not subject to estimation or manipulation. Employee stock options are very attractive in aligning the interests of management, employees and shareholders. Issuing ESOs serves to protect shareholder interests as it minimizes the impact to corporate cash flow while still creating equity capital. Moreover, when options are granted, less compensation is typically incurred and less cash is paid to recruit and retain an employee. We are concerned that recording a hypothetical fair value as an expense using current pricing models could be misleading and confuse investors as to the relationship between net income and cash flows.

Disclosure of the pro forma impact under the existing rules adequately allows users to consider, at their discretion, whether or not to include hypothetical fair value information in their analysis of a company's financial results.

In closing, Dell encourages the Board to consider the potential unintended consequences to the economy if it rules to expense stock options. A new expensing standard could lead to depressed US stock prices, increases in the cost of capital, and reduced US economic growth rates. Employee stock options are issued to increase productivity, retain employee service, and encourage company ownership. In high-growth, high-risk, and youthful companies with limited resources, ESOs are a significant part of attracting and retaining talented people. Expensing of ESOs would undoubtedly affect a company's willingness to issue ESOs. Without providing employees with the opportunity to participate in a company's future growth, the best people will not be attracted or retained and productivity in the US economy will most likely be adversely affected. These potential unintended consequences to the economy are contrary to the basic principles underlying employee stock option programs.

Thank you for the opportunity to comment on this important matter. If you have any questions regarding our comments, please contact me at (512) 728-4283.

Sincerely,

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Robert W. Davis Vice President, Chief Accounting Officer