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Letter of Comment No: 3008
File Reference: 1102-100

From: Doug Kaewert [Doug.Kaewert@Sun.COM]
Sent: Tuesday, June 01, 2004 6:41 PM
To: Director - FASB
Subject: Employee's view on expensing stock options: File Reference No. 1102-100

I am writing this email to voice my strong opposition to the FASB's proposed rule change to require companies to expense stock options (File Reference No. 1102-100).

Over 21 years ago I left a large, well-established high technology firm to join a small startup company called Sun Microsystems. Sun had less than 100 employees at the time. In the ensuing 21 years since I joined, Sun has become a major force of innovation within American industry. I took on substantial financial risk and a pay cut to join Sun. But I was willing to do this because the company was able to give me an ownership stake through stock options. I have subsequently hired many people at Sun who would tell a similar story about how important options were in their decisions to join an innovative firm who was perceived to be a little risky in going against the grain of the industry. Stock options, and the associated ability to own part of your company as a reward for hard work, are critical to encouraging employees to take the risk necessary to drive real innovation.

My big concern with the proposed rule is that it will drive innovation either offshore or to a few very profitable large companies who can afford to provide outright stock gifts or cash bonus programs to employees. This flies in the face of the innovative spirit that built much of the high tech industry in the US. New high tech companies with new ideas have driven huge economic growth in the past for America. In the Silicon Valley alone, companies like Oracle, Cisco, Intel and Sun have created hundreds of thousands of new jobs.

Another significant concern is the valuation mechanisms that are proposed. The valuation of my stock options has changed radically over the last 3 years. None of the proposed valuation mechanisms would have come anywhere near even approximating the value of those options. I believe the major impact of options is the dilution of stockholder holdings, not in P&L statements. An accounting change is not required to deal with the dilutive impact of options: simply requiring companies to specify the number of options granted and the price would readily enable stockholders and investors all the info they would require to make sound judgments. In fact, Sun does this today.

Finally, there seems to be a perception that stock options are reserved for corporate executives only. Nothing could be farther from reality. I joined Sun and received options not as a executive, but as an individual contributor. Since then nearly 90% of the options Sun has ever granted have been to people below the level of vice-president. These are the people who drive innovation, and who will be hurt if the proposed accounting regulations are enacted.

Sincerely,

Doug Kaewert
Sun Microsystems Inc.