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Letter of Comment No: 4358
File Reference: 1102-100

From: Christophe Moustirats [cmoustir@cisco.com]
Sent: Tuesday, June 15, 2004 3:51 PM
To: Director - FASB
Subject: File Reference No. 1102-100, addressed to "Chairman Robert H. Herz,"

Dear Mr. Herz,

I want to express my concern regarding FASB intent to expense stock options. The arguments listed below are compelling enough for me to vote in favor of NOT EXPENSING stock options. The current round of scandal in corporate America has led to an emotional response by some in US regulatory/oversight agencies. Expensing stock options will not stop fraud, nor corporate greed. I believe stronger Boards of Directors, who support Shareholder interests is the best way to temper CXO level abuses. Perhaps FASB and the SEC should evaluate "Board Independence" criteria...or other ways to support the shareholder and better corporate behavior.

Expensing stock options will significantly reduce the incentives for entrepreneurs to start their own companies and seek innovation. Two industries where the US maintains significant competitive advantage: Biotech/Pharma, and High Technology significantly rely on stock options as a way of incenting greater innovation and productivity from employees. Mature industries, (retail, financial, food and beverage) will not object to current FASB recommendations for they are by definition slow growth, relatively slow innovation companies who in contrast to high tech and biotech companies...do not believe in employee ownership.

Fundamentally it seems to me that corporations do recognize the "expense" of stock options through EPS dilution. There is no way around that unless they buy back shares from the market...an action which cannot skirt current SEC reporting requirements.

Accounting Issues:

- The artificially high valuation for a stock option required by FASB will eliminate stock options as a tool which has driven innovation and productivity.
- Stock options do not meet the definition of an expense because they do not use company assets.
- The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised.

Competition:

- U.S. companies need stock options to compete with other countries on a global basis. (Example: Chinese companies use stock options and they do not treat them as an expense.)
- Expensing stock options could have a dramatic impact on American high tech leadership, innovation and job creation. In today's economic environment, the number one rule should be 'first, do no harm'.

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