

ikon

Letter of Comment No: 4281

File Reference: 1102-100

From: Jonathan Brimfield (jbrimfie) [jbrimfie@cisco.com]
Sent: Monday, June 14, 2004 6:49 PM
To: Stacey Sutay
Subject: Please Reconsider Broad-based Stock Option Expensing

One of the reasons I took the career risk to join a high-tech company was for the opportunity to benefit from the appreciation of stock options. Over the past five years, I have worked hard as an Account Manager for Cisco Systems, and have accumulated a small nest egg of stock options that I plan to use someday to pay for my son's education, and ultimately my retirement. Having these options - and the prospect of receiving more options in the future - has motivated me to help my customers succeed by using Cisco equipment. Both my customers and my company (and it's shareholders) have benefited as a result. Simply put, I can only benefit from my options if shareholder benefit. It is a classic win-win. The prospect of losing the opportunity to receive options - which is nearly guaranteed by Exposure Draft FAS 123 - causes me great concern for myself, my company, and our shareholders.

As I understand it, FASB introduced FAS 123 to stem the corporate excesses demonstrated by MCI, Enron, Adelphia, and a host of Corporate America's most wanted. The intention is that if executives have fewer or no options, they will be less motivated to carry out these frauds. While I admire the intention of this measure, it is simple-minded and misdirected. Whether options exist or not, corporate leaders with a short-term mindset will always have incentives to do the wrong thing for their companies and shareholders. Huge bonuses, Wall Street expectations, greed, and sheer ego are more than enough motivation without options. Thinking that eliminating or curbing options is a sufficient measure to stop these disgusting acts is just silly. If you want to truly motivate corporate leaders to do what is right, simply start enforcing the laws we have on the books today, rather than inventing new ones!

What's worse is that the biggest loser in the proposed draft is not these top executive fat cats but rather the individual contributors and first- and second-line managers who depend on stock options for purchasing a home, sending a child to college, or planning for their retirement. At Cisco, and many other companies, fewer than 20% of the options distributed on an annual basis are granted to VPs or higher. The lion's share of options go to the foot soldiers the company relies on to carry out strategic direction. The loss of these options not only costs us in a financial sense, we are also denied the identity of being an "owner" of the business and instead are relegated to the ranks of the "hired help".

If FASB's true motivation in launching this initiative is to curb corporate greed, there are many other methods that can be used instead of eliminating broad-based stock options by making them prohibitively expensive for companies to offer. For starters, only require the expensing of the top executives' options. From a corporate governance standpoint, if FASB required expensing of the options granted to the top five executives, it would accomplish the same stated goals as expensing options for all employees. Second, if broad-based stock options must be expensed for all employees, don't use Black-Scholes or Binomial models to estimate cost. Both overestimate cost/value for these types of options and are just that much more likely to cause companies to stop offering options to the rank and file. Either derive a more effective model to accurately value employee stock options, or allow a reasonable discounting from Black-Scholes or Binomial.

Again, the spirit of this initiative is in the right place. However, in practice, FAS 123 would be a disaster. Please reconsider this measure. There has to be a middle-ground where everyone's interests are satisfied.

Thanks,

Jonathan

Jonathan Brimfield
Account Manager
Cisco System
7100-7 Kit Creek Rd.
RTP, NC 27709 USA
Office: 919-392-7656
Cell: 919-345-5656
Pager: 9193455656@messaging.sprintpcs.com

6/15/2004