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From: Keith Porter [kp.lp.porter@mindspring.com]

Sent: Wednesday, April 21, 2004 10:00 AM

To: Director - FASB

Subject: Please don't Mandate Expensing of Stock Options

Dear Chairman Robert H. Herz,

I have been following the debate over the Expensing of Stock Options over the last couple of years.

I understand that FASB is on the verge of mandating the expensing of stock options.

I urge you to reconsider this decision and not to mandate the expensing of options for the following reasons.

- 1. US companies need stock options to compete with countries on a global basis.
- Expensing stock options will force a lot of the High Tech Industries to reconsider providing broad based options which will stifle innovation and job creation.

Let me explain what some of my personal experience with Stock Options have been over the last several years. Typically, very few companies provide broad based stock options. Additionally, many of those that do, only provide a very small amount 50-100 shares/year to the vast majority of Employees. This was my experience when I worked for Home Depot (very small amount) and Georgia-Pacific (a little better). However, my current Company, Cisco Systems, provides a very good amount across the board. (I am not an executive level, but rather a Member of the Technical Staff.)

In fact, when I came to Cisco Systems from Georgia Pacific, I took a 10% pay cut to come to Cisco in a large part due to their Stock Option plan. I knew that if I performed well, that I could be rewarded well if the company performed well. Although most of my options are still underwater, I have no regrets for making this decision and this has NOT affected my preference for Stock Options in lieu of a higher salary. Additionally, even before I came to Cisco, my Stock Options I received from Georgia-Pacific have been able to help me upscale my current House. When building a new house I was able to use proceeds I had received from Georgia-Pacific Stock Options to pay construction costs and reduce my mortgage on the final loan I needed for the house. I have also used some of my Cisco stock options to improve my house and landscaping.

(Again, I am by no means in the upper, corporate echelon and would not have been able to do this (and invigorate the economy) without these Stock Options.)

The other reason I don't agree with Expensing Stock Options is it doesn't make any logical accounting sense. (I have an MBA in Finance in addition to my Engineering Degree – although I am not an Accountant or a CPA, I have had my fair share of classes and education in this area.).

- 1. Stock options are NOT an expense as they do not use the Assets of a Company.
- 2. By Expensing Stock options, a company's earnings will fluctuate greatly as a factor of stock price. (or due to an artificially high valuation of the stock option). This does not provide a true representation of a company's earnings and will make the earnings target fluctuate significantly dependent upon the then-current stock price. This wide fluctuation in earnings and earnings forecasts is what companies, analysts, and even FASB has been trying to avoid thru other measures and thru "ProForma" type measures. Forcing a company to expense stock options will either 1) make companies NOT offer the options or 2) make their earnings and earnings forecast fluctuate wildly.

Thus, I urge you and your staff to reconsider the mandating of Expensing Stock Options. It makes very little or no sense from an accounting perspective and will stifle the potential growth and competitiveness of US Companies.

Sincerely,

Keith Porter Canton, GA Current Employer – Cisco Systems. Kp.lp.porter@mindspring.com kporter@cisco.com