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Letter of Comment No: 938
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From: Paul McDermott [pmcdermo@cisco.com]
Sent: Tuesday, April 20, 2004 1:31 PM
To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: Stock Option Expensing, File Reference No. 1102-100

Dear Chairman Robert H. Herz,

I am writing to you to express my opinion on the expensing of stock options. I am a firm believer that stock options help drive innovation, growth, and most importantly a sense of ownership in our companies. While there are a number of "high visibility" cases that point to potential abuses, they seem to be a very small minority of the options provided to employee owners and it is most likely an exaggeration (personal opinion) of the news media to sell their products. As a person who has a background in business and having obtained an MBA there are a number of specific issues that I wish to raise; The artificially high valuation for a stock option required by FASB will most likely eliminate stock options as a tool which has driven my innovation and productivity. Stock options do not meet the definition of an expense because they do not use company assets and the true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised (companies who report their dilution of EPS already are adversely impacted in the current marketplace and impact employee owners in this manner). The state of worldwide competition is one where we need to look for and utilize as many options as we have to insure we can compete in the marketplace. Until, as Chairman Greenspan stated at his testimony last month, we resolve the education issues that face this country and our children, we will need to continue to find other opportunities to insure our ability to compete. Chinese companies use stock options and they do not treat them as an expense and if we do not match this, will there be a "brain drain" to this entrepreneurial marketplace? Suffice to say I think that expensing stock options will 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'. I only hope that you and your organizations are not easily swayed by some instances that in my opinion are media hype and keep in mind that we owe the future generations of this great country the opportunity to compete in a true worldwide marketplace. Regards, Paul McDermott, MBA, PMP Manager, Program Management 12515 Research Blvd, Bldg 4 Austin, Texas 78759 512-378-1482 - office 512-423-8200 - cell pmcdermo@cisco.com