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Letter of Comment No: 1073
File Reference: 1102-100

From: Ken Moll [kmoll@cisco.com]
Sent: Tuesday, April 20, 2004 11:42 AM
To: Director - FASB
Subject: File Reference No. 1102-100, Expensing Employee Stock Options

Chairman Herz,

This letter is in regards to the FASB proposal to expense employee stock options. I request that you reject this proposal because of the damage it will do to my industry, the computers and communications business, and my community, Silicon Valley.

I've been in the computers and communications business for almost twenty years. The pace of work has been breath-taking. I've had the opportunity to work at many companies, some of which have managed change well (Hewlett-Packard and Cisco Systems), and others that allowed it to kill (Polaroid, Digital Equipment Corp., and Silicon Graphics). Of the companies I've worked for, Cisco is the only one that I feel moves quickly enough to use the pace of technological change as a competitive advantage. I credit Cisco's generous stock options package as the primary reason for its adaptability.

People at all companies work hard, and "do their jobs." But for a technology company, more is required. To use change as a competitive advantage, employees must be constantly identifying new ways to "do more with less", and "work smarter, not harder." In my experience, these attitudes can't be forced down to individual contributors through a hierarchical chain of command; they must originate with the individual contributors. And this only happens if the individual contributors feel a real, justifiable sense of ownership in the company.

As I'm sure you're aware, Silicon Valley is an expensive area to live in. There are so many people here that have "made it" in the preceding decades that I suspect housing prices will be high for years to come, even if the technology industries suffer a sustained downturn. But people come here anyway, lured by the prospect of helping to create a company, and share in the wealth it generates. My fear is that without the lure of stock options, the world's talented and entrepreneurial will stop coming to Silicon Valley, and our community will loose its vitality.

Following the wave of corporate scandals that has come to symbolize the binge of the late 1990's, and the subsequent loss of billions of dollars of shareholder's equity, I understand your motivation regulate stock options. And as an investor, I appreciate your desire to make it easier for investors to compare technology stocks with those in other industries. However, I believe that if stock options are expensed, option plans will be reduced or eliminated, and employees at US technology companies will no longer feel sufficient ownership to sustain the evolutionary pace that we have enjoyed for the last 60 years. If options are expensed, I fear that US technology companies will become like those in slower growth industries, where employees work hard to sustain their companies, but usually don't feel the sense of ownership required to change how business is done.

Thank you for your careful consideration,
Ken Moll