

ikon

Letter of Comment No: 2235
File Reference: 1102-100

From: l.braddock@comcast.net
Sent: Wednesday, May 05, 2004 12:17 PM
To: Stacey Sutay
Cc: l.braddock@comcast.net; 'Sandra Braddock'; lbraddo@cisco.com
Subject: PLEASE RESCIND FAS 123

To whom it may concern,

As a 60 year old worker who has pursued the American dream throughout my entire work life, I urge you to rescind the FAS 123 exposure draft so that the United States can preserve the American Dream!

Thanks to capitalism and the resultant opportunity for me to participate in a broad-based employee stock option program offered by the company I work for, I have enjoyed the American dream and fully appreciate how important it is for FASB to protect, preserve and even encourage corporations to offer stock option programs for their workers. Unfortunately, the implementation of FAS 123 will likely bring broad-based employee stock options to an end thus eliminating the opportunity for millions of American workers to enjoy the risks/reward component of equity ownership in corporate American.

Broad-based employee stock options are usually awarded to employees on the basis of merit and performance. As such, they stimulate productivity as well as commitment to their company. Employee stock option grants are not freely traded, their subject to forfeiture upon leaving the company and thus they are difficult, if not impossible, to accurately value. Please do not destroy the most powerful and potentially rewarding employee stock ownership opportunity that exists in corporate America today. Stock ownership is at the core of the American dream and, if anything, FASB should remove restrictions and find ways to encourage corporations to offer broad-based employee stock option programs.

Experience tells me that assigning a value to employee stock options is an objective not worth pursuing. Consider my personal experience with broad-based employee stock options: I was an AT&T management employee from 1963 to 1990. Toward the end of my 27 year career with AT&T, I was awarded 350 shares of AT&T stock options at a strike price in the \$50 per share range. During the seven year life span of those AT&T stock options, the market value of AT&T's stock steadily declined. In 1990, when I left AT&T to join Tandem Computers, my options were worth nothing. However, even though they were monetarily worthless, the motivation and recognition they contained was meaningful to me. How could FAS 123 have accurately valued those stock options?

Upon joining Tandem Computers in 1990, I was granted 500 shares of Tandem stock options at a strike price in the \$27 a share range. One year later I received an additional 350 share grant at a strike price around \$20 a share. Tandem's fortunes were declining and when I left Tandem Computers in 1995, their stock was selling in the \$12 a share range. Once again, I personally failed to make a dime on my Tandem stock options but I valued owning them just the same. Would FAS 123 have been able to fairly value those stock options?

5/5/2004

In 1995 I was fortunate enough to join Cisco Systems and, during the process of negotiating my salary, I negotiated a lower starting salary in trade for a larger number of hire-on stock option shares. I was willing to trade opportunity dollars over current income and, as such, I was able to negotiate 6,000 shares of Cisco stock options as a hiring bonus in trade for a lower annual salary. Five years later, when I was forced to exercise those hire-on stock option shares, my risk was reward and I paid the federal government roughly \$700,000 in taxes. The State of California got more than \$240,000 in taxes and my wife and I netted close to \$900,000 in after tax profit. Government enjoyed 50% of the benefits that resulted from the risk I took and I am fine wit that, it's the American way.

The \$900,000 in profit I enjoyed was plowed right back into America's economy and here is how that took place. My wife and I purchased a residential lot from a real estate developer and he, in tern, paid some federal and state taxes with that money. I paid an architect to design our retirement home and we put a contractor and his sub-contractors to work building it for us. My wife and I purchased building materials, appliances, and new furnishings for our home and taxes were paid on all of those purchases. And, we paid interest on the construction loan during the process of building. In other words, the entire economy participated in (and enjoyed) the benefits of Cisco's employee stock option program.

How would FAS 123 place the appropriate value on the tradeoff I made between salary and stock options? When I hired on with Cisco Systems, I took the risk that stock options would be more valuable to me than salary and, because I was right, our economy enjoyed the proceeds. Why would FASB want to discourage that kind of economic stimulation for our economy? Why would FASB do anything to discourage this kind of goodness from happening? Why should younger workers in America be prevented from enjoying the same level of equity ownership that I was blessed to receive???

Some legislators are trying to make it difficult for corporations to offer stock option shares to their employees and I see that effort as a serious blow to the American dream! After 37 years of being on both the winning and loosing sides of the stock option opportunity, I think the Federal Government should do everything it can to encourage responsible corporations like Cisco Systems to make stock options available to all their employees. Requiring corporations to expense stock options will spark the end of stock option ownership opportunities for millions of average Americans like me. My experience with AT&T and Tandem stock options taught me that stock options have zero monetary value until the day they are exercised profitably. When and if that day comes, the government takes it's share immediately. Companies like Cisco Systems, companies who manage their stock option programs responsibly, should be rewarded for making stock options available to all eligible employees rather than discouraged or penalized.

Please rescind the FAS 123 exposure draft so we can protect, encourage and share the American dream!