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**From:** Jeffrey Levenstam [jlevenst@cisco.com]  
**Sent:** Saturday, June 12, 2004 12:23 PM  
**To:** Director - FASB  
**Cc:** savestockoptions@cisco.com  
**Subject:** Accounting for Stock Options; File Reference No. 1102-100

Chairman Robert H. Herz,

I am writing this as a concerned citizen, employee and CPA. I find it extremely unfortunate that the FASB would compromise sound accounting policy to jump on the popular bandwagon that has decided suddenly to demonize stock options after years of touting the benefits of aligning employee and shareholder interests through the use of equity based compensation. I can tell you that I personally have moved from a partner position in a Big Five firm to an employee position at Cisco and have found the rank and file employees at Cisco to have more team spirit and be more incentivized to increase shareholder value than the partner group within the two Big Five firms I used to be part of. The use of broad-based stock options has saved the company a good deal of compensation while, at the same time, served to motivate employees here more than pay raises or bonus agreements that I have seen used in my firms and clients from my consulting period. The simplicity of using stock options, and the fact that they are currently reflected in the all-important EPS calculations, to me indicates that this is an effective and well-accounted for compensatory method. I am against the expensing of stock options because it would cause the most havoc within the ranks of the companies which use options in the best way possible - as part of a broad-based policy wherein all employees are part of the program and not just the top executives.

One main reason why options have never been expensed cannot be refuted by any of the so-called experts who have recently changed their mantra from being supportive of the use of stock options to now casting some untold evil motivations to the recipients of stock options. That is, simply put, that there is no effective way to measure the cost of the stock option that is issued either at the date of issuance, at the date of vesting, or at the date of exercise. From an accounting theory perspective, the real cost of stock option programs is the dilution of the shareholder group on the date of the authorization of the option program. This is accomplished under current standards. We have all seen that the various "option valuation" methodologies have severe flaws which would result in sharply skewed and misstated income statements in the event that such methodologies would be used to expense stock options. These methodologies were previously considered to be ill-suited to be measures of an accounting expense charge for stock options. There has been no material improvement in the accuracy of these methodologies, so it is unclear to me why now the FASB would consider changing its opinion of the suitability of booking an expense charge for stock options at this point. It comes across to me as the FASB sacrificing a long held and properly decided accounting policy in the face of some populist (and mis-informed) diatribes in the business press against a long held favorable view of the impact of stock option programs. It is very disheartening to see a body such as the FASB start to cave into popular swings in the style and fashionable consultants' mantra rather than upholding solid and stable accounting policy.

I am hoping that the FASB will return to its senses and re-connect with its mission to regulate proper accounting policy rather than bending to popular consulting jargons, and continue on its prior policy of non-expensing stock option plans. This is especially true for companies which make stock options available to their entire employee base rather than simply to top executives.

Hoping you will take the appropriate actions, I am  
Sincerely yours,

Jeffrey A. Levenstam  
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