

ikon**Letter of Comment No: 2710**
File Reference: 1102-100

From: Stacey Sutay
Sent: Monday, May 24, 2004 9:33 AM
To: ikon; Karen Salmansohn
Subject: FW: 1102-100 Share-Based Payment-an amendment of FASB Statements No. 123 and 95

-----Original Message-----

From: David McDaniel (damcdani) [mailto:damcdani@cisco.com]
Sent: Saturday, May 22, 2004 3:27 PM
To: Stacey Sutay
Subject: 1102-100 Share-Based Payment-an amendment of FASB Statements No. 123 and 95

David McDaniel
PO Box 227243
Dallas Tx 75222

Sirs:

My name is David McDaniel; I'm employed by Cisco Systems, but I write you as an individual and a shareholder of not just Cisco stock but of other publicly tradeable companies as well. I sympathize with the concerns for transparency, but I wish to express in the strongest terms possible my opposition to this proposal.

The proposal is clearly motivated by the lamentable abuses of the past and purports to provide greater transparency in reporting. I claim that it does nothing to prevent fraud and abuse and more to the point it does not increase transparency. Further, while the news release touts "substantial convergence" on the matter with international law, as if that really mattered, numerous countries such as China do not in fact require options to be expensed. And given the importance of the U. S. economy in the world, by what measure would one suggest that compared to some other country the U. S. would improve by coming into "substantial convergence?"

More importantly, and ironically given the vilification of late to the use of terms such as "pro-forma", "non-cash items", and EBITDA, this proposal would if adopted institutionalize an accounting fiction. Options when granted represent no expense, nor do they affect cash flow, thus it is ridiculous to include them on the income statement as expenses. They do however represent a "potential future" expense to the company and thus are indeed important to the shareholder.

My proposal is simple enough. When the company receives an invoice, it gets recorded as an account payable item: it is a liability to the shareholder. If it ever gets payed, it then becomes an expense at a future date and the liability is removed.

So I say create two new line items for options granted. Notwithstanding other objections to the method of valuation, apply the method for the options to arrive at the amount to be so recorded. One line item is for newly granted options plus previously granted ones. The other line item is for the "adjustments to previously granted options". Keep these line items clearly distinct. At the time financial reports are prepared, the value of the options already granted get adjusted based using the same valuation method and include the usual factors such as passage of time, changes to implied volatility etc. Thus, if the value of the stock goes up, the magnitude of the liability goes up. How can you get more transparent than that?

Most importantly, when and if the option gets exercised, then the company can remove the liability, record as income the income due to the exercise and record as an expense the value of the shares exercised. Likewise, if the employee leaves and the options are unexercised, then the liability gets adjusted downward and no expense is ever recorded.

Isn't that the most transparent thing possible? The potential cost to the company and its shareholders is plainly visible for all to see. All companies are treated equally. And expenses are recorded when and "only if" they occur. I believe this contrasts sharply with the uncorrectable errors your proposal would create. I insist that you must reconsider the goals this proposal seeks to achieve and revise it along the lines I suggest so it in fact does just that. Do not go forth with your proposal in its present form just because of the howling political winds.

Regards
David McDaniel

5/24/2004