ikon Letter of Comment No:732 File Reference: 1102-100

Steven Luong [sluong@cisco.com] Tuesday, April 20, 2004 6:56 PM Director - FASB

To: Director - FASB
Cc: savestockoptions@cisco.com

Subject: Save Employee Stock Options and Save Corporate Americal

Dear Mr. Chairman,

From:

Sent:

I am sending you this email regarding File Reference No. 1102-100. In the draft, the FASB stated that they intend to treat employee stock options as an expense. As a U.S. employee working for a corporation in America, I would like to express my serious concern regarding what the FASB is recommending for a number of reasons.

- 1. The Black-Scholes method which the FASB is recommending is inaccurate and has an artificially high valuation for employee stock options. The method was designed to value tradable stock options with short lives and no vesting restrictions. Employee stock options, on the other hand, are not the same as tradable options. They have a long vesting period and the employee may not stay long enough to exercise them all. Some employee stock options may never be exercised because the option price is higher than the open market price by the time the options are vested. Therefore, the recommended method of expensing employee stock options is not an actual cost to the company when the options were granted. Instead, the company is required to report them as an operating expense, which seems a foolish deception.
- 2. Employee stock options are used as an incentive to attract talented employees and they can make a difference in employees' lives. Since stock options tie my fate with the company's, I feel more motivated and dedicated to my job. I live in San Jose, California, the largest silicon valley of high tech region in the world. Here the average home costs more than half a million dollars. With just ordinary salary, there is little hope any regular employee can afford a home. Employee stock options have helped me and many others to make the down payment on their first home.
- 3. Employee stock options were never free. It is already computed as dilution of earnings per share. For many years, this method of accounting worked just fine and many foreign companies are following our practice, computing employee stock options as dilution of earnings per share. Is the FASB deciding to change its policy just because scandals have happened in some specific companies?
- 4. The United States is already in record budget deficit, expensing employee stock options will reduce corporate profits and reduce revenues for the IRS. Corporate America pays taxes on its profits. With the same revenue and different accounting method, expensing the employee stock options, corporate America will pay much less taxes since we allow them to write off an artificially high cost of the employee stock options. While reducing the U.S. budget deficit is a must in order for the U.S. economy to thrive, reducing the revenues for the IRS is going to make the task even harder.
- 5. The United States labor market already faces challenges by the low wage oversea labor. Jobs have been moved off shore, raises have been frozen, and in some cases some companies even have had to cut employees' salary in order to survive. While inflation remains tame, it is increasing year after year. Employee stock options are the only reward to the employees to make up for the difference in increasing expenses. If this were also taken away once the FASB had had its way of requiring the options to be expensed, our standard of livings will be deteriorate greatly, to say nothing about the "American dream".

Until there is a more accurate way of expensing employee stock options, the Black-Scholes method is not appropriate. I urge you to consider this issue

seriously because it has a very negative effect on U.S. companies which will allow the foreign companies to take advantage of today's already difficult and competitive economic environment. To save corporate America or to depress the U.S. economy even more than it has been, the decision is yours. More importantly, our next and younger generations will depend on your wisdom today to prepare them for a better future. Please re-evaluate the consequence of expensing employee stock options to what extent it will hurt the U.S. economy before making a wrong decision.

Sincerely, Steven Luong