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Letter of Comment No: 775
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From: Dhyanesh Vyas [dvyas@cisco.com]
Sent: Tuesday, April 20, 2004 9:30 PM
To: Director - FASB
Subject: Stock Options Expensing

Dear Mr. Robert H. Herz:

I am writing to express my utter disappointment with FASB's decision to make companies expense stock options. This decision is against ALL concepts that a free market hopes to achieve, specifically innovation, pride of ownership, and ethical accounting.

I am an employee working in the high-tech industry. In our industry, employee ownership (via stock options) is critical. It is a significant motivator for us to innovate and keep the US high-tech market in pace with rest of the world. However, if FASB decides to expense stock options, we will definitely stop receiving stock options. Without stock options, we will loose our sense of ownership, which is essential to drive innovation. You see, there is a reason why us high-tech workers don't mind putting in 60-70 hours/week and that reason is stock options. With stock options, we own the company we work for and as a result, try our best.

FASB's rationale for making companies expense stock options is to improve financial reporting. However, I believe that expensing stock options does exactly the opposite. Expensing stock options will basically be a "best guess" of the stock price. Let me ask you a question: can you tell me, in no uncertain terms, where the NASDAQ will be 2 years from today? Can you even answer this question with plus/minus 5% tolerance. Obviously no one can answer that question, and that's the whole idea behind a free market. Then how do you justify your point of somehow "making up" a stock price just to expense the option. Please note that the TRUE cost of a stock option is the dilution of earnings per share (EPS) and is already accounted for when options are exercised. Options contribute to an employee's compensation ONLY when they are exercised and this is accounted for in the EPS. There is absolutely no reason to make a company expense unexercised stock options. If you do that, you are basically trying to expense a stock's potential price. To understand how ridiculous this concept is, imagine trying to sell your house today for the price it would be worth 5 years from today! Just like real estate market, you can not guess a stock's price and expect companies to expense that amount.

In addition, our high-tech competitor's (particularly in China and India) are currently issuing stock options to their employees. The governments of India and China have no plans to make their companies expense stock options. As it is, the US is loosing thousands of jobs to these countries because of a lack of skilled high-tech workers here in the US. FASB will make matters worse by expensing stock options since employees clearly prefer working for a company which they own. I am quite certain that if US companies have to start expensing stock options, we will loose many more jobs to India and China. In fact, many of the US based high-tech companies will probably decide to move their head-quarters away from the US, in order to continue to retain skilled high-tech workers.

I believe that FASB's decision to expense stock options is simply a knee-jerk reaction in face of recent accounting scandals. Please understand the adverse impact on accounting, innovation, and competition before making such narrow-minded and short-sighted decisions. There are many policies that need to be enforced to avoid unethical accounting practices. However, expensing stock options is definitely NOT one of them.

Thank you for reading and hopefully considering my opinion on this matter.