From: Navindra Yadav [nyadav@cisco.com]
Sent: Thursday, April 22, 2004 11:18 PM
To: Director - FASB
Cc: nyadav@cisco.com
Subject: File Reference No. 1102-100

Letter of Comment No: 1462
File Reference: 1102-100

Chairman Robert H. Herz,

Sir,

I am writing this email regarding File Reference No. 1102-100.

From numerous sources like the news media and others web sites I have heard that FASB is seriously considering to treat stock options as an expense using the Black-Scholes valuation method. The Black-Scholes in my humble opinion gives an artificially high valuation for stock options.

In this email I express my opinion built after reading number of sources.

The Black-Scholes seems to overvalue the stock options in many cases, which may or will dissuade the industry from issuing any new stock option or reduce the rate dramatically. They would do this to avoid taking a large in quite a few cases unrealistic expense on their public ally reported financial statements.

The above may not be a positive development in my humble opinion, following is my justification:

- Stock options are a big motivator/incentive for employees. The better the employees work together(team work), focus on quality, etc the better products the company makes and sells. This directly relates to higher revenue/profits for the company, increased market share worldwide. Directly providing much higher returns to the share holders.

- Most of all the options I have seen issues have a vesting period, which prevents employees from freely selling them and profiting from them. They have to work hard to earn them, keep up the good work and then after the vesting period get the right to sell/exercise the options.

- Overall this in my opinion is better for the share holders, reason being:
  An employee works hard, goes the extra mile, earns his/her performance reward lets say as stock options. He/she has an incentive to keep continuing to work harder and go the extra mile, so that the company does better, increasing its share price so that when the vesting period the options would have a higher price than what they were granted at. This cycle feeds on itself, the employees work harder resulting in him/her getting a next set of performance reward stock options, which keep the employee motivated.
  Secondly another positive side effect is that as employees build a stake in the company in the form of employee stock options. There is an increased sense of loyalty for the company. This reduces employee turnover which translating in costs savings to the company and increased employee productivity.

  Now assume on the flip side if the company was to reward the employee with say a cash reward. After the employee has received the reward, there not a direct incentive to keep working harder/loyalty, etc.

- In this age of the global economy where there are multiple other competing companies in other countries with a different set of accounting rules, it may place companies in US at a disadvantage.

thanks for your time for reading this email
respectfully,
Navindra Yadav
An Engineer working at Cisco Systems