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Letter of Comment No:1077

File Reference: 1102-100

From: Dave Luck [dluck@cisco.com]
Sent: Friday, April 23, 2004 5:02 PM
To: Director - FASB
Subject: File Reference No. 1102-100 - Please do not expense stock options

Dear Chairman Robert H. Herz,

I wanted to write you regarding the draft plan released last month stating the intention to treat stock options as an expense. I would really like for you to re-examine the basis/reasoning for expensing stock options. What will be accomplished by doing so? Companies are already declaring the options disbursed during quarterly earnings reports and EPS is being diluted when shares are exercised.

For me personally, I had previously worked at a Fortune 50 company that has been around for over 100 years and only offers options to executives. What I saw happen over time(7 years I worked there) was a culture of mediocrity being established. The employees that were interested in excellence, left the company. Average employees eager for job security and stability were rewarded for their mediocre performance with a 'job for life'. Executives, had it made. This legislation will have little or no effect on this type of company. Since only top executives are awarded options, the overall expense will not impact their bottom line. I left this company 6 years ago for a job with Cisco Systems. I accepted an offer at the same compensation level and in addition a grant of stock options. The culture of ownership that exists at Cisco is because of the broad based options plan. Every employee receives annual grants and is an employee owner, and the decisions that we make everyday on the job reflect that ownership. I plan on using my option grants to supplement my retirement benefits. The monies gained from the sale of stock option grants will go to paying down my mortgage to reduce debt levels prior to retirement. I would not be able to do this otherwise.

I hear the arguments about options being an expense and that by doing so the company will be more transparent and company performance better measured. The exact opposite will occur with the draft plan that was released. Companies will be required to expense options granted at unrealistically high valuations. Then if the employee leaves the company or the stock is underwater, the company will offset the expense with a gain several years later. Neither line item having any bearing on the business operations those quarters. In addition to less transparency, the companies that offer broad based options will have no choice but reduce the qty of options granted and become more like the mediocre company that I referred to earlier. Please reconsider.

Best Regards,
Dave Luck

ps, I have recently returned from a business trip to Taiwan, where stock options are granted annually to employees and at the IPO price, not at the current price as it is done here. This has had an incredible impact on the economy there and this can be seen by walking from the east side of Taipei to the west. Our country's ability to compete globally will be greatly hindered by this decision.