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**From:** Andrew Lunstad [ajl@cisco.com]  
**Sent:** Monday, April 26, 2004 11:55 AM  
**To:** Director - FASB  
**Subject:** Why expense stock options?

**Letter of Comment No:** 1947  
**File Reference:** 1102-100

Dear Mr. Herz,

I am writing to you on the subject of expensing stock options. While not an accountant, I still feel that it is worth my time to argue this point as I believe many of the reasons to expense options are more political or PR related than financial. I have just a few points to make:

1. It is impossible to set a price on them as an \*expense\*. So any attempt to put an artificial price on them is virtually guaranteed to be inaccurate. In my own case, working at Cisco I find that the Black Scholes price given for my options is \*always\* lower than the current price, yet I know my compatriots to be occasionally selling in spite of this. Furthermore, many of my other coworkers have left the company and hence left many of these option on the table. Obviously, this makes any expense based on BS model inaccurate for a number of reasons.
2. What is the expense of an option? At what point does cash leave the companies bank account to pay for these? Of course you know the answer is never.
3. If you are going to expense options given, can a company then recoup those expenses if and when the employee leaves? Would this be, then an incentive to release employees with many options? Obviously this is as silly as the proposed expensing. The cost of an option is really stock dilution. Why not instead use that truth and have companies publish the diluted share price, taking into account the amount that would have to be paid in to exercise said options? e.g. Exercising an option at its strike price would be non-dilutive.

The only real argument I can see for expensing options is for companies that use options as a way to avoid income tax on their payouts. i.e. By giving options, holders can get capital gains even as the company buys back these same shares. However, I think expensing all options is a clumsy means to close that loop-hole.

If you agree with what I say, please reconsider. If not, I'd be happy to read anything you have to refute my disagreements with expensing or alternatively to point out actual harms that not expensing options has caused.

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Thanks,  
Andrew