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Letter of Comment No: 1141
File Reference: 1102-100

From: Kelly Hartman [kmckinne@cisco.com]
Sent: Wednesday, April 21, 2004 11:21 AM
To: Director - FASB
Subject: File Reference No. 1102-100 (Expensing of Stock Options)
Importance: High

Chairman Robert H. Herz

Re: File Reference No. 1102-100

Dear Mr. Herz,

I am writing to you because of my concern over the draft FASB ruling regarding the expensing of stock options.

In response to the the scores of corporate accounting scandals and executive wrongdoings, the solution proposed by the the International Accounting Standards Board (IASB) will require companies to expense stock options. While I am also enraged with the scandals, I have three main reasons to object to option expensing: the inability to properly value the options, the impact on the market, and the impact on non-executive employees including myself.

While the reasoning behind forcing companies to expense options targets the executives at the top tier of a company, I think employees at all levels will be impacted. Forcing companies to expense options will result in the company's decision to scale-back on the amount of options granted. Stock options are intended to be an incentive to employees. Hi-tech companies have traditionally issued options in an effort to attract high quality employees to the company and motivate workers at all levels. Because I have experienced the benefits, I believe that stock option plans enhance productivity and loyalty to the company. If they are taken away from me or discontinued in the future, it will have a negative impact on my motivation and overall job performance.

The idea to force companies to expense options is a solution proposed in an effort to avoid scandals in the future. What I find most interesting about this proposal, is the fact that there is currently **no known accurate, reliable, or consistent way to value employee stock options.** (Taylor, 2003). The difficulty with determining a reliable method to assess the value of stock options lies with the inability for a person to predict the future. Options are priced at the value on the date they are granted, and can be cashed in after they have vested for the preset period of time. Furthermore, options cannot be taken with you when you leave the company, so you would have to know when the employee would terminate and at what price the options were granted and cashed in. Not only is this unfair and difficult for investors to interpret, but also the inconsistency of the many valuation techniques will further create the temptation for manipulation of the inputs within these models which would bring us right back to the issues we have formerly encountered. (Taylor, 2003.)

Lastly, I feel the overall economy will feel the negative effects of this change in accounting standards. According to Ed Potter, President of the Employment Policy Foundation, At a time when this nation is facing slow economic growth, and a substantial labor and skill shortage, a requirement to expense stock options would discourage companies from offering broad-based stock option plans that would hurt productivity growth and this country's standard of living. It could result in up to \$2.3 trillion in lost outpost over the next decade. On average, employees receiving stock options could lose up to \$77,300 of income in 10 years. Federal, state, and local governments also could lose up to \$566 billion in tax revenue over 10 years. (December, 2002)

To me, money is a reward for my hard work and I would not appreciate any income loss as a result of this proposal.

In summary, the solution proposed by the IASB does not resolve the damage caused by the greedy executives who caused the collapse of our economy. While some think it will right the wrongs created in the corporate scandals, I feel

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that it has not been fully thought out. This plan will create more accounting confusion, financially hurt employees, and cause a decrease in quality of work and motivation contributed by each employee. These effects would adversely impact you, me, and the economy as a whole.

With regards,

Kelly Hartman

Cisco Systems, Inc.

References

- Bernstein, R. (December 2002). Expensing Stock Options - What Will This Mean for You? Retrieved June 21, 2003 from <https://www.fed.org/onlinemag/dec02/tips.htm>
- Potter, E. (September 2002). The Economic Impact of Expensing Stock Options. President's Summary. Policy Backgrounder. Retrieved June 21, 2003 from http://www.savestockoptions.org/pdf/studies_03.pdf
- Taylor, J. (2003). Expensing Stock Options. Retrieved June 22, 2003 from <http://executivecaliber.ws/systempl/expensingstockoptions/>