

Message

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Letter of Comment No: 3399
File Reference: 1102-100

From: Ian W Suhrstedt (suhrsted) [suhrsted@cisco.com]
Sent: Thursday, June 10, 2004 10:47 AM
To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: re: Expensing Stock Options, File Reference No. 1102-100

Dear Chairman Robert H. Herz,

The FASB is on the verge of a really important decision regarding stock option expensing, and I wanted you send you a quick note about how I feel about the stock option expensing plans of your organization. If I am understanding correctly, the FASB is currently proposing to value all of a company's stock options as an expense. The idea is to get a more accurate account of a company's condition in their financial statements so that debacles such as Enron and Tyco can hopefully be prevented through more accurate accounting. There are multiple issues and problems with this plan, but the biggest problem is that it further injures people working for companies that give out broad-based stock options as incentives or rewards for determination to do their best, while driving the business elsewhere to companies with higher pay or overseas where such rules do not apply.

There should be some other form of communicating the effects of stock options on a company's financial statements rather than expensing all options. For example, the current proposed compromise of only expensing the options of executives of a company seems to be more accurately directed at lessening the potential fraud problem and would not harm the rank-and-file person who is trying their hardest to innovate and lead development in this country. Few people will work this hard with no sign of a possible reward from the market (assuming companies would no longer offer broad-based stock options after expensing is forced on them).

Accounting for all stock options as expenses on the balance sheet has issues such as:

- An artificially high valuation for a stock option
- Stock options do not meet the definition of an expense because they do not use company assets.
- The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised

Another compromise for communication could be a better explanation and more education in financial reports as to the amount and effect of stock options for these companies. If the goal is more accurate accounting, perhaps the "true cost" of stock options could be expressed in more detail in financial statements without expensing them.

Please consider a policy that does not cause companies to abandon their stock options programs. Initiate change that does not do harm to the people that are trying to innovate and compete better with the hope of being rewarded for their efforts.

Sincerely,
Ian Suhrstedt

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