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From:

Stacey Sutay

Sent:

Wednesday, June 30, 2004 9:09 AM

To:

Subject: FW: FW: For Chairman Robert H. Herz

Letter of Comment No: 5728 File Reference: 1102-100

----Original Message----

From: Dov Froind [mailto:dovf@cisco.com] Sent: Tuesday, June 29, 2004 5:35 AM

To: Director - FASB

Subject: For Chairman Robert H. Herz

File Reference No. 1102-100

Dear Mr. Chairman

I am a rank and file engineer with a disability, I work for Cisco. I have a reasonable life due to stock options. I am a top performer, graduated university Summa Cum Luada, first in class.I also hold an MBA. An important part of my motivation to work at Cisco is the options. My life story should not interest a particular shareholder, but as a group options are part of the american way of doing business, and part of what makes America great. This eventually interests the shareholder because that's where the ROI comes from.

Please do not expense employee for the following reasons:

Accounting Issues:

- 1) If an options is expensed then when it goes underwater does the corporation get an income?
- 2) If an options is expensed, when it expires the corporation MUST get an income. You end up with a non-real loss at option grant and a non-real earning at option expire. This is not transparent accounting.
- 3) The simple fact, the simple truth, is options cost the corporation nothing, they are not an expense to the corporation. Expensing them against the corporation is punishing the wrong entity, it is not correct accounting. They dilute the shareholders, they should be accounted against the shareholders, by reporting the number of shares if the options are exercised. This is already done.
- 4) Options grant are not an expense to the corporation, when a corporation does a buy-back of stock resulted from option exercise it turns into an expense. If you do not like the buy-back do something to reduce that. The buy-back does not turn an option grant into an expense, the buy-back IS the

expense. This is accounted for already.

- 5) If shareholders approve options to align and motivate the employees they are using there right to give up a little wealth to get a bigger ROI, they do not need FASB to "protect" them.
- 6) How do you valuate the expense to the corporation? Since there is no market for employee options the Black-Sholes-Merton model or the lattice model can not be used. Using a model from a market for something full of restrictions such as employee options is not because these models are appropriate, it's because there is nothing better. The proposed adjustments were never proved in practice to be valid. So how do you valuate the expense to the corporation? At the time of grant? Every period? Evry year? When ever the stock fluctuates? Ask yourself would you take money out of your pocket and buy the rights for an employee option at the price you valuated it? If not the valuation method is wrong?

## National Issues:

7) Even if it only lowers stock price the shareholders you try to "protect" will end up losing, don't hurt the American public.

8) Expensing options with experimental, unproven valuation models, will artificially harm American companies, harm American high tech leadership, cause talent to go elsewhere, reduce job creation, reduce American companies stock price, and may cause foreigners to pull their money out of the county causing a financial crisis.

9) You are harming the American dream, what will be left is options to the top executives.

The American dream and the American way are part of our culture that make America great.

Thank you for your time Dov

\*\*\*\*\*\* End of message \*\*\*\*\*\*\*\*\*\*

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