Letter of Comment No: 1846 File Reference: 1102-100

## ikon

From: David J. Oroshnik [doroshni@cisco.com]

Sent: Friday, April 23, 2004 7:03 PM

To: Director - FASB

Subject: On expensing stock options

Dear Sir/Madam.

I don't think Warren Buffet is correct when he says, "if they're not compensation, what are they?"

They're ownership. And ownership is a mechanism by which incentives are created for employees such that everyone works towards common goals – customer satisfaction and shareholder value.

Without broad-based stock option grants, like the ones granted by my employer, Cisco Systems, you get a company that's doesn't have the incentive to work collectively towards common goals. In a company that doesn't have broad-based employee stock ownership, managers have only the incentive to promote themselves, not the company. Managers' actions often become focused on their personal objectives and improving their position. A zero-sum game is created between employees for recognition and resources.

Broad-based stock ownership helps to minimize this behavior, and employees do the right things for the right reasons. I've been with Cisco since July of 1996 - customer and shareholder focused behavior is the rule, not the exception.

A key concept in my argument is the notion of "broad-based" stock ownership. We've seen in the news how top management has incentives to cheat and mange to the stock price for their own benefit. With broad-based stock options, meaning non-trivial ownership for all employees, a company has, in effect, a system of checks and balances. Employees have strong incentives to speak out against morally objectionable actions which may hurt shareholder value.

Several other observations worth noting:

- Broad-based stock options make stock ownership possible for many working people who ordinarily wouldn't have the
  disposable income to invest.
- Stock options are notoriously difficult to value, and their market value changes daily. Therefore, by valuing and expensing
  options at a point in time them, you violate the timing principles in GAAP with respect to the earnings timeframe covered by
  an income statement.
- By expensing options, you reduce taxable earnings, thereby shrinking badly needed state and federal tax monies.

Financial accounting abuses by a non-trivial number of corporate leaders has focused unwarranted negative attention on stock options, attempting to scapegoat them as a root cause of bad behavior. Stock options are not the cause, criminal activity is the cause. To fix the markets, investors need to see business leaders punished swiftly and harshly, sending them to real prisons and not federal country clubs. Only when there's a true downside to cheating will business leaders with a wavering moral compass perform honesty.

Targeting stock options to dissuade criminal activity by business leaders accomplishes nothing. However it does serve to punish workers, shareholders, and the coffers of our governments.

Respectfully.

David J. Oroshnik San Jose, CA.