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**From:** Larry McMahon (lmcmahon) [lmcmahon@cisco.com]  
**Sent:** Wednesday, June 23, 2004 5:02 PM  
**To:** Director - FASB  
**Subject:** Employee Stock options

**Letter of Comment No:** 5223  
**File Reference:** 1102-100

Chairman Robert H. Herz

e:File Reference No. 1102-100

Dear Sir -

I would like you and the FASB to reconsider your position on expensing broad-based Employee Stock options. I know from experience that they are extremely motivating for employees and I believe they are a primary reason that the high tech industry in the US has lead the world for many years, despite our high labor costs. Innovation and motivation are born of the incentive for a significant reward. Stock options have been that reward, to reward employees for the returns they have achieved for the investors. Expensing stock options is equivalent to eliminating them. Corporations are simply not going to continue the practice of issuing them for rank and file workers if this action is taken to expense them via currently proposed valuations. I would urge you to look at which sectors of the US economy have had outstanding success and innovation over the past 2 decades, and to correlate those sectors with a view of which sectors were offering employee stock options.

If we discontinue the practice of granting employees options, we will demotivate workers. Jobs will be just jobs, people will not invest the extra hours and effort, and the success of our US companies will falter. With an awakening pool of talented workers in many parts of the globe we will make ourselves extremely vulnerable to hungry companies abroad who are able to incent their workers with the promise of shared returns.

I know pressure on this issue has been exacerbated by the decimation of US equity markets over the last few years, but I would argue that investors have been less hurt by the lack of accounting for options expenses than has been suggested by opponents of such expensing. I would counter that investor would easily recoup any such 'losses' by having workers motivated completely on company success. A hard thing to quantify, but valid I believe.

The real threat to investors has been criminal behavior on the part of executives, corporate finance groups, and the investment banking/brokerage community. Clearly sweeping reforms, and prosecutions, are necessary. But I believe the cross-hairs are misaligned when they land on employee stock options. Those are not the threat to investors, and we are in real danger of throwing out the baby with the bathwater with these 'reforms'.

Sincerely,

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