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Letter of Comment No: 1877
File Reference: 1102-100

From: Paul Cutler [pcutler@cisco.com]
Sent: Friday, April 23, 2004 5:43 PM
To: Director - FASB
Cc: pauc@centervilleut.com
Subject: I oppose expensing stock options at unreasonable valuations

File Reference No. 1102-100
Chairman Robert H. Herz

Dear Chairman Herz,

I strongly oppose expensing stock options at unreasonable values. I believe that stock options are an important financial and motivational tool in our economy. I have studied the stock option expensing issue on my own and as part of a graduate business course I recently took. I also own both common stock and stock options in my employer (Cisco Systems), and I consider stock ownership to be a very motivating factor for me personally, and one major component of my family's long-term financial plan.

I am convinced that most of the current proposals to expense stock options (when they are issued) at unreasonable values (using Black-Scholes or similar methods) would do more harm than good, and would result in distorted financial reporting for many companies.

I am in favor of absolute full disclosure of stock options. I would be in favor of expensing stock options, if we could figure out a reasonable way to expense the true cost of the options to the business and other shareholders. However it would be foolish to expense a non-cash cost (like an option) in the financial statements, years before that option is exercisable or before the cash cost to the business is known.

Stock options attract talent. Stock options attracted me to Cisco, and they are a major reason why I have not left Cisco to work for another company. I know that if I work hard and, together with my colleagues, use good management judgment and execute our business strategy, in the long term, I will enjoy the financial rewards.

I am also a local public official (City Councilmember for Centerville, UT). I am acutely aware that government policy decisions affect businesses and affect communities. I fear that expensing stock options ultimately will drive some high tech jobs out of the US, and into Asia and other lower cost counties. I believe that stock options are good for our communities and good for both small and large businesses. Like a small business owner, an employee with stock options feels like he or she is a part owner--like his or her effort--combined with other employee efforts--can make a difference in the business.

I encourage you to use good judgment to withstand the temporary political pressures of the season, and say no to current proposals to expense stock options at unreasonable values.

Sincerely,
Paul Cutler
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