Stacey Sutay

Letter of Comment No: 453
File Reference: 1102-100

From: David Friedman [dafried@cisco.com]
Sent: Monday, April 19, 2004 7:03 PM
To: Director - FASB; savestockoptions@cisco.com
Subject: File Reference No. 1102-100

Dear Chairman Robert H. Herz,

The FASB plan to expense stock options has a number of fundamental flaws. Without being addressed, the plan hurts US companies and employees.

Issues with the FASB plan: It is certainly true the companies must recognize expenses - it is inappropriate to recognize expenses prior to capturing their value accurately.

#1 - Black/Shoales does not accurately value options. As an example, please use Black / Shoales on my Cisco 55 options which expire Nov 2009. You will find a valuation that Cisco would have been forced to take as an expense. Given the massive change in the stock market, there is minimal value on these options - yet these would have been an expense for Cisco. If options have a value, it only exists when they are exercised (although perhaps a tracking liability of some type exists when they are issued and when they vest). Certainly the only accurate valuation can be determined when shares are exercised. As a proof point of this, does the value of my options change if I indicate that I am leaving Cisco (BTW: not accurate - just an example)? Of course, as these options are not completely vested and would certainly not be exercised below market. Thus, the value of my options today depends on my employment status, the vesting schedule, the strike price, the market value, and expectations for the future - B/S does not capture this.

#2 - The FASB plan does not allow recognition of the change in the value of options overtime. Back to my Cisco 55s of Nov 2009, please examine the value that would have been expensed in 1999 when these were issued and the value today. How can it be appropriate for Cisco to take such a large expense then and not be able to recapture the decrease in value which has occurred? Perhaps the FASB rule should be pick any value that the corporation would like prior to exercise -- at least this would minimize the penalty. That said, it is quite obvious that the expense only occurs (and has a defined value) when the option is exercised -- prior to that point, it is a potential future expense and should not be subtracted as an expense.

Why options matter to me:

A. Having worked for a small start-up acquired by Cisco, the increase in the value of my options in that start-up made a huge difference in my family's economic status. This change has benefited me, charities that we contribute to, the state & federal treasuries (due to significantly increased tax revenues) as well as the economy (through investments I have made in real estate and stocks). Without options, I would be struggling with questions about financing college for my children and my wife & my retirement (should we discuss the drop in 401ks over the past few years). Thus, my decision to take a risk and leave a larger company for a start up was rewarded in a significant manner -- as risks in capitalist societies should be.

B. As a manager, I see the value in letting employees have ownership in the company as this influences their behavior to the benefit of all shareholders - including themselves. Options / ownership drive productivity and loyalty.

C. As the the federal and state treasuries depend on capital gains revenues as a contributor to revenues, there will be a very detrimental affect on deficits / spending if the FASB options accounting rules drive corporations to stop giving options to rank & file employees -- like me and my team. I have personally paid hundreds of thousands of dollars of taxes on gains from options -- without options, Cisco would have still acquired the start-up but I (and my co-workers) would not have benefited.

D. Ownership in the employer gives an edge to American companies and their employees --- unless the whole world treats options identically, we run the risk of having another reason for jobs to move overseas which is detrimental to the US economy.

Please reconsider FASB's current direction.

Sincerely Yours,

David Friedman
604 Picardy Ct
Roseville, CA 95661

--
David Friedman
dafried@cisco.com
Cisco Systems
Office: 707-285-5746
fax: 707-285-5022
cell: 707-477-0983

AIM: dafried1
Yahoo Messenger: dafried2