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Letter of Comment No: 617
File Reference: 1102-100

From: Russ Borman (rborman) [rborman@cisco.com]
Sent: Tuesday, April 20, 2004 10:32 AM
To: Director - FASB
Cc: savestockoptions@cisco.com; Accelerate Team
Subject: File Reference No. 1102-100, Expensing Stock Options

To Chairman Robert H. Herz

Dear Chairman Herz,

I am writing this urgent request asking that you and the FASB **NOT** rule in favor of companies expensing stock options. I consider this one of the more critical matters facing my family and me. That is why I am taking the time to write this message even though I have about 4 days' worth of business-related tasks to accomplish in the next 5 hours. Let me tell you why this matter is so important to me (and thousands like me) and why I feel the FASB's intentions will ultimately harm our economy.

I joined Cisco Systems early in 2000. The appeal of stock options attracted me to the company, so much that I accepted a cut in salary to go to Cisco. As you are well aware, the US economy has been in a stall mode for the last 3 years. Cisco Systems laid off 18% of its work force in April of 2001. I was fortunate enough to survive that layoff, but I have not benefited from a salary increase in 3 years. Meanwhile, my costs of living have continued to rise. Stock options represent the potential for me and thousands of other employees around the country to make up for the absence of salary increases. Options also represent the potential of ownership, which motivates employees to protect and promote shareholder interests. If companies are compelled to expense stock options, many will scale back or eliminate those programs in order to have more appealing income statements. The immediate impact will be on people like me, but ultimately the economy will suffer. If stock options are expensed there will be no real change in the market valuation of companies because the market will normalize around adjusted income statements. Balance sheets will not be affected because options do not use assets. Income statements will be misleading unless companies fall to grow, so in order for this new accounting standard to be valid the FASB would have to promote a stagnant economy. The only real change will be in the value of the compensation that employees receive and their desire to work for US companies. Many of the companies that have stock option plans are companies that innovate - like Cisco Systems - and it is those companies that will lead the US out of its economic slump. That will be possible only if innovative companies can continue to attract and retain the best talent, and stock options are a very big factor in that equation.

Another reason that stock options should not be expensed is because there is no accurate way to value them. As an example, I have stock options approaching vesting and priced at \$68 and \$50. Today CSCO is hovering in the \$23/share range. Had Cisco Systems been compelled to value these options at or near their price at the time they were granted, the company's income would have been grossly understated and it would have carried over for at least 3 years because none of the options were ever 'above water'. The true 'cost' of a stock option is dilution of EPS when the option is exercised, but the market already takes that into account.

The FASB should consider the Hippocratic oath which states "first, do no harm". Please let the system continue to work. There's no good reason for companies to expense stock options; there's no accurate way to value them. Your proposal will not make it any easier for investors to ascertain the viability of a company. Income statements and balance sheets created by accountants will not be any more precise. The only thing you will succeed in doing is harming the income of US employees and suppressing the innovation-driven resurgence of our great economy.

Russ
Russ Borman
Cisco Systems, Inc.
Herndon, Virginia