

From: Nader Salehi [salehi@cisco.com]
Sent: Monday, June 14, 2004 4:29 PM
To: Director - FASB
Cc: savestockoptions@cisco.com; salehi@cisco.com
Subject: Attn: Chairman Robert H. Herz

Dear Mr. Herz,

I am writing to you regarding FASB proposal to treat stock options as an expense. Like many other individuals in the post-Enron era, I am very much concerned about corporate governance. I believe it is very important that FASB proposes requirements which improve our corporate' accounting practices. After careful considerations, however, I concluded that FASB's proposal to expense stock options is an ineffective, flawed and misguided one.

There are two issues surrounding the recording of an expense when an option is awarded:

- 1- Does the expensing provide a level playing field in accounting for management compensation?
- 2- Would the recording of an expense when an option is awarded improve corporate governance?

It seems to me that the answer to both questions is NO. To answer the first question, I believe that the playing field is already level. A company using cash bonuses as management incentive compensation has a reduction in net income and, hence, a lower earning per share. When a stock option strike price is met and the option is exercised, those shares become outstanding. Since earning per share is calculated based on outstanding shares, the earning per share decreases. To force a company to record an expense for the option, and subsequently increase the number of outstanding shares is an unfair and unjust double hit.

With respect to the second question, I found this extremely hard to believe that expensing stock options would have stopped Enron, WorldCom, and Global Crossing's crooked management from ripping off employees and shareholder. An unscrupulous management is always concerned about personal gain and not about the company's income statement. Your proposal would not have stopped them.

In my opinion FASB proposal not only does not address those two issues, but to the contrary, it does more harm to the hi-tech industry. Our industry has traditionally issued stock options to multiple levels of employees as an incentive to attract high quality talents and keep them motivated for a long time. If hi-tech companies are required to expense options at the time they are granted, then it is the employees who would most likely lose their options.

Granting stock options is a win-win situation for both employee and employer; employees willingly agree on having lower salaries in return for a greater reward while helping the employer keep the costs down. This has been the core reason for the existence and success of many start-ups such as Cisco, Juniper, Yahoo, eBay, Amazon.com, and so forth. Had those companies had to expense stock options in the 80s and 90s, they would not have existed as bigger rivals would have crushed them by luring the talent out, thus destroying competition. Expensing stock options could signal the death to innovation and job creation.

Once again, I am concerned about the accounting practices in corporate America. But, FASB proposal not only does not address those issues, but it also jeopardizes the very existence of the country's ability for innovation and job creation. It is therefore, that I voice my objection to your proposal and ask you for a reconsideration.

Sincerely,
Nader Salehi