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From: James Cox (jamcox) [jamcox@cisco.com]

Sent: Thursday, May 06, 2004 3:50 PM

To: Director - FASB

Subject: Expensing Stock Options - Please Read

# Chairman Robert H. Herz

#### Mr. Chairman.

This email is in response to the draft plan stating that the FASB intends to treat stock options as an expense. I strongly urge you to reconsider. The option grant at Cisco Systems was a primary motivating factor in my choice of employment here. Without a company sponsored pension plan I view the option grant as one of the financial vehicles that will allow my family long term financial security. The option grant drives real ownership from every member of the Cisco family and aligns our values closely with each individual shareholder. Driving shareholder value is paramount in every Cisco employee's mind precisely because of the profound impact employee ownership fosters.

Please consider the following pragmatic bullet points as well:

# Accounting Issues:

- The artificially high valuation for a stock option required by FASB will eliminate stock options as a tool which has driven innovation and productivity.
- . Stock options do not meet the definition of an expense because they do not use company assets.
- The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised.

#### Competition:

- U.S. companies need stock options to compete with other countries on a global basis. (Example: Chinese companies use stock options and they do not treat them as an expense.)
- Expensing stock options could have a dramatic impact on American high tech leadership, innovation and job creation. In today's economic environment, the number one rule should be 'first, do no harm'.

### Sincerely.

Jim Cox Major Account Manager Cisco Systems

jimcox@cisco.com (773) 695-8049 office (708) 784-9636 mobile (800) 365-4578 pager