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**Letter of Comment No: 2232**  
**File Reference: 1102-100**

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**From:** Falkner-Rose Sherry [sfalkner@cisco.com]  
**Sent:** Wednesday, May 05, 2004 3:23 PM  
**To:** Director - FASB  
**Subject:** File Reference No. 1102-100

Chairman Robert H. Herz,

I am writing to urge you to not expense employee stock options. The proposal to expense stock options, especially using the high valuation formula I've read about, would greatly limit the ability of companies to continue stock option grants for individual contributors like me. The problems of executive stock options that have plagued many companies do not apply to broad-based option plans like the ones in place at my company and many other high tech firms.

I joined Cisco Systems in 1996. The company grants "hire-on" options and annual or semi-annual "ongoing" options to all employees with good job performance, and the size of the grant is related to the level of performance.

The options I received enabled me to contribute to the economy and build personal wealth in ways that I never imagined. In addition, the sense of ownership and responsibility that resulted from the options encourages me to work harder than I've ever worked in my life - and I'm 55 years old.

Here's what I've contributed to the economy with my stock options in just the last few years:

- Netted over \$300K income as a result of exercising about half of my options.
- Paid \$205K income tax as a direct result of option exercises (in addition to income tax on my salary)
- Purchased two homes, to provide my elderly sister a home in one and produce rental income from the other. This pumped \$400K into the local economy, plus over \$4K annual property tax.
- Completed \$50K upgrades to those homes that kept members of 3 families employed for 4 months during the horrible economic downturn immediately following the September 11 attacks.
- Provided college tuition not only for my own daughter, but also for three extended family members.
- Contributed tens of thousands of dollars to charities and family

My contributions at work have been just as dramatic. I've always been a good worker, but it's been different at Cisco. As a result of these options, I find myself "going the extra mile" every day:

- I pay attention to the company financials, and am an active shareholder making informed decisions about how to vote on shareholder issues.
- I make sure my projects and daily activities align with the company's goals and initiatives.
- I do everything I can to cut expenses and streamline processes, working to full capacity and beyond.
- I'm more encouraged to learn new things, to stretch into new responsibilities.
- I know exactly how my role contributes to the bottom line, and I know I'll be rewarded through the stock price of my existing options as well as my next option grant.

I spent 20 years before coming to Cisco as a human resources person, with experience in training, recruiting, relocation, and redeployment. I've never seen or experienced anything as powerful as broad-based stock options as a performance motivator and retention tool.

Please consider leaving employee stock options alone. Don't burden companies with unrealistic valuation formulas that discourage broad-based stock option plans. Instead, help encourage more companies to utilize this tool that enables all employees to contribute to their company and to our economy in ways they couldn't otherwise imagine.

Sincerely,

5/6/2004