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From: Rick Matty [rmatty@cisco.com]
Sent: Tuesday, April 20, 2004 1:59 PM
To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: Stock Option Expensing (File Reference No. 1102-100)

Letter of Comment No: 966
File Reference: 1102-100

Chairman Robert H. Herz,

I am writing to express my concern over the FASB draft plan to treat employee stock options as an expense on corporate financial statements. As someone who works in the rank-and-file of a company who issues options regularly to employees at all levels, I can say first hand that a decision of this magnitude will significantly impact the enthusiasm and energy of those striving to make all aspects of our business successful. We all work very hard and very long to see that our competitive position in the market is defensible and strong, and that this success delivers value to not only our customers, but our shareholders as well. As recipients of stock option grants, we become owners of the company and this motivation to serve shareholders translates into a direct benefit to ourselves - as the company does better, we are rewarded through a higher stock price. Expensing options will only force companies to reduce the number of options issued, resulting in a lower employee stake in the company success.

Additionally, I believe there are fundamental flaws in the overall approach to the valuation of options under this plan:

- 1) The artificially high valuation for a stock option required by FASB will eliminate stock options as a tool which has driven innovation and productivity.
- 2) Stock options do not meet the definition of an expense because they do not use company assets.
- 3) The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised.
- 4) 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.)
- 5) 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'.

I urge you to reconsider the draft plan presented by the FASB and remove the provision to expense stock options. This action can/will only lead to a decrease in enthusiasm and productivity by employee-owners and position many companies at a competitive disadvantage.

Thank you for your consideration in this very important matter.

Rick Matty
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