

**From:** Joshua Rossman [jrossman@cisco.com]  
**Sent:** Sunday, June 13, 2004 2:11 PM  
**To:** Director - FASB  
**Subject:** Stock Option Treatment: File Reference No. 1102-100

To: Chairman Robert H. Herz

From: Joshua Rossman

Dear Chairman Herz,

I am writing to you to express my opinion on the expensing of stock options. I believe that if accounting guidelines forced companies to expense stock options, most companies that currently issue stock would no longer be able to afford to do so, and would lose a major motivational tool to attract, develop and retain top talent. Equity ownership in the form of stock options has driven so much innovation and productivity for the U.S., and for the global economy over the years; it would be a mistake to give it up. We are at a critical moment for the future of the technology business because of the potentially enormous negative effects the expensing of stock options would have on our business at Cisco, as well as on the broader U.S. and global economies.

At Cisco, I believe we would no longer be able to afford to distribute stock as widely among our rank and file employees as we do today, if at all. Let me share with you the effects of this to me personally.

Prior to joining Cisco Systems, I spent over seven years working for Andersen, initially in the accounting side of its business, and then on the consulting side. I led a charmed life at the firm, was consistently rated in the top of my peer group, and was on a clear path to Partner, probably within a two to four year time frame. Yet there was something missing for me. I gave that career up to come to work for Cisco, and when I decided to leave the consulting business and enter the world of technology at Cisco, I did so for several reasons: 1) the excitement and pace of the 'high-tech' business; 2) the exceptional senior management of Cisco Systems; and 3) the ownership of stock in the company through its stock option and employee stock purchase plan.

Had the stock ownership piece been missing, I can tell you with certainty that I would not have given up my career in consulting to join Cisco Systems. Cisco would not have had the benefit of my employment for the last 4 and 1/2 years, and I have been consistently rated among the top employees at my level during my tenure with the company, as I was at Andersen. I was also promoted to senior management during a time when barely any promotions were taking place (during a declining economy) because of the measurable impact I had contributed to our business. For every situation of a successful employee like myself that would not have joined Cisco were it not for stock ownership, there are tens, hundreds, thousands, tens of thousands and possibly millions behind me who also would have chosen not to join Cisco, or other companies that issue stock to their employees.

If those employees chose not to come to Cisco, then my other reasons for joining the company other than stock would also be affected and would generally make the company a less attractive place to work. We would not be able to attract the same senior management team, if they themselves could not share in the ownership of the company, and if they knew that their employee base was second tier and not the best and brightest. The excitement and pace would slow down because of the changing dynamics and motivation of the employees. That fact is this: stock ownership motivates people in good times to do better, and in bad times to stick around for better times. This leads to a more stable employee base of people willing to work hard to add value, and do what is in line with what shareholders value since they themselves are in that group.

Beyond attracting top talent, we have to compete with companies in other countries on a global basis. Take China for example: Chinese companies use stock options and they do not treat them as an expense. The immediate effect of this rule would be to make Cisco less competitive on a global basis.

As for accounting issues, disclosure is already provided in the footnotes to financial statements so that investors have visibility to the amount of stock options being issued. Placing a value on those options at their time of issuance is flawed. The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised, and already disclosed in the footnotes.

Finally, if Cisco were to stop granting me stock options, I can tell you, also with near 100% certainty, that I would begin looking for employment outside of the company. I would search for a place where I could get a more competitive compensation package, and would acquire ownership possibly in a smaller private company. I would simply not be able to sustain the same commitment of my time and energy, and dedicate a significant portion of my life to Cisco, without the ability to participate in our success through stock ownership. Ultimately, this would not be best for me, nor for Cisco. Expand my situation out on a larger scale across the industries and companies that currently have stock ownership programs, and the macro-effects are massive, and they are damaging.

Please understand my situation, and how important it is for companies like Cisco to maintain our stock ownership program. Should you want to contact me personally for any reason around this issue, I am available to you 24 x 7. You can reach me at the e-mail address above, or on my office phone at  
Cisco: 408 853 7149.

Sincerely,  
Joshua Rossman  
Senior Manager, Cisco Systems