## **Stacey Sutay**

From: Matthew Maddox [mmaddox@cisco.com]

Sent: Monday, April 19, 2004 4:12 PM

To: Director - FASB

Subject: Expensing Stock Options (File Reference No. 1102-100)

Chairman Robert H. Herz:

I'm troubled by your plan to treat stock options as an expense. While you're undoubtedly bowing to the considerable political winds that are blowing in this election year, I think this is a shortsighted move that will have far-reaching negative impact on innovation and productivity, particularly in the high-tech industry.

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Expensing stock options is totally unnecessary. There are two explicit costs of employee stock options: the cost of buying the shares that will be granted and the cost associated with dilution of existing shares. Since both of these costs are accounted for on financial statements, expensing stock options -- especially with very weak valuation tools -- is just silly. In spite of the enormous amount of media attention recently given to this issue, I've never seen any evidence that your employee stock option accounting rules will make corporations more accountable or their finances more transparent.

It is clear, however, that your rules will limit the issuance of employee stock options. At Cisco Systems, all of us employees enjoy stock options—and they have been a wealth-generation engine for executives and employees alike throughout Cisco's history. Because the impact on the balance sheet with the poorly-devised accounting rules, I'm sure Cisco will be reluctant to use this powerful incentive in the future. Our loss, no one's gain.

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