

From: Rich Cascio [rcascio@cisco.com]
Sent: Tuesday, April 20, 2004 5:20 PM
To: Director - FASB
Cc: savestockoptions@cisco.com; Rich Cascio; Linda
Subject: File Reference No. 1102-100, "Chairman Robert H. Herz"

Dear Sir,

I am *extremely* disappointed and outraged in learning that there is a draft plan stating the intention to treat stock options as an expense. What problem is trying to be addressed, at what cost, and to whom? My company offers stock options to the average employee as an incentive for doing a job well and within tight constraints. From what I understand about this draft legislation, this will change.

Motivation

In my 30 years of professional management, I have found that stock options are indeed a motivator in creating productivity and corporate worth. Ownership of a portion of the corporation indeed drives an employee in creativity, productivity, and pride of quality. Use of stock options as a direct motivation for invention and creation of intellectual property is not uncommon!

Distribution of Wealth

Furthermore, stock options give ordinary people the ability to have the opportunity to drive up the net worth of a corporation (and themselves) without incurring immediate investment risk. The employee chooses to work harder, smarter and drive costs down for the *chance* of a higher return in the future. They understand that there is no guarantee of an increase in wealth, only a possibility through managed risk and managed costs.

Taxation on Non-existing Transactions

Please consider this...Should companies who write up contracts for goods or services at a given price be subject to paying taxes on the unrealized income if delivery of the goods or services never takes place? Only if they take it as income at the time of contract. This entry can be reversed the next year to record non-delivery of goods, reducing actual sales and tax liability and records the actual events that have taken place.

Is this part of the proposal? Does the corporation have the ability to offset expenses when stock options of the previous year have not been exercised? Treating stock options as an expense drives the rate of return on stock down (dilution) even though an actual expense has not occurred.

Personal Effects of Expensing the Corporation's Possible Future Opportunities

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Stock options are not an expense as no transaction has yet to occur. Stock options cannot even be considered as an accrual of an expense. Technically, stock options are only a promise of an opportunity that may or may not occur. One day an employee can be rich on paper and the next day broke, yet real value has only been transferred if and when the transaction has been executed and fully liquidated. The employee does not have an opportunity to execute a transaction that is not offered, and that is what will happen when my company stops offering stock options to the average employee. Employee net worth will suffer and so will their ability to create value for the country by the purchase of more goods and services or by providing a college education for their children (increased personal intellectual property).

The real transaction only occurs when the stock options have been exercised and liquidated. Employees would only exercise options that have a positive return. However, the corporation would have paid an expense on shares that may now have negative return, resulting in lower share value on all the shares. To our corporation, this will indeed

kill our stock program as it exists today causing harm to me, my employees, and ultimately to the corporation.

As a direct link to motivation, the ability to manage productivity, growth, and employee loyalty through a long term incentive is lost. Stock options cannot even be considered a promise, since the true net value is unknown until the transaction takes place moving the option into real stock. Dilution of stock value prior to this transaction taking place is unfair to the current stock holders (especially to the current employee base who is creating the value of the stock in the first place).

Concentration and Re-distribution of Wealth

I request that you consider these arguments as well as the fact that a policy like this will ultimately force corporations to limit stock options incentives to a select few, and the average person who works just as hard will no longer be considered. This is contrary to the goal of the American dream of everyone being able to have an opportunity to better themselves through wealth. The opportunity to have possible wealth through the exercising of stock options will only be available for a select few. Ironically, the select few would already be the well compensated employees of the corporation.

Effect on Tax Revenues

If the revenue flow to the US Treasury is the problem that is being addressed, taking stock options as expenses when they are offered, only reduces the taxable income of the corporation and lowers the corporate tax liability. Furthermore, reduced corporate tax revenues shift more of the tax burden to the individual. The revenue flow from stock options would exist when options are exercised and cashed out. However, the exercised stock options by the individual, taxed at the higher tax rate, will only occur if stock options can exist for the average person. The base of tax revenue would be distributed over more people, lowering the individual tax liability for those not directly contributing to the creation of value.

Conclusion

I am concerned that this legislation is being considered when other sources of revenue are possible through changes in other types of corporate taxation laws. As an employee of a Fortune 100 company, Cisco Systems Inc, I will be taking these concerns to my State Senators and Representatives. I urge you to re-consider this legislation and to kill it before it exists as law.

Cordially,

Richard Cascio