Letter of Comment No: 468 File Reference: 1102-100

Stacey Sutay

From: Bill Frey [bfrey@cisco.com]

Sent: Tuesday, April 20, 2004 6:55 AM

To: Director - FASB

Cc: savestockoptions@cisco.com; dkurtz@cisco.com

Subject: File Reference No. 1102-100 vs Supporting the Broad-Based Stock Option Plan Transparency Act

of 2003

From: Bill Frey, 1231 Mockingbird Drive, Grapevine, TX 76051-2812 RE: Support the Broad-Based Stock Option Plan Transparency Act of 2003

Mr. Robert H. Herz, Chairman Re: File Reference No. 1102-100

Dear Mr. Herz

I write to urge you to reconsider the Stock Option Accounting Reform Act of 2003 (S. 1890 and H.R. 3574), cosponsored by Senators Enzi and Reid and Representatives Richard Baker, David Dreier and Anna Eshoo. The legislation would protect broad-based stock option plans, while addressing the accounting for options granted to senior corporate executives in response to concerns over executive compensation.

Stock options give employees at all levels a stake in the success of our companies. They encourage the hard work and entrepreneurial spirit that fuel innovation, increase productivity and boost shareholder returns.

I have personally seen the motivating effects of employee stock option programs. Owning options makes me feel like I have a real stake in the success of my company and increases my dedication and long-term commitment to my work. Stock option programs are also good for shareholders because employees are rewarded only if our company's stock value increases. In the past, my stock options have enabled me to improve my quality of life in meaningful ways. Even when my options are "underwater," I feel personally tied to the success of my company.

My employer Cisco Systems and fellow co-workers are a perfect examples of the "we're all in this together" attitude. Ownership is a sermon delivered at all major company meetings. It pulls management and rank and file together to focus and execute strategies to survive and strategies to win. It is imperative that a collective incentive remain in place as a broader strategy to the survivability and growth of our economy.

One other thing regarding the expensing of options from an accountants point of view. Expensing options that are not vested or that are significantly "underwater" is flagrantly inconsistent with GAAP whether for executives or staff. It will yield an unrealistic view of current financial conditions and provide yet another factor that can be used to rate stocks or influence stock prices. It would make more sense to force executive option plans to vest and expire very quickly (3 or 4) years and accrue a liability for the potential expense adjusted for forfeitures do to changes in executive management or failure to exercise before expiration. Common sense would dictate that options expiring in the coming year, significantly underwater and unexpected to get above water should not be accrued and any previous accrual should be reversed. The objective here to minimize material effect in the numbers reported for any period.

The Stock Option Accounting Reform Act would require the expensing of options for top executives of large companies but not for rank-and-file workers. While still problematical without changes as suggested above, the legislation will ensure that financial statements do not include the inaccurate and misleading numbers that are generated by mandated expensing using current stock option valuation models. As a result, this legislation is a sound and better alternative to the mandatory expensing of all employee stock options.

Many technology companies grant options to the vast majority - and often to 100 percent - of their employees. If options are required to be treated the same as a cash expense, companies would drastically reduce the number of people who receive options, probably restricting them to the most senior executives. This legislation recognizes the importance of broad-based employee stock options to rank and file employees, to innovation, and to economic growth that benefits all of us.

I hope you will reconsider your position and present an alternate statement more in-line with the Stock Option Accounting Reform Act of 2003 (S. 1890 and H.R. 3574).

Sincerely,

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