

**Stacey Sutay**

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**From:** Pines, Howard S. [hpines@cisco.com]  
**Sent:** Monday, April 19, 2004 9:48 PM  
**To:** Director - FASB  
**Cc:** savestockoptions@cisco.com  
**Subject:** File Reference No. 1102-100, addressed to Chairman Robert H. Herz

Chairman Herz,

I'm a Senior Software Engineer at Cisco Systems who is writing to express my extreme dissatisfaction concerning your recommendations about the expensing of employee stock options. You're making a huge mistake which I feel threatens the livelihood of thousands of hard-working U.S. engineers like myself. Your decision also threatens to severely damage the long-term health of the U.S. economy by stifling the engine of technological innovation, and as such, also threatens to severely impact the national security of the United States in an emerging era of global economic competition. What are you guys thinking?

As a 55 year old veteran of nearly 30 years in the engineering profession, I consider myself a grassroots technical type, i.e., I've deliberately positioned my career to enjoy the intellectual stimulation afforded by the challenge of technical problem solving. As such, I feel appropriately qualified to speak to you about the importance of aligning the extreme positive motivational impact that employee ownership, aka stock options, has in regards to level of job commitment and performance, because it REALLY DOES.

As an employee/owner I am totally empowered: I AM the company, the company is me. The level of reward that I reap is directly proportional to the ideas that I generate, the effort that I expend. It is the perfect embodiment of the alignment of the free market capitalistic system and human nature. I am spurred by the knowledge that my creativity and effort are amplified by teamwork and will hopefully result in commensurate personal rewards.

I speak from personal experience. After 9 fulfilling years as a Dept. of Energy Staff Scientist at a U.S. National Laboratory, twenty years ago I decided to leverage my engineering skills by joining a communications startup company in Silicon Valley, and I haven't looked back since. After stimulating adventures at 3 different Silicon Valley startups, the last resulting in acquisition by Cisco Systems, the results are win/win for everyone:

1. Development of state of the art communications products which allowed U.S. companies to successfully compete in world markets.
2. Although one of the three companies failed (and we all became temporarily unemployed with NO severance pay), the other two were acquired by larger companies, resulting in the conversion of my incentive stock options to a combination of cash and/or personally valuable ownership in the publicly-traded stock of the acquiring companies.
3. The U.S. and State governments and all taxpayers greatly benefit from the capital gains taxes I gladly pay for my hard-earned cash and stock rewards.

When I decided to leave my job in the public sector to engage in employment in the private sector, I engaged in a conscious decision to swap one form of risk/reward profile for another. Had I remained employed as a Staff Scientist for the U.S. National Laboratory, I would have enjoyed a greater degree of job security, "fringe" benefits (vacation/health/sabbatical), and accrual of retirement benefits than are generally available in the private sector. Some of my past colleagues who've remained long-term employees of the government, are 20 years later now annually accruing 5 to 6 weeks of paid vacation and are in position to soon retire with a generous

taxpayer-supported lifetime pension.

On the other hand, thanks to the "perk" of stock options, I've reaped the reward for the greater risk I've incurred by seeking employment in the private sector. Yes, risk. Remember that one of my companies failed and I was suddenly unemployed with no severance pay. Now you're proposing to severely damage one the few perks available to the risk-taking private sector employees, a perk which is our main vehicle for building our retirement nest egg.

In summary, your decision is not fair and it's not smart. It's a lose/lose proposal and is detrimental to the United States of America.

One more point. I recently engaged in a spirited discussion on the subject of stock-option expensing with our neighbor's son who is an economist with the Federal Reserve. Even though we hold divergent views on the subject of expensing options, he opined that the only fair and smart implementation would involve a phase-in period of 5 to 10 years to mitigate the effects of a one-time "shock to the system".

Please reconsider your decision.

Sincerely,

Howard Pines