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Letter of Comment No: 1627
File Reference: 1102-100

From: Tom Cusumano (tcusuman) [tcusuman@cisco.com]
Sent: Friday, April 23, 2004 2:31 PM
To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: Comments regarding File Reference No. 1102-100

Importance: High

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Chairman Robert H. Herz

Re: File Reference No. 1102-100

Dear Chairman Herz:

I am writing to you because of my concern over the draft FASB ruling regarding the expensing of stock options.

I am an 8-year employee of Cisco Systems and have a BBA from St. Joseph's College and an MBA from Suffolk University in Boston. I have worked for high technology companies for 27 years and in Silicon Valley for the past 16 years. I have worked for companies that did NOT provide stock options to employees and for those that do. The difference between the two in terms of employee commitment, concern, competitiveness and overall work ethic is tremendous. Stock options create a sense of true ownership with employees.

I feel quite strongly that this ruling will have a very negative impact on Cisco's ability to hire and motivate employees to the level of commitment and work ethic now demanded by our world wide competitive market.

Cisco is a 20 year Silicon Valley success story that demands extraordinary time and commitment from its employees and family members. A key motivator that has enabled Cisco to become a technology leader and maintain this level of commitment from its employees is the sharing of corporate success with its employees through stock options. This has propelled Cisco into a world wide leader of technology that has truly changed the way all of us live, work and play. I am asking you in the strongest possible terms to reconsider any plans to change this key employee motivator and reward mechanism.

It will also be quite detrimental to the fundamental values of Silicon Valley and take away a key motivator that has helped small start up technology businesses attract the best and the brightest from otherwise comfortable, well paying positions at more established concerns. Silicon Valley has been a growth engine for the USA and for the world. This could potentially weaken our world wide position at a time when it is most needed to compete with well funded companies in developing countries and inexpensive labor forces.

Stock options create a sense of ownership and commitment that cannot be duplicated with other methods. Expensing options will create a dramatic effect on our financial statements, driving down our stock price, resulting in the cutting back of the practice, except for a select few executive employees. Instead of correcting a potential abuse, expensing options will result in the lack of building employee ownership

used to drive higher levels of commitment, work ethic, and loyalty.

I understand the concern about other companies abusing stock options to the benefit of a few high level executives, but this is something that should be focused on, rather than a broad based solution of expensing of stock options to curb the abuse. Cisco has always allocated its stock options across all employees – with over 50% of options going to individual contributors. It has created a company of employee-owners who are highly committed, work long hours, and deliver the highest quality in the industry.

The valuation of options using Black-Scholes, or any other known method, does not fairly value stock. Add to it the issue of vesting periods and the inability to freely trade the options and it quickly becomes evident that the expensed value is not relevant and will only confuse our financial statements, making it even more difficult for investors to understand our true value and compare us with other investments. Isn't it the responsibility of FASB to create greater transparency and ease of ability for investors to understand their investments? Expensing stock options can only blur that vision.

I believe that this ruling will lead to a drastic reduction in the use of stock options to create ownership among employees. Also, this will lead to less commitment in a globally competitive environment and by the rulings of FASB, will create a less competitive USA. This is not a path FASB should take – not when it will have a direct impact on our ability to compete in the global economy.

The USA has been a dominant factor in the high-tech sector. This one step by FASB could end up being the single most important decision in destroying that position for America. Please, do not push forward this draft ruling to expense stock options.

Thank you very much in advance, for your consideration and attention to this very critical matter.

Sincerely,

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