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From: Sent: To: Subject: Jeff Sanders [jeffsand@cisco.com] Friday, April 23, 2004 8:57 AM

Director - FASB

Stock Option Expensing



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Chairman Robert H. Herz

Dear Mr Herz,

I would like to express my concern over the FASB's recent draft plan which states that you intend to treat stock options as an expense. The backdrop of my concern is a belief that I've had my entire career. I graduated from Georgia Tech with a Bachelors degree in Electrical Engineering in 1981. I began a software development career with a large telecommunications company named Stromberg Carlson, at that time they were owned by General Dynamics and the group I worked for was eventually sold to United Technologies. From that opportunity I met some very intelligent and enterprising people. One in particular had been very successful due to stock options that he had been granted while working for Mostek Corporation. He eventually started his own company and hired me. Naturally due to his own positive experience in company ownership he set out to structure this company to allow employees at every level to have ownership through Stock Options. This was a new experience for me but I quickly learned the value of being an employee owner. The motivation one experiences when their personal rewards are directly tied to a company's success cannot be overstated. This kind of motivation takes the form of wanting to be very productive and mindful of expenses. I would say that everyone in that company was concerned enough to want to turn the lights out when they left at the end of a long day. This company eventually did not succeed but it wasn't for a lack of motivation and the lesson it taught me was invaluable. Employee stock ownership is a key force in motivating people.

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At that time, there were many success stories for this model, including Mostek Corporation, Compag Computer, Lotus Corporation. Yet in general I'd say this had not caught on in large corporations. I remember having a conversation with one of the executives of United Technologies trying to encourage him to revolutionize his own company to include employee ownership at all levels (not just executives) to prevent attrition and to ensure success. It wasn't the thing to do at the time. However, the success of the companies that employed this technique could not be denied, the list grew very large. At that point, I was very clear in my intent to seck out opportunities in companies that offered this model. I went through one other startup company that didn't succeed before I ended up with one that was successful. This company was called Selsius Systems and it was eventually instrumental in ushering in a new technology called Voice Over IP. This company was purchased by Cisco Systems in 1998, and because of employee stock ownership I was rewarded significantly. I was extremely grateful to see that at Cisco Systems, employee ownership was a key part of the culture. Only now I was in an extremely large corporation. Cisco became the hugely successful company that it is today from operating on this principle. The reason is that it has a very motivated workforce that is concerned about customer success because these employees understand the stakes of success and failure of their own company. My daughter is now a freshman in college and I no longer have to worry about how to finance her (or my son's) college education. As long as the American economy continues to grow, I think my retirement after a long career will likely be very secure. This model once exclusive for small companies in the early Eighties is succeeding wildly in many large corporations now. What a difference 20 years makes.

We are at a pivotal moment in the history of American Business, I hope you can appreciate this fact. The rate at which a company can increase productivity will determine the fate of business success or failure. I know of two principle contributors to increased productivity. First, the application of technology to the business process and second a

motivated workforce. Employee motivation is key to this phase and I think Stock Options play a vital role here. Anything that is done which ultimately discourages corporations from issuing Stock Options to every employee and a return to a system that just rewards Executives will be a sad change of direction. Please don't encourage this to happen. My understanding is that this will be a likely outcome if Stock Options are required to be treated as an expense. Stock Options don't use company assets and their cost is reflected in the diluted EPS. If Stock Options are required to be expensed at an unrealistically high valuation, I'm afraid employees will suffer. Investors would be encouraged to know that the employee base of the company they are investing in is highly motivated to succeed along with them. I have benefited personally and seen the positive forces of employee stock ownership alive in both success and failure. I will never work for a company again where I don't have ownership, it is just part of my criteria for excellence now.

I would simply ask that you give some consideration to my plea before adopting a strategy that while possibly well intended may have a crippling impact on American productivity and thus our success in the global economy. Coupled to that, I'm just concerned for the employees themselves and indeed for my own family. Thank you for reading this and please feel free to respond.

Sincerely, Jeff Sanders jeffsand@cisco.com