

ikon**Letter of Comment No: 1564**
File Reference: 1102-100

From: Matthew G Irvin (mirvin) [mirvin@cisco.com]
Sent: Thursday, April 22, 2004 9:08 AM
To: Director - FASB
Subject: Employee Options: File Reference No. 1102-100

To: Chairman Robert H. Herz

Dear Mr. Herz,

As a low level employee at Cisco Systems and an owner of a substantial number of stock options, I strongly disagree with the notion of expensing stock options, especially at unrealistically high valuations as the currently proposed method will yield. I believe this method of accounting will prevent companies from giving out nearly as many broad based options and as such will completely change my method of work. As a part owner of a company, I feel a very vested interest in seeing that company succeed. It drives me to work harder and smarter knowing that any impacts on our business will be immediately directed towards the stock value and hence my pocket. Salary alone does not do this. The options, once granted, are mine and can not be taken away. I feel a great sense of trust by my employer in owning part of the company. This trust also affects my sense of being a true owner of the company.

I have made a couple of career decisions based on whether the company that was attempting to hire me would grant stock options. In each case I decided to take a lower salary in order to get more options up front. I guarantee you that I worked much harder knowing that I was directly and immediately impacting my financial future. Stock options have allowed me to purchase my first home, my first "new" car and take my first over seas vacation. That have given me greater financial freedom that I could have never achieved on salary alone. Stock options have also allowed me to work at start up companies that otherwise would not have been able to compete with established company salary offers.

Mr. Chairman, if you make it more and more difficult for companies to give out stock options to their employees, especially the low level employees, I believe you will see a noticeable drop in efficiency and company loyalty. At a minimum, can you please come up with a better way of valuing options so that they err on the side of being undervalued as opposed to overvalued as the current proposal stands?

I have also gathered some points from Cisco's official stance on this subject and have included below:
Accounting Issues:

- The artificially high valuation for a stock option required by FASB will eliminate stock options as a tool which has driven innovation and productivity.
- Stock options do not meet the definition of an expense because they do not use company assets.
- The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised.

Competition:

- U.S. companies need stock options to compete with other countries on a global basis. (Example: Chinese companies use stock options and they do not treat them as an expense.)
- Expensing stock options could have a dramatic impact on American high tech leadership, innovation and job creation. In today's economic environment, the number one rule should be 'first, do no harm'.

Thank You for your support in this matter. Please feel free to contact me if you have any questions.

Matt Irvin
Cisco Systems
mirvin@cisco.com

4/22/2004