Letter of Comment No: 5243

File Reference: 1102-100

ikon

From: Miriam Serrao [mserrao@cisco.com]

Sent: Wednesday, June 23, 2004 9:04 PM

To: Director - FASB

Cc: savestockoptions@cisco.com

Subject: Reference No. 1102-100

Dear Chairman Robert H. Herz,

Please do not change the law requiring the expensing of employee based stock options!

I am an employee of Cisco Systems, a company that issues incentive stock options as part of its employee retention and incentive program. Cisco's stock option program has definitely increased employee loyalty. In return, Cisco employees have made Cisco a leader in Computer Networking technology innovation.

In fact, all have benefited: the company, employees, shareholders, the consumer, and the government.

- With the a highly skilled human capital base Cisco employs and has retained through the use of options, Cisco has, in 20 short years, become the leader in supplying 80% of the equipment that comprises the Internet. Without this educated force, we would not be where we are today.
- As an employee, I have been able to use the money from stock options to put a down payment on my home improvement. Some of my peers have used the money to purchase homes as well as send their children to school. The expensing of options could void this benefit that the company currently shares with all employees.
- Shareholders have historically seen Cisco's market valuation far exceed that of other companies in its industry. So, they continue to approve the largest employee stock program I know (Cisco's program extends beyond the board room to all employees) because the shareholders see the importance of issuing such grants.
- Today, an average consumer can log into the web from almost anywhere, and be connected to the WORLD. To be sure, this tool has given much opportunity to those with fewer opportunities, such as education, employment, and so forth. I assure you, if not for options, this technology would not be where it is today.
 - The government receives its share once an option is exercised in the form of the individual income tax.

Further, an option is simply a right to purchase something within a predefined time, at a predefined price. This option may never be exercised. Further, this right (option), does not have the same face value of an actual share. So, how can one expense it? In the marketplace, to be sure, option prices fluctuate from as little as a few cents per share depending on the likelihood of exercise. To force a corporation to expense an option as if it were an actual share clearly places an undue burden on the company. And its not even an actual expense. It will definitely discourage strong, innovative companies like Cisco from utilizing this form of compensation to its overall employee base.

If you legally change the accounting rules to force the expensing of options, you will discourage companies from issuing options to all employees. However, you still will not have solved what you attempted to curb in the first place. I believe this debate began in response to the executive corruption scandals that plagued our financial markets in the last few years. But to think that by forcing the expensing of options will eliminate the abusive issuance of massive options to executives, is false. To be sure, executives will continue to get their lofty compensation packages. But, the average employee, like myself, will probably be the one who suffers as a company will no longer be able to issue shares all the way down to the rank and file.

Finally, I don't need to tell you that certain industries such as the technology sector will be significantly impacted and

6/24/2004

nnovation will be slowed if you legalize the expensing of options.

strongly encourage you to take off your political hat for a few minutes and think hard about the potential ramifications of this bill in its current design. Please do not force the expensing of stock options.

Miriam Serrao Marketing Programs Manager Cisco Systems 3600 Cisco Way San Jose, CA 95134 (408)853-5249