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Letter of Comment No: 15/16
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From: Hil Mumma [hmumma@cisco.com]
Sent: Thursday, April 22, 2004 1:02 PM
To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: File Reference No. 1102-100

Dear Chairman Robert H. Herz:

As a Cisco Systems employee, I took particular interest in the recent announcement that late last month, the Financial Accounting Standards Board (FASB) released a draft plan stating that they intend to treat stock options as an expense. The valuation they propose would make it very difficult to continue broad-based employee stock option programs like the one we currently have at Cisco. Employee ownership has been a part of the Cisco culture since day one. We all contribute to Cisco's success and we should all benefit when the company is successful. The basic tenet of employee ownership is now under fire with this proposed plan. I would like to suggest that the FASB not proceed with this draft plan to expense stock options, especially at an unrealistically high valuation. Stock options are a tremendous help to me as an employee because it allows me to realize benefits from my hard work by knowing that as I contribute to my company's success, I am contributing to my family's future financial security. Stock options also ensure that we as employees remain aligned with our shareholders' interests. I see the key issues with this plan as follows:

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'.

Please consider these factors as you weigh the value of this plan.

Very truly yours,

Hil Mumma

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