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From: Ted Gagnon (tgagnon) [tgagnon@cisco.com]
Sent: Thursday, April 22, 2004 2:15 PM
To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: Expensing Stock Options: A Bad Idea

To whom it may concern:

I am writing to express my personal views on requiring companies such as Cisco Systems to expense corporate stock options. Over my past 5 years at Cisco, I can't express to you how important it is to the team moral, and to the feeling of corporate ownership that the stock option plan has produced. My team of employees at Cisco believe that with every additional sale we make, we not only drive our corporate valuation up through stock price appreciation, but also our personal wealth. Much of our compensation is tied to the health of our company through the options plan, and the sense of pride and ownership at a company like Cisco is far greater than at companies where stock options are not provided to all levels of employees. I spent 7 years at Nortel Networks (a Canadian firm) where no one below Vice President level received stock options for many years. This forged a much lower sense of personal commitment to the success of the company, and forced little allegiance to the corporate mission. This is certainly not true for Cisco, as I have seen more loyalty to the senior management team at Cisco due to significant employee ownership in the company than anywhere else in my professional career.

Additionally, stock options do not appear to meet the definition of an expense because as they do not use company assets. Secondly, the true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised. And finally, in order for US companies to compete with other countries on a global basis, we need to continue to issue stock options to our employees. New companies such as Huawei in China use stock options for incentives to their employees and they do not treat them as an expense. We would be at a competitive disadvantage if we were to eliminate this option and could lose talent and market share to a non-domestic company.

Please consider these statements as you review the need to enforce expensing of stock options within US companies.

Regards,
Ted Gagnon
Regional Sales Manager
Cisco Systems

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