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From: Wolfeld,Jeff [jwolfeld@cisco.com]
Sent: Wednesday, April 21, 2004 5:53 PM
To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: File Reference No. 1102-100

Letter of Comment No: 1313
File Reference: 1102-100

Dear Chairman Herz:

I am writing to you as an employee of Cisco Systems, Inc. and as a long time employee in high tech industry in general. I personally fear that the proposed rules for expensing stock options will lead my company and all similar US-based companies to eliminate their broad-based employee stock option programs. I would like to make three specific points.

First, stock options are an extremely important part of my compensation. They are given according to merit and thus provide a general incentive for me and my co-workers to perform. If stock options were eliminated, the company would only be able to provide such incentives using bonus plans or reduced-cost stock shares. Those approaches cost the company real dollars and affect profitability. Therefore, the elimination of stock options would clearly require the company to choose between reduced profitability due to increased incentive costs, or reduced profitability due to decreased employee motivation and retention. Neither choice is palatable for the company, and both reduce the company's ability to compete with foreign firms.

The reference to employee retention leads me to my second point. Stock options are a tool that companies use to encourage employees not to leave. In many foreign countries, the work environment includes some degree of loyalty - both on the part of the employee to his employer and vice versa. You are certainly aware of Japan's still-strong tradition of hiring employees for life. You must also be aware of Europe's legal protections against easy employee layoffs. In this country, most companies' commitment to their employees goes as far as the two-week notice, and even that is not always respected. Employees therefore feel little loyalty in return, except perhaps to their immediate managers and colleagues. In the sometimes vigorous competition for talented high-tech employees, companies need a tool to help retain those they have, in order to avoid the well-known costs associated with turnover.

Personally, I can confirm that as a retention tool, the availability of employee stock options has absolutely kept me at Cisco. My two prior employers did not offer stock options, and I therefore had no advantage with respect to growing my family's net worth. My first criterion when I was searching for the position I hold currently was that the company offer stock options - and having found that, I have committed to staying here for the long haul.

My final point has to do with the proposal's obvious disparity between intent and effect. The reason our country is discussing the expensing of stock options in the first place has everything to do with the unfair granting of massive amounts of option shares to a few well placed individuals. It has absolutely nothing to do with the kind of broad-based program that I participate in here at Cisco. My objections have to do with the effect your proposal will have on broad-based plans only. I would absolutely support a proposal that managed to limit its effect to the kind of unscrupulous behavior that led to our current predicament, but not a proposal which damages so severely the kinds of plans that have helped make our industry great.

Please reconsider your proposal to require companies to expense employee stock options.