Len Tatore

Sent:

From:

Lou Mcelwain [Imcelwai@cisco.com] Wednesday, April 21, 2004 5:44 PM Letter of Comment No: 1388 File Reference: 1102-100

To: Director - FASB

Cc: savestockoptions@cisco.com Subject: File Reference 1102-100

Chairman Robert H. Herz,

It has come to my attention that the initial draft recommendation from FASB is to directly expense employee stock options.

I believe this is a short-sighted position and is an attempt to correct a problem that at its root is tied to the lack of ethical behavior. However, expensing the options will never address the problems caused by ethical malfeasance. Only proper governance first and foremost within a company, and secondarily across the industry (ie auditing firms, oversight regulators) can combine to avoid these problems in the future. Expensing of stock options is not the solution to this current business problem.

The expensing of options will however create unintended consequences:

- (1) It will erode the sense of ownership and long term commitment by employees of high-tech US based companies. In the past, many employees would work as 'journeymen' within the 'Silicon Valley' industry and would move on from a company when a key project was completed. Stock options have allowed corporations to 'lock in' key talent and in doing so provide greater innovation to the marketplace in a shorter period of time.
- (2) It will provide the benefit or 'ownership' and long-term employment to our foreign competitors. This will allow them to move quickly into this key market-networking-- and gain tremendous market share in a short period of time. The leverage of the Internet and the impact it can have on our US economy should not be overlooked, and these factors will allow foreign competitors to overtake the US lead, which would be a travesty as this technology and the Internet itself is the result of American ingenuity.

Do not expense stock options! The growth in the value of any option in a well-run ethical company is the result of hard work, creativity and teamwork. To expense these options at the time of the grant based on the potential of a future value and then to is also prone to error.

Thanks

Lou Mc Elwain

Vice President New York Metro Area

Cisco Systems One Penn Plaza New York, NY 10022

DID: 212. 714-4345

Mobile: 917. 968-4979

Fax: 212. 714-4178 Pager: 800. 365-4578

Email: lou.mcelwain@cisco.com