

Stacey Sutay

From: Jeff Simpson ([simpson] [simpson@cisco.com])
Sent: Monday, April 19, 2004 6:34 PM
To: Director - FASB
Subject: File Reference No. 1102-100

Attn: Chairman Robert H. Herz

Dear Sir,

I am writing you to express my views on the issues surrounding the enforced expensing of employee stock options. I don't believe that the enforcement of this policy will accomplish what I understand the FASB has expressed are the primary reason for this change. Furthermore, stock option expensing, if enforced at the artificially high valuations required by FASB will all but eliminate stock options for the average employee. I don't believe that stock options meet the definition of an expense and are accounted for in the dilution of EPS when exercised.

I also understand that there is a political component to this policy. With the wrong-doings of a number of senior executives, the notion of forcing the expensing of stock options as a deterrent to these behaviours began to surface. This policy will not eliminate the use of stock options as a compensation component for senior executives it will simply eliminate the granting of options to the average employee. I personally believe the primary political driver of this policy to be pressure from non-growth oriented companies that don't want to compete for top talent with companies that have stock options as an incentive.

I have worked for large companies where employees have little ownership and for a top company where employees have significant ownership - Cisco Systems, Inc. There is a huge, huge difference in employee attitudes towards spending controls, quality, shareholder value and employee productivity. Stock option plans for the average employee are the greatest motivator for all the right behaviours that I have ever seen or been a part of.

Please don't let a predominately politically motivated policy aimed at punishing misdeeds of senior executives take away opportunity for the average employee. Lets deal with the real issues concerning transparency and corporate governance and force the old-line, non-growth companies to compete for top employee talent by creating a compelling value for their employees - not by creating a least common denominator environment by squashing broad ownership stock options plans.

Thank you for your consideration,

Jeff Simpson
Cisco Systems, Inc.
Employee since 1990 and still motivated.

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 needs 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'.