

Stacey Sutay

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From: Paul Ruddy [ruddy@cisco.com]
Sent: Monday, April 19, 2004 6:06 PM
To: Director - FASB
Cc: savestockoptions@cisco.com; Ruddy@cisco.com
Subject: File Reference No. 1102-100

To: Chairman Robert H. Herz
Re: FASB Proposal for Stock Option

I am writing to express my concern about the FASB Proposal on Equity-based compensation, particularly regarding the expensing of stock options. Cisco has a well-articulated position against this proposal, which I don't need to repeat here in its entirety. However, I wanted to point out certain aspects of stock option expensing which I believe will be damaging to technological innovation in the US - ultimately to the detriment of US economy as a whole.

I have worked in the high-tech electronics field for my entire 25-year career. During that time I witnessed a tremendous pace of innovation in product areas ranging from consumer electronics to PC's to network systems. Certainly the excellent infrastructure that the US provides (universities, capital, etc.) plays a large role in the rapid evolution of technology. However, I think that opportunity for employee ownership in high-tech companies is equally important. The possibility of directly benefiting from the success of your company is a very significant motivational factor for both management and workers at high-tech companies - and provides the impetus for the entrepreneurship that drives rapid innovation. Stock options are a key vehicle for allowing companies like Cisco to offer its employees ownership in the company.

If the accounting of stock options is changed according to the FASB proposal, I believe that the issuance of options will substantially decrease - particularly for the rank and file worker. Over time, this will start to erode America's role as the world's technology leader. We already face stiff cost competition from overseas development centers. Many of those countries also offer advantageous treatment of stock-based compensation. Ultimately, the US will lose jobs and technical leadership to other countries that are increasingly matching the US' technology infrastructure and also offering workers a greater opportunity to benefit from the success of their innovation.

As a director of engineering at Cisco, I have personally benefited from Cisco's generous policy of employee ownership. Above and beyond that, I have observed the strong motivational factor that employee ownership gives to the folks on my team. Even though we are a small part of a very large company, we feel a direct connection to the success of the company. I believe that a big part of this connection is due to Cisco's employee ownership philosophy.

I think that the current method of accounting for stock options should be retained - at least for the rank and file employee. I believe that the FASB proposal will damage the US high-tech industry and should not be adopted.

Paul Ruddy
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