

Stacey Sutay

From: Peter M. Gits [pgits@cisco.com]
Sent: Monday, April 19, 2004 5:09 PM
To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: Please do not expense stock options.

I urge you not to expense stock options, especially at an unrealistically high valuation.

I have personally seen the rewards of stock options at work and how they have influenced employees to align with company values and shareholder's interests. My personal story is again one where if there weren't stock options I wouldn't be able to forecast my families personal income without a high degree of inaccuracy. At Cisco, most of the engineering staff are paid at a smaller income level than most in our field. We opportunistically trade immediate income for a chance at partnering with our company to see our future successes and failures together. The idea that we are joined at the hip in success and failure is a truly committed relationship.

Not only does it create a more stable environment with regards to attrition, it also creates and enables long term employment and dedication. My team mates have stuck through the hard times at Cisco as well as the good times while we ride out the stock's roller coaster ride. That said, we wouldn't want to do it any other way. From the lowest paid employee to the Officers, this is a true motivation for them as well as me. Unlike any other company I have been with, over 22 years experience in the technical engineering field, I have never been able to enable my family's financial future as I am with stock options. My fear is that if you try to expense them at a high valuation, these shares will inevitably evaporate from the company chain and be replaced with something less useful, such as regular stock. To me, the number of shares will dwindle as the price to the company to hand them out will be more costly. This will shrink up my potential rewards and eliminate my true partnership and motivation as a stake holder in the company's future.

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'.

Please do not expense stock options, my family and I beg you to stop this from happening and protect my family's future.

Sincerely,

Peter M. Gits
Technical Leader
Cisco Systems