

Stacey Sutay

From: Clarence Hoes [choes@cisco.com]
Sent: Monday, April 19, 2004 5:05 PM
To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: Stock Options

Re: File Reference No. 1102-100
Attention: Chairman Robert H. Herz

Dear Mr. Herz,

It has come to my attention that you intend to change the corporate tax structure such that you would effectively remove the practicality of Companies issuing stock to employees on the basis of their merit and the overall success of the company. This would serve no purpose other than to take away "entrepreneurial spirit" which is the core of American businesses as we see it today. In the long run, this will just serve the purpose to bring down productivity and overall business effectiveness in a global economy in which this cannot be tolerated, thus resulting in the deterioration of the status of our corporations in today's marketplace.

It is a disgrace that companies such as mine (Cisco Systems) whose innovation, integrity, honesty, fairness and concern for all be punished for things done for companies such as Enron, and others who have abused the system totally and yet still remained unpunished. This is a travesty. Cisco has not only exhibited these policies worldwide, but to employees, customers and the local communities. Why is it being targeted?

I implore you to not make this awful decision. Before you do so, you must consider the following:

- 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.

Impact on the Competition:

- U.S. companies need stock options in order to compete with other countries on a global basis. For example: In China, Chinese companies use stock options and 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'.

Stock options has been the glue to not only hold good employees but to attract them in the first place. We will wind up going back to the way it was not too long ago, when most employees would move from job to job in order to get increases whereas now with options, they prefer to stay with potential windfall they may receive some day. This is the glue which keeps them at the same company which results in a more stable and efficient organization (does not tend to have the revolving door phenomena.

Yours Truly,