

ikon

Letter of Comment No: 827  
File Reference: 1102-100

**From:** Rob North (rnorth) [rnorth@cisco.com]  
**Sent:** Tuesday, April 20, 2004 4:21 PM  
**To:** Director - FASB  
**Cc:** savestockoptions@cisco.com  
**Subject:** File Reference No. 1102-100

Dear Chairman Robert H. Herz;

I am writing to express my concern over recent talk about requiring companies to expense stock options.

As an employee of Cisco Systems I am and have been a participant in Cisco's employee stock option program and it would be a serious mistake to change the accounting procedures as they pertain to these programs.

I would like to site a few issues that I think are important points supporting my position that it would be a mistake to change the accounting rules regarding stock option programs.

First, from an accounting perspective:

- 1) The artificially high valuation for a stock option required by FASB will eliminate stock options as a tool which has driven innovation and productivity.
  - a. Productivity has been sighted by many federal studies as a major percentage contributor to the increased GDP over the past decade plus.
  - b. Innovative and creative people have either founded or joined companies driving high productivity impacting companies (Cisco as an example). Many or most of these people did so accepting stock options in lieu of competitive salaries in the hope that their commitment and hard work would be rewarded by the performance of the company stock.
- 2) Stock options do not meet the definition of an expense because they do not use company assets.
- 3) The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised.
- 4) Virtually by definition non-qualified stock options (the most common) upon exercise and sale receive short term capital gains treatment. This represents a revenue windfall to the IRS.

Also from the global competition perspective:

- 1) U.S. companies need 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.)
- 2) 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'.

Finally, from a personal perspective:

- 1) As a "baby boomer" I have lived through the fastest increase in college tuition costs in history. At my Alma Mater, tuition cost has increase by 700% since I graduated in 1977. This far outpaced inflation. At my income level while I am well compensated I am not wealthy; I get no federal or state help on tuition. If it were not for stock options I would not have been able to send my five children to college (State Colleges, not expensive private schools).
- 2) Professionals of my age have not benefited from company pension programs. It was not until I was already into my career that the 401K and IRA programs were created. I have aggressively participated in these programs, but they got started late in my working life. Stock options offer the best chance that I have at retirement. If I have to depend on my savings and social security, I will be working until the day I die. My parents did better than that.

Don't let the misbehavior of the very few Enron's shape your policy. These companies have been punished and there is

4/21/2004

no need to throw the baby out with the bath water. Employee Stock Option programs are good for companies, good for employees and good for the USA.

I hope you will seriously consider the broad impact of your decisions and NOT treat stock options as an expense.

Sincerely,

Robert P. North  
Cisco Systems Inc.  
Major Account Manager  
585.249.1809  
rnorth@cisco.com