

Len Tatore

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From: Richard Towner [rtowner@cisco.com]
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To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: File Reference # 1102-100, Mr. Chairman Robert H. Herz
Importance: High

Not that you won't have guessed it by the bottom of this letter, but I'm no accountant. I do, however, perceive that our Government's balance sheet is heavily reliant on being expert at taking things away but just okay at giving things back. Still, there's a lesson to be learned in stock options if you stop to think about Human behavior. And isn't that what truly runs our economy?

When Cisco employees talk about their jobs to each other, they talk about their contribution to the performance of the company. We do this because we own it. It's not just stock, it's ownership. Wall Street investors own stock. Mutual funds own stock. Cisco employees own *the company*. We don't just work for the company, we make the company work for us; we don't just work hard, we work *smart!* We carry the burden of company performance to and from work every day just as much as John Chambers, Rick Justice, Dennis Powell, et al because we truly believe, to the lowest employee, that every action on our part has an influence on the value of the company and thus on our little piece of it. We stay longer at work, both in tenure at the company and each day. We think bigger -- our ideas and actions do actually impact the bottom line. We spend less of the company's money because it's *our* money. When the stock value goes up we don't just think we've made a good investment in spending our money, we take it personally that we've made a good investment in our time. How many companies that don't offer stock options as performance incentives can say that their employees generate this type of return? Not many. For the what it generates for Cisco Systems, and Dell, and Microsoft, and others, why *don't* they?

I submit that if all companies offered stock options to their employees the same loyalty that pension funds create would return to Corporate America, and the benefits would show in overall economic improvement for Uncle Sam. Pension funds, as you know, are pretty much a thing of the past primarily due to the liability (except for public employees - it's pretty easy to offer a pension when you print your own money - and Unions -- let's not even go there!) The problem with pensions was that they returned a benefit to the company in improved employee loyalty and long-term perspective, but *cost* the company *twice*: once as a liability, and again in reduced employee productivity by fostering a "resting and vesting" mentality. The mounting pressure on our government to foot the bill for retirees and Sr. citizens that didn't become retirement investment experts is being counted in the trillions these days. Moreover, because employees don't have a vested interest in the companies they work for they're not looking for the long term gain. They look for the short term salary win, then move on after a couple of years to the next big salary win. No one gains the benefit of their long term expertise -- not even them. And when you consider that it costs more money to recruit new talent than to keep existing talent, who really suffers?

Stock options, on the other hand, foster a long term perspective. The Company and the employees get all the benefits of the pension plan, and none of the costs: Long Term effort and loyalty, no onerous liability, limited "resting and vesting" exposure. Everyone reaps what they sow. Cisco saves money on recruiting that it can spend on putting money into educational programs, philanthropic endeavors, and generating revenues at a faster clip than most corporations its size -- revenues that are taxed at an

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increasing rate and returning a significant economic multiplier, not just to our local communities, but also to Uncle Sam. Yes, Stock Options do contribute significantly to our Corporate productivity.

So Before you submit the proposal to expense stock options, effectively take them away as employment incentive, and kill the benefits to everyone, why not do a study of the impact on our economy if the award of stock options to every employee were **required** as a condition of listing on one of the major stock exchanges in the US? On the heels of Sarbanes-Oxley legislation, wouldn't this create a more stable economic environment? Wouldn't money flow back into the stock market at a pretty good clip as investors calculated the benefits of stock options in ROI? Wouldn't the return to everybody outweigh the investment significantly as we all took a more long-term look at our efforts? It probably would. At the very least it deserves a closer look from a longer term perspective.

Rick Towner
Business Operations Manager,
Cisco Systems, Inc.