

Stacey Sutay

Letter of Comment No: 207
File Reference: 1102-100

From: Ian Slattery [jpslatte@cisco.com]
Sent: Monday, April 19, 2004 5:46 PM
To: Director - FASB
Subject: Attn: Chairman Robert H. Herz

File Reference No. 1102-10

Sir,

As an active participant in Cisco's Stock Option Program I am deeply disappointed to hear plans regarding stock option expensing.

Stock Options are a part of my personal long term investment plans. The opportunity to accumulate wealth through options is clear. Perhaps what is not clear are some of the possible side effects that the cessation of these programs will bring.

Competitiveness:

You are aware of the inability to compete with foreign firms who offer options that are not expensed. Another impact will be that foreign workers who have helped build the value of many corporations may chose to move abroad to work for foreign owned companies who still offer options. Your personal position on immigration could greatly influence this issue.

Incentive:

I work at Cisco for less than the Market rate because of the options. I accept and understand that the options may prove worthless if the value of the company does not increase. That is a risk I am prepared to accept because I and my colleagues work everyday to increase company value because options are a significant incentive. Without that incentive we could all just draw my salary and "get by".

Increased Salaries Vs Increased Shareholder Value:

Without Stock Options I would absolutely need to take the highest paying job. That means less stability for companies and less value for shareholders. I speculate salaries will have to increase to keep and or hire the best people. This will lead to salary inflation. This salary inflation will not produce any value for shareholders and employees are likely to much more mercenary regarding job choices.

I completely accept that shareholders need to know the number of options being distributed. They should know the cost of options exercised. But speculative accounting about the "possible" cost can't be justified. What would the cost of options have looked like back in 2000? What a difference n 2001.

There is no cost to the company until the options are exercised. Also, large numbers of options are issued that will never be exercised, either because the employee moves on before the options vest or because the stock price does not make it financially viable - yet these options must be expensed.

There is also no cost to the company unless the stock price has increased - and while that is the objective of all companies - it does not happen unless the company produces more value for ALL the stockholders - not just those with options.

Tracking and reporting the cost of options exercised and even the number distributed makes a degree of sense, but expensing options that may never be exercised is going to cripple most companies, especially start-ups. There is absolutely no incentive for talented people to work

for a start-up because a start-up can't afford above market salaries due to inability to offer options. This will stifle innovation and that would be tragic, especially in tough economic climates like this.

Sincerely,

Ian Slattery