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From: William Webb [bwebb@cisco.com]
Sent: Wednesday, April 28, 2004 1:32 AM
To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: To Chairman Robert H. Herz

Letter of Comment No: 2057
File Reference: 1102-100

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Dear Mr. Herz,

I am writing to express my concern with the recently released draft plan from the FASB that outlines intentions to treat employee stock options as an expense. This is clearly going to make it difficult to impossible for companies in the US to justify employee stock options as part of a total compensation and benefits package. I fear this could have very negative effects on employee sentiments and could have more serious implications for US-based companies as well.

I have been a Cisco employee for 6 years (in July), the first 11 months of which were actually with a company called GeoTel, which Cisco acquired. In the big picture, I didn't have a great number of options from GeoTel when they were transitioned to Cisco options, but they were enough to make a significant impact on my life at the time. They helped me build a house and pay off a great deal of debt which included, in large part, student loans that my wife and I had accumulated while earning our undergraduate degrees.

What impressed me (and continues to do so) about Cisco, however, was their philosophy of continuing to grant options to employees on a regular basis. For me, this is part of what keeps me at this company. The idea makes a lot of sense to me – give your employees a vested interest in the performance and perception of the company they work for. I've also found these relatively smaller grants to be extremely useful in more difficult times or for small projects, or even to help out a family member in need. These are grants that I use as a buffer, or supplemental income – they are not anything that I intend to coast into retirement on, even though they may help. I view them as part of my total compensation package. A very important part, in fact, that I view as a reward for a job well done. In very much the same way as a bonus, stock options are an "advance reward" or incentive to positively influence the company's bottom line, and this draft plan is trying to say they should be viewed as a negative impact on the bottom line.

Beyond my personal financial impact, I fear this change could have a more drastic long-term effect on US-based companies. A great deal of work is already being outsourced to overseas companies and employees because this is becoming a more financially viable option. The loss of stock options could exacerbate this situation since they may not be a viable compensation option. Consider that, without stock options as additional compensation and/or an incentive or attraction for the best people to the best companies (or those with the most potential – those that drive most industries, not just high-tech), companies would be left primarily with salaries to draw employees. Company performance would be less important, and those companies with the deepest pockets would have the best chance of acquiring the best people. But this is not a sustainable model, unless you are a company with endless funding! Suddenly, outsourcing seems to be an even more enticing option, and it seems this change would only expand that situation.

Now, I'm not so idealistic to think that the case I just described is not reality already, and I'm not forgetting that what we're ultimately talking about here is money. However, I do think there is more meaning in employee stock options, since it makes employees stockholders with a vested interest in their employer's overall finance sheet. Please consider the negative impact this proposed change could have – not only on employees but employers as well.

Thank you,

- Bill Webb



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