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From: S

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Sent:

Monday, April 26, 2004 11:53 AM

To: Director - FASB

Subject: Stock options---Please consider the consequences...

Mr. Director,

Given that you are in the process of defining FASB's policy on stock options, I would like to provide you with some information about how stock options were imperative to the success of a technology start-up, and how expensing those options would have a significant negative impact on similar success stories in the future.

As the controller of a start-up Internet Service Provider in the 90's, our company had very limited access to capital from which to launch our business. Since we weren't able to attract qualified, highly skilled employees using salaries, we were successful in using stock options to sign on experts in the field, allowing us to build a strong company, and eventually, access the public market and grow the business.

That company is now a \$40 million enterprise, employing over 150 people, and providing a terrific service to the region. Had there been a requirement to expense stock options back then, we may have decided against it, or significantly scaled back our grants to prospective and existing employees, as both our P&L and balance sheets would have suffered dramatically, and would have burdened our company in the eyes of the marketplace. We would have had to hire less qualified employees, and would not have been able to build as strong of a company, our results would have suffered and the company would most likely not be where it is today.

Similarly, for existing public companies, much of the lure (and loyalty) of these companies is their ability to allow employees to share in the financial success, and long term health depends upon linking employees to goals of the company. Stock options are the most effective way in which to do that. Shareholders benefit from this goal linkage, which more than compensates for the dilution impacts of option, in my opinion.

Stock options are already adequately disclosed in the financial statements, as investors are informed of their dilutive impact on EPS. Recognizing the expense up front erroneously accounts for the true liming of the expense (dilutive impact on existing investors), which occurs at the date of exercise, not the date of the grant. The current reporting requirements adequately account for the expense as options are exercised.

I truly believe that the expensing of stock options at the time of the grant will have a material negative impact on the future of US companies, our ability to compete globally, the quality of life for the US worker, and the US economy in general. Stock options have allowed the rank-and-file employee to participate and feel a part of American entrepreneurialism. To destroy companies will and ability to grant options will have the impact of reducing productivity, deflating morale and stifling the American dream for hundreds of thousands of our citizens.

I urge you to consider the consequences. Thank you for the work that you do.

Sincerely, Scott Stevens Plano, Texas scosteve@cisco.com