

Stacey Sutay

From: Dan Brotman (dbrotman) [dbrotman@cisco.com]
Sent: Tuesday, April 20, 2004 3:02 AM
To: Director - FASB
Cc: dbrotman@cisco.com
Subject: Accounting for Stock Options

To Chairman Robert H. Herz
File Reference No. 1102-100

Dear Chairman Herz,

I am a finance industry professional who is currently employed at Cisco Systems and would like to lend my voice to the debate over stock option accounting. As background, I started my career at the Federal Reserve Bank of New York and spent 5 years in the foreign exchange area. In that role I was very involved in issues of option valuation and risk management. I spent several years after that on Wall Street consulting on international financial risk management to US companies. After that I joined Cisco as a Treasury Manager.

Cisco's policy of granting stock options to employees is clearly one of the things that has made the company great. I noticed very clearly when I moved from Government and then Wall Street to Cisco the strong sense of ownership demonstrated by Cisco employees. It's this sense of ownership that has enabled Cisco as an organization to cut through internal politics and focus on narrow department issues and deliver real value to its shareholders. I can't tell you how many times people from different departments working on a thorny business issue have looked at each other and simply said "we're all Cisco shareholders...what's in the best interest of the shareholder here?"

My greatest fear is that a FASB ruling requiring companies to expense stock options will take the dynamism out of Cisco and so many other great companies that use this form of compensation. These companies, which have been leading the world in innovation and driving huge productivity increases for the US economy, will become stodgy and slow and get caught up in internal, parochial issues. The US will start to look a lot more like Europe and lose ground to countries like China and India. Whatever the theoretical merits of stock option expensing may be the practical effect in the long term will be to discourage innovation and harm the US economy.

I should add that my finance experience also tells me that there are serious practical issues with option pricing methodologies. Whatever method is used can be challenged and if many different methods are used the investor/shareholder will be confused. Further, stock options do not meet the definition of an expense because they do not use company assets and the true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised.

Please give consideration to the voices of caution on this issue.

Best regards,

Daniel H. Brotman
Director, Cisco Systems Capital