

Stacey Sutay

Letter of Comment No: 443
File Reference: 1102-100

From: John Earnhardt [john.earnhardt@cisco.com]
Sent: Monday, April 19, 2004 7:13 PM
To: Director - FASB
Subject: File Reference No. 1102-100

Dear Chairman Herz:

I wanted to have my voice heard on the FASB exposure draft to expense stock options. I understand that the shenanigans of Enron, Adelphia and MCI have soured the America public on stock options and corporate governance in general, but I truly believe that expensing stock options will have the net effect of wiping out broad-based plans, (i.e. the plans that give me and my hard working colleagues stock options).

Let me first state, that although a five-year employee of Cisco Systems, I have not yet benefited financially from stock options. Not all of them are underwater, but I look at myself as a long-term employee and my first set of options do not expire until mid-2008. That is the effect of stock options that I want to impart to you. Stock options help me remain a loyal, productive and active employee. It is the opportunity that they impart that makes me want to help Cisco succeed. Sure, I like what I do. I also think that employees should benefit in the success of the growth of the company that they are a part of. Broad-based stock option programs help make this possible.

First, I do not agree that stock options should be expensed. Why should a company take an expense when it is not using a company asset? I receive absolutely nothing of value when I am issued a stock option. Our options have a five year vesting period, so why shouldn't the expense (if one) be graduated over those five years? The only time anything of value MIGHT come to me is when I exercise them. And, at that point, they are accounted for by their impact in earnings per share. Our stock option programs are approved by our shareholders. All the information about our stock options program are in our proxy and footnotes. I'm not sure what is being missed here.

I know the valuation arguments about Black-Scholes. I think all reasonable persons can agree that Black-Scholes is not the correct way to value stock options. Whatever you ultimately decide (although it seems that you have already decided what you want to do), PLEASE use a valuation method that enables the impact of the expense to be such that broad-based programs can be continued.

Also, a couple of questions to consider:

- 1) Why should all options be expensed when granted? If an employee leaves before they are fully vested, under your proposal, those unvested options would still be a charge to the company.
- 2) If an option is never exercised because it is underwater by the time it is vested and exercisable, why is it still a charge against a company's earnings? I thought the FASB's job is to make accounting clearer.
- 3) Why aren't including stock options in the footnotes for anyone to see good enough?
- 4) All of our stock options are approved by shareholders, so aren't they the ones who should decide?

Thank you for your consideration.

Best,

John Earnhardt

John Earnhardt
Policy Communications
Worldwide Government Affairs
Cisco Systems, Inc.

Direct: 408.527.2180
Mobile: 408.391.4489
Email: john.earnhardt@cisco.com

<<http://www.cisco.com/gov>>Cisco Government Affairs Online
Sign up for
<<http://www.cisco.com/gov/archive/eupdates/index.html>>Government Affairs
weekly e-UPDATE