

## Stacey Sutay

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**From:** Lou Schmltd [ljoschmltd@cisco.com]  
**Sent:** Monday, April 19, 2004 7:35 PM  
**To:** Director - FASB  
**Cc:** savestockoptions@cisco.com  
**Subject:** File Reference No. 1102-100, Chairman Robert H. Herz

Letter of Comment No: 417  
File Reference: 1102-100

Dear Sir,

I write to you today to ask that you re-evaluate the pending decision to expense stock options. I recognize that recent actions associated with corporate executive compensation have provided impetus for expensing options. However, this new rule will actually decrease accountability in corporations by increasing barriers for a company to provide broad based incentive stock options. In short, the best method for getting a company to behave in a fair and ethical manner is for the stakeholders to provide direct guidance to the executives. Adding the employees of a company as stakeholders will always improve this feedback loop; employees are involved in every aspect of the business and can see things that regulators can't. I have seen with my own eyes how employee stock options increase awareness of business strategies, costs, and ethics through the entire chain of command.

I am employed by Cisco Systems, Inc, and have seen the value of stock options in action. I came to this company over six years ago from a government position running a large network for a science agency. The difference in culture was stark: the government agency required that we work only 40 hours a week, but it seemed like the week crawled by. Cisco, but contrast, is dynamic and alive -- but it is rare for anyone to work just 40 hours. Why was the harder job with longer hours more satisfying?

Decisions made as a government contractor were largely ignored. There was no impetus to collect ideas and improvements from any level of the command chain; managers were much more likely to concentrate on things that effected only them. This attitude to this day has resulted in great inefficiency and loss of life. Why should an employee care about a process or result when their ultimate stake is a weekly paycheck? If there is no reward for improving efficiency and increasing value, it will not happen. I could only take a year of this before I had to move (it's worth noting that most of the best people from this contract now work at Cisco.)

At Cisco my input is valued because I have a share in my company. Company financial and ethics issues have a high priority among all members; it directly impacts the bottom line through the option program. Conversely, working harder, smarter, and increasing shareholder value also has a direct impact on my compensation. This is a great thing for all stockholders: By keeping an eye on my interests I'm also protecting every stockholder. There is no better way for a company to motivate; my compensation is set by how well the financial markets see my efforts -- a more realistic and satisfying metric than the opinion of a supervisor. It is immune from much of the influence of inside "politics" and the goal is set before you attempt it in the form of the "strike price" for the options. Shared ownership creates shared value.

In a world of shifting economies and resources we need all the help we can get. Jobs are moving overseas. Our competition in India and China don't have to expense options. They will be able to reap the benefit of options as this valuable tool is removed from the American marketplace. The current system is fair to employees that hold options. Please don't destroy it.

Respectfully,

Lou Schmidt  
Engineer, Cisco Sytems