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From: Andrew Tennant [atennant@cisco.com]
Sent: Monday, April 26, 2004 12:05 AM
To: Director - FASB
Subject: File Reference No. 1102-100
Importance: High

Robert H. Herz, Chairman
 Financial Accounting Standards Board

Regarding File Reference No. 1102-100

Mr. Herz,

I'm writing you in regards to the boards recent draft plan to treat stock options as an expense. I'm not an accountant, or an executive at Cisco. I'm one of the people in the trenches. Quite simply, I'm a salesperson. It has been interesting watching the treatment of Stock Options in the media in the wake of the multiple accounting scandals of the late 1990s. Without exception, it seemed, each anecdote wound up pointing squarely at individual greed and stock options as prime motivators.

In each case, however, the circumstances were all very similar. Key executives in possession of enormous options, making company decisions based primarily on the expected stock response. Anything legal that is done with longterm shareholder value in mind is a good thing. If those decisions are well received by Wall Street, and the stock appreciates, everyone wins.

This model is based on the simple premise that the corporate and shareholder best interests are aligned. In the most prominent cases of corporate corruption of late, it's important to note that stock options were typically given predominantly to management/executives.

"Company X has committed fraud, Company X is therefore bad, CFO and CEO of Company X had lots of Stock Options, Stock Options were the motivation for fraudulent activity...therefore Stock Options MUST be bad!!"

My background is Physics. I see the world in very simple terms. This extrapolation is unfortunate, and all too common. Everyone is looking for something, or someone, to blame for these corporate scandals. It's easier to believe that it was caused by something impersonal, a process or technique...some accounting trickery...not just plain old GREED!!!

The individuals that cooked the books for personal greed were nothing more than common thieves. The justice system is too crippled to prove it, so few, if really any of them, have actually paid the price. Don't blame the tool (Options) blame the criminals.

Ironically, any meaningful analysis shows that Options can absolutely drive and encourage proper behavior when they are properly implemented. It's not that single, smoke-filled back-room meeting when a bad begins. It's the countless thousands of actions during the rest of the year, by everyone with a SHARE of the company, that really drive a company. Crooks are crooks. Options are an easy target when millions of them are given to only 10 people in the company, and some of those 10 people choose to break the rules, and happen to be in a position to cover it up!!

When I started at Cisco five years ago, I was immediately impressed with the Cisco approach of shareholder employees. Everyone, and I mean EVERYONE, at Cisco was given Stock options. Even the shuttle bus drivers at our corporate campus. As a consequence, the culture of doing what is "Best for our Customers, Shareholders, Partners and Employees" is universal.

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From the very top of our organization, John Chambers our CEO, is without question the greatest leader in corporate America today. In every thing we do, we are constantly approaching the business as part-owners. At Cisco, Stock Options have, if anything, purified our corporate behavior. We all look out for Cisco, and we even look after each other. The reason we stay at cheap hotels, and have roommates at our national sales meeting, is not because of appearances, but because we're spending our own money!! I think you would be hard pressed to find a more ethical, responsible and self-policing organization as Cisco.

On a more practical note, it simply does not make sense to treat Options as an expense as they do not utilize any corporate assets. In reality, the dilution of EPS is a very REAL and existing impact of stock options that are already recognized when those options are exercised.

Please reconsider this very important issue. Please come to Cisco and talk to people, learn how we use Stock Options for the undeniable benefit of ALL employees, shareholders and Customers!!

Thanks and best regards,
Andrew

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