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Letter of Comment No:1907

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From: Meisenbach, Lindy [lmeisenb@cisco.com]
Sent: Sunday, April 25, 2004 3:13 PM
To: Director - FASB
Subject: Please Save ESOs for Individual Contributors

Dear Chairman Robert H. Herz,

The artificially high valuation for a stock option required by FASB will eliminate stock options as a tool which has driven innovation and productivity. **This is wrong.** With stock options as an incentive for individual contributors, work isn't just a job, it is also a personal investment. It gives me hope and something to strive for besides a paycheck. It makes me feel like I belong to the organization.

I work harder, speak up more confidently and work diligently for the good of the company because I hold Cisco's future in the form of stock options. It is the one thing I have in common with all other Cisco employees.

One of the reasons I came to Cisco from Nortel in 1996 was because of stock options. My daughter, a former Cisco software engineer can now afford to be a stay-at-home Mom because of Cisco stock options. I hope for continued stock options so that I can someday retire.

If other countries allow expensing, and the US does not then we are at a significant disadvantage as an employee of a high tech firm. In Silicon Valley we have already suffered from the migration of jobs offshore. Please do not encourage innovation to move offshore also.

Please don't prove the following to be true.... FASB definition...

Frittering

Away

Substantial

Benefits for the average employee – FASB.....

Why not tax options to executives not to individual contributors or those earning less than a certain amount say 150K

Stock options do not meet the definition of an expense because they do not use company assets until they are exercised. We cannot forecast the future value of those stocks because we cannot know.

- The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised.

Competition:

- U.S. companies need stock options to compete with other countries on a global basis. (Example: Chinese companies use stock options and they do not treat them as an expense.)
- Expensing stock options could have a dramatic impact on American high tech leadership, innovation and job creation. In today's economic environment, the number one rule should be 'first, do no harm'.

As John Chambers said:

Over the long term I can think of no greater method to tie the goals/incentives of employees, the company and shareholders together than ESO's. I think that FASB is actually doing shareholders a major disservice with this legislation, although they claim it is for their benefit. Most of the problems with ESO's have been with high level executives and short term incentives to raise the stock price. I don't see how the FASB proposal will change this since

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it will be mainly the non-executive employees that lose out on options, not the high ranking company officials.

This does not even take into account the issues with what is an ESO actually worth at the time they are granted.

I believe that education, infrastructure, supportive government and innovation empowered by employee ownership will determine which companies and nations are successful. There has not been a single, major high-tech success story in the past two decades that did not utilize broad-based employee stock options to drive success.

Our major Asian competitors will very effectively utilize broad-based employee stock option plans.

I believe to expense these at an unrealistically high level, especially when more and more of our large shareholders focus on cash generation vs. theoretical expenses, will in the end be a loss not only to employees and companies but also to shareholder stock appreciation.

I believe that a fair compromise, realizing there is no solution that will satisfy all constituencies, would be to expense these for the top executives within a company. This issue could have a dramatic impact on American high-tech leadership, innovation and job creation.

And in today's economic environment, I believe the No. 1 rule should be "first, do no harm."

If there are no ESO then why would anyone want to join a startup anymore?? After all, isn't the promise of great financial wealth after an IPO one of the primary drivers in the decision to go join a startup for the average employee? It would be very interesting if startups go out of business due to expensing options yet those options never are realized cause the startup went out of business.

Best Regards,
Lindy Meisenbach