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Letter of Comment No: 3408
File Reference: 1102-100

From: jim korzik [jkorzik@cisco.com]
Sent: Friday, June 11, 2004 8:41 AM
To: Director - FASB
Subject: File Reference No. 1102-100: Expensing of Stock Options

Dear Chairman Robert H. Herz,

The high tech industry and I personally have benefited greatly from broad-based employee stock option programs which distribute stock options to all levels of employees in an organization. My employer, Cisco Systems, Inc. has a built a strong company with committed work force partially based on its intelligent, transparent and fair-minded distribution of stock options as incentives. Employees at Cisco approach their jobs as owners and know that their efforts to improve the company's performance will enhance the value of their stake in the company as well as that of millions of other shareholders. Cisco is a great example of the power of stock options. Eighty percent (80%) of the stock options distributed by the company are distributed to first/second line managers and individual contributor employees. This type of distribution would not be feasible if stock options were to be treated as an expense.

A strong example of how creating employee-owners through the distribution of stock options has benefited Cisco shareholders is that even with the recent downturn, a dollar invested in Cisco stock in January of 1995 is worth \$11 today. This is a phenomenal rate of return based on the company's great performance fueled by employees with a strong sense of ownership in the company.

I urge FASB not to go forward and require companies to expense stock options. I see many pitfalls with the expensing of stock options including accounting issues along with global competition of the American workforce. Foremost concerns on each of these fronts include:

Regarding Accounting Issues:

- The artificially high valuation for a stock option required by FASB will eliminate stock options as a tool which has driven innovation and productivity.
- Stock options do not meet the definition of an expense because they do not use company assets.
- The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised.

Regarding 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'.

Stock Option are important to me and the future of my family. Expensing of them will certainly change my families future plans. Stock Options allow employees like myself to send their children to college, to buy their first home and to plan for a retirement (since most high technology companies do not have pension plans). Stock Options allow employees to bring a culture of ownership to their work. Also, Stock Options will protect the global competitiveness of American companies, by putting the United States on equal footing with company's in India and China for example, that offer broad-based employee stock options programs.

Once again, I urge FASB to please not make companies expense Stock Options. It just does not make any sense and I see no compelling reason to do so.

Sincerely,

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6/11/2004