Letter of Comment No: 1071
File Reference: 1102-100

From: Larry Fitterer [lfittere@cisco.com]
Sent: Tuesday, April 20, 2004 11:37 AM
To: Director - FASB
Subject: File Reference No. 1102-100
Importance: High

I am writing to urge you not to move forward with your plan to treat stock options as an expense. In addition to the reasons stated below, please consider the following. Over half of all options granted by my company, Cisco Systems, Inc., go to individual contributors. In the process, Cisco has created over 2000 employee millionaires. Don't kill the goose the laid the golden egg.

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.

Competition:

- U.S. companies needs 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'.