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From: Hartman, Bruce [bhart@cisco.com]

Sent: Tuesday, April 20, 2004 12:59 PM

To: Director - FASB

Cc: savestockoptions@cisco.com; Hartman, Bruce

Subject: Please Do Not Expense Stock Options

I am a US Citizen working in San Jose, CA. I am distressed by the possibility of accounting law changes that force companies to expense stock options.

I think there are a number of standard arguments why this is not an accurate reflection of expense to a company. Options are not an expense by definition, because they are not an asset. Options are already accounted for in stock valuation through dilution of earnings. Options can be artificially high and therefore penalize high growth (volatile) companies that use them as way to attract and motivate top talent.

I believe, by definition, your highest growth companies (who attract the biggest risk taking top talent) will be most penalized. These are exactly the companies that a capitalistic economy should be encouraging, not hindering.

At a time when our economy is in recession and losing jobs hand over fist to offshore economies, the US needs to focus on encouraging innovation and growth. Stock options are the single best alternative for a capitalistic minded young person to jump in and take risks early in life. These risk takers are the ones who do a majority of the innovation.

On a more personal note, I am an engineer. Given a choice between a stable company and a risk taking company, if remuneration is the same, I definitely go with the more stable company. More stable companies have less chance of lay-off. "More stable" typically translates to more conservative. "More conservative" translates to less risk taking. "Less Risk taking" translates to less innovation.

Options are the single reason I joined Cisco (and left Lucent). This was motivated by living in a stodgy Bell Labs engineering environment that touted innovation but was anything but that. New ideas (at Lucent) were met with extreme caution, evaluated ad infinitum and filed till some more aggressive company proved the concept. At Cisco, where we daily have difficult discussions about which products and technologies to pursue, nearly every passionate discussion is calmed with a reminder like, "Look, we are all share holders here. This is not personal. Leave your egos at the door. Let's do what is right for the business." When it is put that way, the direction becomes clear. We align and run. Cisco benefits, we (capitalists) benefit and the Economy benefits.

When I leave those meetings, I remember why being in a risk taking, aggressive company was the right career decision. Please do not undermine or underestimate this important culture in the US economy. Options are the foundation upon which this is based.

Thank you for your time,
bruce hartman
mgr, engineering
Cisco Systems
1454 montego dr
san jose, ca 95120

BTW:
Keep in mind, I am really (only) an engineer by trade. Going back to the original goal of this effort; to create clear picture of the option situation in the company. It seems there are 2 simple graphs that could express this info. They are (1) Options issued and vesting schedule. x-axis is time, y-axis is value based on stock price (or predictive stock value overtime) (2) Options issued and expiration schedule. x-axis is time, y-axis is value of options that will be expiring in each of the coming years.