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**From:** Carl Wagner (cwagner) [cwagner@cisco.com]  
**Sent:** Wednesday, April 21, 2004 10:45 AM  
**To:** Director - FASB  
**Subject:** File Reference Number 1102-100 - Chairman Robert H. Herz

Dear Chairman Herz,

I'm an employee of Cisco Systems, Inc.. I've been employed by Cisco for over 10 years. I'm writing this letter to you to express my concern over the current plan supported by FASB to require companies to expense stock options. I'm opposed to the plan. Let me explain why...

I've been in technology since November 1978 when I started my career with Xerox Corporation. I spent 6 years as an engineer at Xerox and left in 1985 to join Infotron, a New Jersey based telecommunications equipment manufacturer and then left Infotron in 1990 to spend 3 years with Timeplex, Inc. another New Jersey based telecommunications equipment manufacturer. After Timeplex, I joined Cisco and remain employed with Cisco today. The largest part of my Career has been in engineering with time spent in marketing and recently, sales.

In each case where I decided to leave one company for another, it was because the company (or division) that I worked for, was failing or at least in my estimation, about to fail. In fact, the division of Xerox that employed me is no longer in existence and both Infotron and Timeplex have gone out of business. None of those companies offered stock options to any employees except for senior management. In each case, when the going got tough, employees decided to leave for greener pastures and those that didn't leave, had a poor attitude towards the company and under-performed at a time when over-achievement was required. Each company had great products born of inspiration, innovation and perspiration. they all started as an inspired, small group of engineers, just like Cisco, but as they grew and took on employees, their inspired culture became diluted. When they met their challenge (in all cases it was a shift to new markets and technology) they failed because the inspiration and commitment required to make the shift wasn't there.

Cisco has been an altogether different experience for me. When I started, the company was relatively small (about 2000 employees) with a very entrepreneurial culture - inspiration, innovation and perspiration were prevalent throughout the organization. Cisco gave an equity stake (stock options) to all employees and empowered them to make decisions and move quickly. We were working seven days a week 12-18 hours a day, not because we were forced to; we did it because we felt like we were running our own company and IF we succeeded, we could reap significant rewards. We didn't mind contributing this time not only because of the potential rewards but because everyone we worked with had the same motivated attitude. The adage "it's difficult to soar with eagles when you work with turkeys" is absolutely true and what is conversely true is that when you work with eagles, you are constantly inspired to achieve more because you know that you're team is strong and reliable and by performing your part, great things can happen. That's what Cisco is. We grew to over \$20B in annual sales and employ over 35000 folks world-wide today. We've weathered significant economic challenges and continue to innovate and bring new technologies and markets to the world. We haven't fallen as Xerox, Timeplex and Infotron did, due to the lack of inspiration. The Cisco team is still strong. We are still innovating and we are still inspired. I've never seen anything like it.

Now, had Cisco NOT distributed stock options, I have no reason to believe that the history of Xerox, Infotron and Timeplex wouldn't repeat itself and Cisco may not have seen the innovations that brought us today's Internet. For the business world, Cisco has taken a huge part in providing technologies which have changed, in a very fundamental way, the way we work and learn. The systems that Cisco builds, provides productivity-enhancing environments by bringing the working world closer together and expediting communications and collaboration. Productivity is what is at the center of today's economic recovery. If it weren't for Cisco's success, I believe the roll-out of the Internet & Intranets would have been slower, US productivity would be less, and there would be less economic growth because of a slower migration to e-commerce.

As for the personal impact of stock options, prior to Cisco, I was working to acquire the American dream - wife, kids, house, cars, job, retirement. I had a 401K and other investments but, in terms of retirement, well, I was concerned. I still have the 401K but since the stock options have made my hard work pay-off, I'm no longer so concerned with my golden years. I don't worry so much about the possibility of being a burden on my children or society in my old age. Had Cisco not given stock options, I'd probably have had to change jobs once or twice in the past 10 years and I'd still be very concerned about retirement.

I believe that the FASB plan to expense stock options will do significant, immediate and long-term damage to Americans and American high tech leadership, innovation and job creation. U.S. companies need stock options to compete with other countries on a global basis. (Example: Chinese companies use stock options and they don't treat them as an expense.)

The artificially high valuation for a stock option required by FASB will eliminate stock options as a tool which has driven innovation and productivity. I don't understand why America would want to do this to itself especially since Stock options don't meet the definition of an expense because they don't use company assets. The true cost of a stock option is dilution of earnings per share and is already accounted for when options are exercised.

I would like to understand why you want to remove this extremely productive tool for America. If anything I would think that more companies should be encouraged to use stock options, not discouraged.

Regards,  
Carl Wagner