Stacey Sutay

Letter of Comment No. 330 File Reference: 1102-100

From: Connie Blair [coblair@cisco.com]
Sent: Monday, April 19, 2004 10:20 PM

To: Director - FASB

Cc: Savestockoptions@cisco.com

Subject: File Reference Number 1102-100 Expensing of stock options

Attn: Chairman Robert H. Herz

Dear Chairman Herz.

I am a Cisco employee and would like to take this opportunity to ask you to reconsider your board's stance on expensing stock options.

I have some purely selfish reasons for thinking that expensing the options is not a good idea. Here are a few of them, along with some guestions I have about your board's stance on this issue:

- 1. One of the reasons that I came to work for Cisco was the stock option program. My husband and I are nearing our retirement years, and due to some unforeseen setbacks during the last few years, we have virtually had to start over in preparing for our retirement. The stock options at Cisco give us hope that we can accumulate some extra funds that we will badly need in our retirement. If Cisco has to expense the options, it will no longer be able to afford to give employees the options.
- 2. Because I truly believe that stock options drive innovation and productivity, I think they are highly responsible for the majority of Cisco employees who value their jobs, are highly creative people, and work hard at helping the company be one of the best, if not the best, in its field. The positive work atmosphere here at Cisco makes my working experience more enjoyable, and it encourages me to strive to do my best.
- 3. I have worked for other companies in which only the CEOs and upper management received rewards when the company did well financially. Cisco is a company that rewards all employees, and one of the ways is through the stock option program. I think that because the company can use stock options as a tool to reward its employees, we are happier and more productive employees. If our company does well, it is good for Cisco and good for America.

Besides my own selfish reasons for not wanting the options expensed, there are some other reasons that seem to be only too logical to me:

 Stock options do not meet the definition of an expense because they do not use, or have any effect on, company assets.

This leads me to a question I have, which is why should stock options be expensed when they are often never exercised? For example, I and a lot of other Cisco employees have stock options that we may never get to exercise (because the stock options were set at a much higher amount than what they are worth today, or for that matter, may ever be worth again. Why should the company have to expense these options that are not worth anything and may never be worth anything? It's like taxing air.

- 2. I know that the value of the company is divided across the number of shares that are outstanding. If more shares are added because of added stock options, the value of each share drops. Because this is already a loss per share, how can a loss be taxed?
- Other companies in the global marketplace do not expense stock options. One of these countries is China, which is an up and coming economy. It is imperative that America be able to compete, and hold its own, in this global market.

Thank you for considering my thoughts on this matter.

Connie Blair Cisco Systems