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From:

Kittur Nagesh [knagesh@cisco.com] Friday, April 23, 2004 2:22 PM

To:

Director - FASB

Subject:

Stock Options Should Not be Treated as Expense

Letter of Comment No: 1552 File Reference: 1102-100

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Dear Chairman Robert H. Herz:

As someone that has worked in the high-tech industry in leading companies like Intel, HP, UR Networks, and now Cisco Systems, Inc. I would like to provide my personal perspective in the debate on whether stock options should be treated as expense by companies.

While in some industries one can make a case to do so, in the high-tech industry where innovation is the engine of growth and building teams with the right compensation and motivation structures one of the key means to achieve it, I would like to reiterate that stock options have played a key role in fostering our leadership. Silicon Valley would not have existed but for this fundamental management tool. Start-ups thrive on this, VCs understand its role, and other companies have demonstrated greater stability, innovation in R&D, created company cultures, and retained key employees by using stock options. The value chain for new companies and existing high-tech companies will fundamentally change in the absence of this tool and will undermine our country's technology leadership. Clearly, options have been one of our competitive advantages and we need to maintain them.

In mature or monopolistic industries where innovation is not necessarily the engine for growth, employee retention, and market inflections, we probably can accurately estimate the value of options, albeit, even there it will be inconsistent and subject to interpretations. In young, vibrant, technology industries, the value of options cannot be computed accurately as a lot of it is the intrinsic value of innovation and technology leadership.

In addition, companies have disclosed in their comment lines and pro-forma statements the expenses and the distribution of options. Investors do reflect those in their analysis and value the companies they would like to buy into. Companies also allocate some reserve to handle the exercise of options.

In the wake of the above comments, my vote is to request you to leave the options as a critical tool for the high-tech industry and not "force" companies to start valuing them (likely incorrectly) as expenses.

Thanks for listening!

Regards, Nagesh

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Regards,

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