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Letter of Comment No: 1851
File Reference: 1102-100

From:	Hal Thilmony [hthilmon@cisco.com]
Sent:	Friday, April 23, 2004 4:43 PM
To:	Director - FASB
Subject:	File Ref # 1102-100 [Stock Option Expensing]
Importance:	High

To Chairman Robert H. Herz,

I am extremely puzzled by FASB's focus on the issue of stock option expensing.

As I'm sure you are already aware, Cisco provides stock options to all employees. Furthermore, these options have no economic value to the employee unless the performance of the Company as reflected in increase share prices improves over time. As such, options that vest over a span of several years should be viewed as a "motivator" that adds value to the Company through a combination teamwork, shared focus on productivity and worker retention rather than as an "expense".

If we were to artificially place a value on Stock Options as an expense (and it would be artificial at best given the lack of a meaningful valuation model) then we should also be able to place an equivalent value on some sort of asset that would recognize the increased value of the work force. As ridiculous as this sounds it would at least represent a "matching" of artificial expense to artificial value.

In reality, however, there is no expense because company assets are not used to acquire stock options. To the extent that options do eventually provide value to the owners of the options, that value is absorbed via dilution to earnings per share at the time the options are exercised.

Prior to joining Cisco 8 years ago I had spent 25 years at several other companies that did not have stock option plans. I can strongly attest to the dramatic and positive difference in culture, attitudes, motivation, and innovation at Cisco compared to the other companies. This has been an exceptionally great place to work with dynamic leadership, energized workers, and leading edge technology. Cisco at almost every level has been a poster child for what is good about Corporate Amercia. I sincerely believe that stock options are a key factor that enables a higher level of productivity than can be achieved at companies that do not offer stock options.

In short, implementing a policy that requires the expensing of options using artificial valuation models would create more harm than good. It would likely drive Cisco to reduce the breadth and depth of options provided and would ultimately change the whole dynamics of the Cisco work force.

Please reconsider the intended merits of changing the accounting policy to include the expensing of stock options. This, in my opinion, is just not a sound or justifiable change.

Sincerely,

Hal Thilmony
Senior Manager, Business Process Improvement