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Letter of Comment No: 670
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From: Ed lwamiya [eiwamiya@cisco.com]
Sent: Tuesday, April 20, 2004 6:52 PM
To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: Expensing Stock Options, File Reference No. 1102-100

Dear Chairman Robert H. Herz:

Late last month, the Financial Accounting Standards Board (FASB) released a draft plan stating that they intend to treat stock options as an expense. The valuation they propose would make it very difficult to continue broad-based employee stock option programs like the one we currently have at Cisco.

I urge you not to expense stock options, especially at an unrealistically high valuation.

I have personally benefited from the generosity of stock options. If stock options were expensed, I am sure I would not be granted any options.

I view stock options as a part of ownership into the company. I personally feel that this has made Cisco, Xilinx, Sun Microsystems, and Intel the powerhouses that they are today without them they have difficulty retaining good workers and would help prevent jobs from going overseas, because this is not something that would be done in a foreign company.

The disadvantages are:

Accounting Issues:

- The artificially high valuation for a stock option required by FASB will eliminate stock options as a tool which has driven innovation and productivity.
- Stock options do not meet the definition of an expense because they do not use company assets.
- The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised.

The advantages are:

Competition:

- U.S. companies need stock options to compete with other countries on a global basis. (Example: Chinese companies use stock options and they do not treat them as an expense.)
- Expensing stock options could have a dramatic impact on American high tech leadership, innovation and job creation. In today's economic environment, the number one rule should be 'first, do no harm'.

Ed lwamiya