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Letter of Comment No: 1502 File Reference: 1102-100

From: Eric Drattell [edrattel@cisco.com]

Sent: Thursday, April 22, 2004 11:35 AM

To: Director - FASB

Subject: File Reference No. 1102-100

Dear Chairman Herz,

I am writing to you in opposition to the proposed rule under which companies would be required to expense stock options. My opposition is grounded on two fundamental principles:

First, the issuance of option is not an expense to a company. Under generally accepted accounting principles, an option creates no liability on the company's behalf. Indeed, even when the option is exercised, no liability is created because the company funds the option through treasury stock. As an accounting transaction, the company's treasury stock account is debited and the cash account is credited upon the option holder's payment of the exercise price. Plainly, requiring a company to expense options would be inconsistent with this model.

Second, there is no accurate way to measure the expense. Daily changes in the market, including the company's stock price, market trends, and other factors, play significantly into whether and when an option holder may exercise options. While there are models that try to account for the market and other factors, the models are notoriously inaccurate and would give the investing public an even less clear picture of a company's financial health than they have today.

The drive to require companies to expense options resulted from the recent corporate accounting scandals. While I deplore that conduct, I respectfully submit that swift and sure punishment of the wrongdoers under existing laws and regulations would be far more effective than the enactment of new rules designed to get at the same conduct

Broad-based stock options give employees a stake in the company's success and aligns their interests with those of the company's investors. Here at Cisco, we are committed to conducting business in an open, transparent and ethical manner. I often hear people stand up for what's right for the company's investors by saying "I'm a Cisco stockholder...." If broad-based stock options go the way of the Edsel as a result of the proposed rule, I fear that the people who stand up for what's right because they're stockholders might be less inclined to do so.

Thank you for your consideration.

Respectfully submitted, Eric Drattell Director, Technology Licensing Cisco Systems, Inc. 170 West Tasman Drive MS SJ-10/5 San Jose, CA 95134 Tel: 408.527.3959 (x73959) Fax: 408.525.4757

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