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From: John Davis (johndavi) [johndavi@cisco.com]
Sent: Saturday, April 24, 2004 1:39 PM
To: Director - FASB
Subject: File Reference No. 1102-100: Expensing Stock Options

Letter of Comment No: 1890
File Reference: 1102-100

Mr. Herz,

There has been a lot of press and activity on the expensing of stock options and I would like to share a perspective on the issue.

First of all, I am 100% behind disclosure of all financial and material transactions from public companies, and applaud you and your team for your efforts. I certainly see your team as one of my front line defenses against the types of abuse and deceit that can take place in the private sector and my ability to rationalize my investment decisions. You help me as a general stockholder and as an employee of Cisco Systems, where we take pride in an above board approach.

My issue is with the current recommendations on expensing stock options. Does this approach clarify the investment potential or cloud it and actually reduce the return on my investments just by the way that I count them? Why are we adding this as an expense when they are not an expense - they do not use company assets? Aren't these expenses already accounted for when the options are exercised through EPS? Isn't it clear that this approach will have a negative impact on the US competitive position and on regular employees more than the executives that we are targeting as potential abusers? Unless I am seriously missing something, this artificially high assessment of expensing options will surely result in reduced distribution of options to rank and file employees, while ignoring the tremendous benefits that options can bring to US companies.

If you don't see that stock options distributed across an entire workforce changes the way that a company operates, the level of innovation, and what is possible, then I recommend that you spend some time at Cisco or other companies with people who have had the experience so that you can understand what you will be eliminating. I am 52 and have worked at various companies for the past 30 years. I have worked at companies where as a director I received options, but not the majority of employees, and another where we had an employee stock ownership plan (ESOP) which distributed privately held stock. This is different. During my career I have typically worked 50-80 hours per week, and continue to work that load at Cisco. The difference is that at Cisco there are others here who are sharing the load and there is a tremendous sense that we work toward common goals...which correspond exactly with the goals of our stockholders!!!!

We are all in this together and if we are going to continue to be successful in a highly competitive world, why wouldn't we encourage the approach of sharing shareholder value with employees, not diffuse and reduce it through accounting practices that respond to an immediate need to respond to a problem, but in the end reduce our ability to compete and innovate, and our ability to align workers interests with those of shareholders?

There are very good arguments for accounting for stock options and for watch dogging US corporations...I am just having a tough time seeing how this approach will be an ultimate benefit to US citizens and stockholders. The ethics are a problem, accurate investment assessment is a need, lets address them, but we can do better than this!

Thanks,
John

4/26/2004