

**Stacey Sutay****Letter of Comment No: 499**  
**File Reference: 1102-100**

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**From:** Jim Blum [jblum@cisco.com]  
**Sent:** Tuesday, April 20, 2004 1:34 AM  
**To:** Director - FASB  
**Cc:** savestockoptions@cisco.com  
**Subject:** Expensing of Employee Stock Options

Chairman Herz,

This correspondence is for file Reference No. 1102-100, and it regards the recent FASB draft plan to treat stock options as a corporate expense.

As an employee of Cisco Systems for over five years, I urge you to not support or advocate the expensing of stock options. I especially feel that FASB is choosing methods that result in unrealistically high expense valuations and may ultimately mislead investors as to the true financial impact of these options.

If my company has to adopt the FASB draft plan for expensing options, I fear that broad distribution of options will cease. At present, my company offers stock options to all levels of the organization, from senior management to administrative levels. Stock options serve two main functions for us: 1) Incent employee behavior to grow shareholder wealth and 2) attract top talent in all functions to remain competitive. Cisco has generated over \$150B in market capitalization, largely through the focused and driven effort of employees who are tied directly to the stock's performance. I can tell you, as an employee of Cisco, that the behaviors are shaped every day by this direct linkage to stock performance. Whether it be our fanatical focus on expense frugality, efficiency and productivity generated by using our own internet tools, or making decisions to fund a new product line, the ultimate focus is on creating shareholder wealth. People actively talk about shareholder value in day to day meetings. It is truly an incredible culture, one that has 35,000 employees (100%) acting in unison to increase shareholder wealth. I have been in companies that offer stock options to only senior executives, and believe me, the discussion by employees in the rank and file was not oriented towards increasing shareholder value. Employee options are good for shareholders in this regard.

In our industry, innovation is progressing at lightning pace. Without continuous innovation, a competitive advantage can disappear overnight. For example, China poses a significant threat to the US high-tech industry. Chinese companies issue stock options and do not treat them as expense. US companies would be at a disadvantage vs. Chinese companies if FASB rules take affect. I do not want to see American companies lose the technological leadership, which has been driven and sustained in part by employee stock options.

As a finance professional, I truly have issues with expensing stock options in light of the fact that they place no burden on company assets (typically a definition of what constitutes expense). I also believe that the cost of stock option dilution to EPS is already accounted for when options are exercised and therefore the investors have full disclosure of this in our SEC filings.

I urge you to hear more testimonials from companies and employees, conduct more thorough research on this topic before adopting the draft plan.

Regards,

4/20/2004