

ikon

From: John Hailey [hailey@cisco.com]
Sent: Wednesday, April 21, 2004 12:25 PM
To: Director - FASB
Subject: Expensing Stock Options

Letter of Comment No: 1242
File Reference: 1102-100

To: Chairman Robert H. Herz, FASB
From: John Hailey, Cisco Systems Employee
Re: Expensing Stock Options

Dear Chairman Herz:

America is about to give away a significant productivity advantage to all other competing nations. Let me elaborate.

I am a 56 year old employee of Cisco Systems, Inc. Since the day I graduated from undergraduate school with an architecture degree, and a two year stint obtaining a master's degree in urban planning, I have worked hard every day of my life. I've worked in the public sector, the semi-public sector (regulated utility) and the private sector. All were rich experiences that shape the way I work today, but none have had a more profound impact on my productivity than my eligibility for stock options.

I am as outraged as others about the flagrant abuse of sound financial practices by greedy and non-caring senior executives who worked for the likes of World Com and Enron. They lined their pockets with huge windfalls by acquiring vast numbers of stock options at the expense of the rank and file. Companies like Cisco Systems have learned that by spreading out the potential benefits of options to the rank and file, the company can tap into a tremendous reservoir of worker productivity. That's what drives me today to work 55+ hours a week, with intensity and focus I have been able to hone over the years. I'm just one of the many that contribute to the USA's incredible productivity gains over the last decade -- each one of us adding incrementally to the outcome.

I urge you to look at the fundamental issues in making your decision on whether to expense options. Companies can fully disclose the impact on their options on stock dilution. Any savvy investor, or certainly stock market analysts, can determine for themselves what the potential value is of this dilution, independent of the company's earnings stream. If we mix options with company expenses we will simply muddy the waters because there is no fair way to determine the expense impact of an option. In my case, I was riding high with my options well above water prior to the economic correction, which was followed by three years when all my options were under water. During those three years any option expensing scheme would have been dead wrong. Even today I have not touched my options, and half of them are above water. I choose to continue to work hard to improve Cisco's business potential in hopes that the stock will continue to gain value. It is a risk I'm happy to take knowing very well the integrity, values and ethics of the company for which I've worked for the last 6 years.

Please consider the far reaching negative effects expensing options will have around the globe. The recommended expensing "cure" is going to be worse than the illness. With off-shoring growing from a trickle to a flood (including the Federal Government -- IRS, for example), America needs to retain the vehicle that ignites productivity in each individual. This is a tough issue because the less-informed public wants to punish all companies for the transgressions of a few. But now more than ever we need intelligent, honest decision-making to address this subject and many others which stand to impact America's competitiveness.

Thanks for you time and consideration.