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Letter of Comment No:47  
File Reference: 1102-100

**From:** George F. Phelps [gfphelps@cisco.com]  
**Sent:** Tuesday, April 20, 2004 11:27 AM  
**To:** Director - FASB  
**Subject:** File Reference No. 1102-100



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Dear Mr. Herz,

I am strongly opposed to the Financial Accounting Standards Board's plan to treat company stock options as an expense item -- especially, if as proposed, they were to be given an unrealistically high valuation.

I have only been with Cisco Systems for eight months. One of my main reasons for joining Cisco was to be eligible for Cisco's employee stock option program. Cisco's stock option plan is one of the main reasons that the company can attract and keep key personnel. I, along with my coworkers, know that the extra effort that we put into our daily work assignments will (most likely) be rewarded by the marketplace; with higher stock values for ALL Cisco stock holders. It is this belief that drives our innovation and productivity; knowing that what is good for the company is good for us, and not only in terms of our monthly salary.

Given the future insolvency of the social security system, I am looking at all available financial alternatives to help support me and my wife during our retirement years. One key element of this is my Cisco stock options and the future worth they could provide.

I am working as an embedded software engineer, but I have a degree in business administration (which included many accounting courses). Nothing in my business studies would lead me to view stock options an expense item. If for no other reason, because stock options do not use company assets. As most business and accounting professionals would agree, the true cost of a stock option is in dilution of earnings per share and this is already accounted for when options are exercised.

Cisco, as well as many (most?) U.S.A. companies, needs employee stock options to effectively compete with other countries in a worldwide economy. How are we at Cisco, for example, supposed to effectively contend with Chinese companies that provide stock options for their employees and do not have to treat them as an expense?

Without doubt, expensing stock options would have a dramatic impact on American high-tech leadership, innovation and job creation. In today's fragile economic environment, we should not try to fix it if it is not broken! Just reflect back on the correlation of the Federal antitrust investigation of Microsoft and the recent collapse of the stock market. Which, by the way, devalued my 401(k) plan by 50%!

Sincerely,

George F. Phelps