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**From:** Dan Rozsa (darozsa) [darozsa@cisco.com]  
**Sent:** Friday, April 23, 2004 5:50 PM  
**To:** Director - FASB  
**Cc:** savestockoptions@cisco.com  
**Subject:** File Reference No. 1102-100 - Chairman Robert H. Herz

**Letter of Comment No: 1774**  
**File Reference: 1102-100**

Dear Chairman Robert H. Herz,

Please see the attached letter expressing my disapproval of the draft FASB ruling regarding the expensing of stock options.

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April 23, 2004

Chairman Robert H. Herz

Re: File Reference No. 1102-100

Dear Mr. Herz,

I am writing to you because of my concern over the draft FASB ruling regarding the expensing of stock options.

I am a 4-year employee of Cisco Systems and have a BA in Economics from UCLA where I graduated in the top 12 of my Economics class in 1987. It is my belief is that this ruling will have a very negative impact on Cisco's ability to hire and motivate employees to the level of commitment and work ethic that has allowed us to be as successful as we have been in our globally competitive environment. Experience with previous companies tells me that Cisco is not alone in this belief.

Cisco, as well as countless other companies, uses a broad application of stock options across all its employees to create a sense of ownership and commitment that cannot be duplicated with other methods. In fact, 50% of options granted go to individual contributors. If you are using this draft to control companies that abuse stock options to benefit a few high level executives, then create guidelines that will limit that specific practice. Don't hurt those companies who use stock options fairly and equitably.

Instead of correcting a potential abuse, expensing options will result in the lack of building employee ownership used to drive higher levels of commitment, work ethic, and loyalty. Within Cisco, it has created a company of employee-owners who are highly committed, work long hours, and deliver the highest quality in the industry. I am sure it has done the same for other companies.

Issuing stock options is not a method of compensation. It is a method for transferring ownership from the present owners to those with whom they wish to share their ownership. If investors vote to approve a dilution to allow stock options for employees, and if those options are clearly presented in the notes of the financial statements, as they are today in the Cisco Annual Report, investors can get a clear understanding of the potential impact on their investment, while making their employees their partners in their joint success. As a long-time Cisco employee, I can tell you that my options have created a level of commitment, work ethic, and loyalty that cannot be matched.

The FASB has overstepped its bounds with this draft ruling and the impact goes beyond reporting. United States based companies have been a dominant in the high-tech sector. That dominance has been created in large part from the level of commitment of the employees of the companies in this sector. We work long hard hours because we are employee-owners. Expensing stock options will reduce that ownership, reduce our loyalty and reduce our productivity. That loyalty will be transferred to foreign companies that will not be under such restrictions. This one step by FASB could end up being the single most important step in destroying our position of strength for America. Please, do not push forward this draft ruling to expense stock options.

Thanks in advance for your attention.

Sincerely yours,  
Dan Rozsa