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Letter of Comment No: 626
File Reference: 1102-100

From: Mac Barnhardt [mbarnhar@cisco.com]
Sent: Tuesday, April 20, 2004 11:30 AM
To: Director - FASB
Subject: File Reference No. 1102-100

Chairman Robert H. Herz,

It has come to my attention that late last month, the Financial Accounting Standards Board (FASB) released a draft plan stating that they intend to treat stock options as an expense. The valuation that has been proposed would make it very difficult to continue broad-based employee stock option programs like the one we currently have at Cisco.

Employee ownership has been a part of the Cisco culture since day one. All employees contribute to Cisco's success and we should all benefit when the company is successful. A good analogy is that people tend to treat a home much better when they own it, as opposed to when they are just renting a home.

With stock options, we have a sense of real ownership and we all strive to meet common goals to make the company successful. When goals are reached, we all benefit. My family and I have personal financial goals. Stock options may help us realize our dreams one day. These options motivate me to do my very best at work and it influences me to make the right everyday work decisions based on the common goals and objectives Cisco has laid out for its employees. All employees are aligned to make the right decisions that are best for our customers and shareholders alike. This would not be the case if stock options were no longer available. The bottom line reality with most all American workers, good or bad, is that productivity is driven by how they are compensated.

I understand that this action may have come up because of recent improprieties taken by a few "bad apples" in the marketplace such as with Enron, Tyco, and Worldcom. However, to change the way stock options are accounted for, is punishing many hard working folks because of the actions of just a very few.

If the FASB moves forward with the draft plan, I'm afraid there will be a serious negative impact. Please consider the following points:

Accounting:

- The artificially high valuation for a stock option required by FASB will eliminate stock options as a tool which has driven innovation and productivity.
- Stock options do not meet the definition of an expense because they do not use company assets.
- The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised.

Competition:

- U.S. companies need stock options to compete with other countries on a global basis. (Example: Chinese companies use stock options and they do not treat them as an expense.)
- Expensing stock options could have a dramatic impact on American high tech leadership, innovation and job creation.

To keep our economy strong, to keep employees motivated to work, be productive, and feel a sense of ownership, and to keep America competitive in an ever growing global market, please reconsider the draft plan as it exists today and make changes that will benefit American workers.

Thank you for your consideration,

Mac Barnhardt

4/20/2004