

**Statement of Reginald Reed
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before the

**Capital Markets, Insurance and Government Sponsored Enterprises
Subcommittee**

of the

House Committee on Financial Services

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Chairman Baker, Ranking Member Kanjorski. Members of the Subcommittee, thank you for the opportunity to testify this morning in support of broad-based stock option programs and H.R. 3574, the Stock Option Accounting Reform Act.

My name is Reginald Reed. I am a Manager in the Software Development area for Cisco Systems, Inc. I work for Cisco in the Research Triangle Park, near Raleigh, North Carolina. I have been with Cisco for 7 years.

By way of background, Cisco Systems is the worldwide leader in networking for the Internet. Today, networks are an essential part of business, education, government and home communications.

I am here today to tell you that Cisco Systems and other members of the Employee Stock Options Coalition strongly support H.R. 3574. We need the House and Senate to pass this legislation soon, because the future of broad-based employee stock option plans is in jeopardy.

We are most appreciative, Chairman Baker, for your incredible leadership on this important issue. Thank you for standing up to preserve broad-based employee stock options for the over 10 million U.S. employees who have received them.

When I first considered joining Cisco, I knew that I wanted to work for a company that granted stock options to all, not just some, of its employees. Over the past seven years, I have discovered that although I understood the importance of employee stock options, I had underestimated their power to motivate.

Everyday I see the difference that employee stock options make in the workplace. In my opinion, there is no better way to motivate talented employees. Because of Cisco's broad-based employee option plan, our customers and

shareholders benefit. When something is positive for employees, customers and shareholders, it is a very powerful tool.

At Cisco, employees are tied to the company's bottom line in large part because of the stock option grants we receive that make us all owners. Employee stock options allow us to better understand how hard work and innovation play a central role in the company's overall success.

The sense of ownership created by stock options at Cisco and other companies is part of the driving force behind the advances in information technology that take place throughout the industry. Cisco's stock option program has helped turn our Research Triangle Park operation into a major engineering hub on the East Coast.

At Cisco, I see the benefits of employee stock options everywhere I look. I have 5 engineers who report directly to me. I see first-hand how stock options make them think and act like owners. I see the extra mile they go, the extra energy they provide, and the extra innovation they seek. I also know how stock options incentivize me. And as I look at my managers, I see the same dynamic.

Our CEO, John Chambers, has put it very well. He has said that the difference between workers who receive employee stock options and those that don't is a lot like the difference between owning a home and renting one. The mindsets are totally different. When you own a home, it is a reflection of you – from the basement to the attic, you want everything to be perfect. When you rent, you just want to make sure that you get the security deposit back.

The 35,000 employees who make up Cisco Systems are owners. We want to make the most innovative products. We want to develop the newest technologies. Employee stock options are an essential part of that commitment that binds all of us together. Employee stock options are an integral part of the formula for customer and shareholder value.

If stock options are expensed, many companies will be forced to cut back on programs that benefit rank-and-file employees and instead, only give them to top executives. If this happens, we will lose much of our ability to attract, retain, and motivate dedicated employees. The call for expensing of employee stock options, as I read it, came about because people were concerned about bad executive behavior. The irony is that these misdirected reforms to expense all stock options will largely impact rank and file employees like me. This is why, Chairman Baker, your legislation addresses those initial concerns so well while also preserving broad-based employee stock option programs.

A little over a year ago, my wife Julie, a test engineer and employee at Cisco, and I welcomed our first child into our family. The stock options I exercised five years ago went towards a down payment for a house our child calls home. In the

future, my goals for my stock options are for a more secure retirement and good education for my daughter. While we make regular contributions to our 401(k) plan, Cisco's stock option program will hopefully provide the extra help we need to make an active and happy retirement an attainable goal. Although many of my stock option grants are currently "under water" – meaning the price at which they were issued is more than the stock price is now – I know that my co-workers and I will ensure that Cisco's future is bright for all of our shareholders and have no doubt that the company will be one of those leading our economic recovery.

I'm not an accountant. I'm not an expert in financial statements or footnotes or the securities laws. But I do know the benefit of stock option plans that are broad-based. And like the millions of other workers in this country who receive employee stock options, I am worried that unelected, accounting regulators are going to make a decision that effectively eliminates broad-based employee stock option plans and negatively affects our economy and our country.

We need your help. We need our elected officials in the United States Congress to step in and preserve broad-based stock option plans. That's why on behalf of the employees of Cisco I ask you to pass H.R. 3574.

Thank you very much for inviting me here today and taking the time to listen to my testimony. I will be pleased to answer any questions that you might have.