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Letter of Comment No: 3730

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From: Chuck Henry [chhenry@cisco.com]
Sent: Thursday, June 10, 2004 1:18 PM

To: Director - FASB

Subject: File Reference No. 1102-100 - Expensing of Stock Options

Chairman Herz,

I am writing you to urge the fasb to reconsider the plan to treat employee stock options as an expense. From what I have been reading on the subject the valuation formula you are using makes the bottom line impact to a company offering stock options to line level employees, such as my employer, Cisco Systems, so high that all companies will be forced to discontinue options for all but the highest level executives. This would have a direct negative impact on my income.

I have been able to increase my take home by \$10,000 in the last 12 months through the exercise of options. This allowed me to send my daughter to her first year of college, for which I had no other means to pay for except going into debt, a practice I avoid.

My company rewards employees with options to compensate for the extraordinary levels of commitment required to be successful at Cisco, which is why our per-employee productivity is so high. This benefits the United States economy.

I believe that the cost of options to my company is already reflected by the dilution of earnings per share. They do not use company assets, so in my opinion, don't meet the definition of an expense.

We are starting to see intense competition from foreign companies, particularly in China, who are looking to take away entire markets from US based companies on liberal use of stock options to attract and retain the best technical minds in the world. They do not treat the options as an expense, and are under no pressure from their governments to do so. The proposed fasb regulations will tip the balance of power in the tech industries overseas.

I understand that the proposed standards are a reaction to high profile criminal activity at several companies, but I know you realize that regulations and standards, while looking good on TV, have no deterrent effect on white collar criminals. This is the job of the criminal justice system.

Please take into account the financial impact of the common American high-tech worker, and my family, as you proceed with this process.

Best Regards

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