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From:

James Frauenthal [jfrauent@cisco.com] Monday, June 21, 2004 11:06 AM

Sent: Monday, June 2
To: Director - FASB

Subject:

Expensing Employee Stock Options

To: Chairman Robert H. Herz

Re: File Reference No. 1102-100

I would like to urge FASB to reconsider the draft recommendation to expense employee stock options. The issue that I believe FASB is trying to address is the incentive to manipulate share prices by a small number of senior executives with very large stock option grants. It is inappropriate to address this as a broad-based employee stock options accounting issue.

Letter of Comment No: 5217

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The proposed remedy ignores the irreparable damage that will be done to high technology industry in the US. Companies like the one where I work, Cisco Systems, Inc have been extremely successful in the marketplace in part by creating a new compensation bargain with employees. In return for the growth potential of regularly issued stock option grants that vest over a fairly long interval, employees are willing to work extremely hard without either very high salaries or the expectation of any post-retirement pension or benefits.

As you have certainly seen in the popular press, many positions at high technology companies are at risk of being moved offshore to places where loaded costs are much lower than in the United States. Undermining the ability of US employers to compensate employees with substantial corporate ownership will only accelerate this trend. I understand that it is not in the charter of FASB to promote the health of the US high tech economy, but to have FASB exacerbate job migration by imposing the wrong solution seems like a serious mistake. I urge FASB to address the root cause of the problem, which is certainly not broad-based employee stock option grants.

Many thanks for your attention to this very important issue.

James C. Frauenthal, Ph.D. Technical Leader Cisco Systems, Inc.