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From: Steve Faulkner [sfaulkne@cisco.com]
Sent: Wednesday, April 21, 2004 4:43 PM
To: Director - FASB
Cc: Karin Faulkner
Subject: Stock option expensing

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Dear Chairman Robert H. Herz,

I understand that the FASB has released a plan to turn all employee stock options into a company expense.
PLEASE REVERSE COURSE !
This plan will seriously harm me, my company, and the American economy !!

When I say "my" company, it is not because I'm any form of executive, not even a manager. I'm just an average hard working engineer who gets stock options, and that makes it "my" company.

The FASB plan will force my company to limit stock options to only the elite - the executives. They won't be able to afford to give stock options to average workers anymore. Who will this benefit? Does the FASB wish to further the division of compensation in America?

Without stock options, there is going to be much higher turn over at my company. I know that I my co-workers have a huge commitment to my company, and I know that it is due mostly to stock options. Stock option compensation does something which salary compensation could never do - it creates LOYALTY! And it is not only that the stock options give me personal company ownership - I could get that just by buying the stock with my own money - it is that the stock options are a "future promise" - a long term contract - that rewards me for a long term commitment to my company. They are a "carrot" that truly motivates and rewards me, in a way that salary never could. My stock options take 5 years to vest, and 9 years before they expire. I'm holding for the full 9 years.

Another area of great concern among engineers is the movement of jobs to overseas - India and Asia. I think the FASB plan is going to encourage companies to send even more engineering jobs overseas, because compensation costs in the US will be too high. This could really start a downward spiral in our economy! We already lost the manufacturing jobs to overseas, if we loose the engineering jobs too, what are we going to send our children to college to learn?

I am also an investor - so I'm not just looking at one side of the coin. I have all of my savings and retirement - about one year's salary so far - invested in mutual funds and other companies. As an investor, I understand that stock options dilute EPS. But I also understand that they are a long term and predictable dilution of EPS, and so I understand that analysts have already figured this into their EPS growth projections. As an investor, this doesn't bother me at all. It makes perfect sense. On the other hand, treating an uncertain future dilution of EPS as a current expense makes no sense at all! For example, consider the stock market crash of the last few years. As a result, many stock options will expire as worthless. If those had been considered as an expense at the time they were granted, should they be considered as an income when they expire worthless?? This very much reminds me of the AMT rules around stock options. I know several engineers that were seriously harmed by those stupid AMT rules a few years ago - because they exercised the options and held on to them, and when they were shocked with a huge AMT tax bill in April, the stocks they had exercised were worth only a fraction of what they were exercised at, so they effectively lost everything, because they were forced to pay taxes before they took a real gain.

Regarding EPS dilution, it is also my understanding that when a company acquires another companies using

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stock, this is also an EPS dilution. Unlike employee stock options, this EPS dilution is very unpredictable and can be very huge relative to the total market cap of the company. If the FASB is going to discourage the use of stock, why not attack this area of stock acquisitions?? It seems to me like this is a much more abused use of "printing money" through stock than employee stock options. From what little I understand, it seems that the big company busts and scandals of the last decade, such as WorldCom and Enron, were created through this virtual wealth, and it was the greed of "executives" for this virtual wealth that drove them to lie and cheat.

PLEASE!! --

Consider the long term impact this will have on the lives of our children!

Rather than take actions which discourage broad employee ownership through stock options, we should be doing just the opposite ! We should set up programs which encourage "all" companies to reward their employees with company ownership. This helps America have more pride and satisfaction in our work. It helps America work harder, which makes the American economy stronger and globally competitive. Broad employee ownership also reduces the "greed factor" that drives executives to make choices which may harm employees and investors.

Thank you,

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