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Sent: Monday, April 19, 2004 7:36 PM
To: Director - FASB
Cc: savestockoptions@cisco.com
Subject: File Reference No. 1102-100, RE: Expensing Stock Options

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Chairman Robert H. Herz,

I am an employee at Cisco Systems and would like to voice my opinion that expensing stock options is not an appropriate accounting treatment.

I see several issues here:

First of all, there is no accurate way to value stock options. I have a Masters Degree from the Stanford School of Engineering in Engineering Economic Systems. In our Investment Science class taught by David Luenberger, we learned many of the models used to evaluate stock portfolios including Black-Scholes, Binomial Lattices and others. These models provide techniques for decision making and are intended to aid in investment decisions, not to be used in reporting of actual value for GAAP purposes. None of them have the type of accuracy demanded by GAAP that can predict the actual current value of these assets. The models are based on the theories of probability and have stripped out the complexity of the actual behavior of markets in order to create an elegant mathematical solution. They depend on future behavior modeling past behavior. I remember professor Luenberger telling us that companies that are successful using the models use them only as guideposts and supplement them with additional information that cannot simply be plugged into an equation. Not only that, they refigure them every single period. Will you be recommending that companies continue to market these assets?

2) If you are establishing a standard, which of these models is the standard? The rules, as I understand it allow companies to pick a model and apply it. This will certainly result in very different treatments and obfuscate the results as opposed to providing clarity from company to company. Companies can pick whatever method best suits their business and potentially cause other behavior that is unwanted and the GAAP standards were created to prevent.

3) Stock options do not use company assets, so they do not meet the GAAP definition of an expense.

4) The real effect of stock options on a company's financial disposition is the dilution of shares. This is realized when the stock options are executed. If the options are never executed, then there is no loss to the company. Having joined Cisco in 2000, I have many options that may not reach their strike price before the exercise period is over. How is that factored into the techniques mentioned above?

5) Companies need these incentives to attract the best talent. Other countries in the world will not have these restrictions at a time when US companies will not be willing to issue stock options if you move forward with the proposed rules. We will see the talent that has made our companies so strong depart the United States and head to those places where the smartest talent can receive the greatest rewards. Given our desire to keep the United States as the leading economic country in the future, we would hate to look back at these rules as one of the key contributors to this kind of a shift in talent out of the United States. Stock options allow employees to participate in the American dream. As part owners of their companies, the wealth generated by the company is distributed to all

of the employees in a much more effective way. Their hard work really impacts their future wealth.

6) Honestly, the whole stock option effort seems to be a reaction to poor corporate governance. Focus on that issue separately. Executives can be corrupted from huge salary and bonuses as easily as they can from stock options. Create separate rules that encourage good corporate governance and don't confuse the issues. Create huge penalties for corrupt executives and follow through on catching and punishing them. People worthy of living up those standards will rise to the top in that type of an environment with or without stock options.

The stock options I own are an important part of my families future. Please do not take this type of incentive away from the employees of America.

Sincerely,

John Moellering