

**Stacey Sutay**

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**From:** Philippe Champagne [pchamp@cisco.com]  
**Sent:** Monday, April 19, 2004 5:26 PM  
**To:** Director - FASB  
**Subject:** File Reference No. 1102-100 - to Chairman Robert H. Herz

To Chairman Robert H. Herz

Dear M. Herz,

I'd like to provide you with my own insight regarding the accounting of stock options.

As stated by Cisco board:

"The true cost of a stock option is dilution of earnings per share (EPS) and is already accounted for when options are exercised."

I suppose that the main argument against this is the dilution only appears once the stock is exercised. (which by the way, in some cases never happen when the employee leaves the company prior to the period where the option can be exercised).

Here is one suggestion:

Instead of requesting companies to expense stock options at the moment they are provided, why not forcing them to "dilute" the shares (and provide that in the earnings per share statement) right at the moment those shares are exercisable by the employee.

So, even if the employee those not exercise them until several years, they will be accounted for early in the process.

As opposed to standard options on the market, employee stock options are not exercisable during an early period, hence, they are worth nothing and therefore, to my view, is a counter argument to expensing them right at the moment they are provided.

Once they can be exercised, by accounting for them in the dilution process visible through lower earnings per shares, this effectively, account for them.

On the market, an option is exercisable over an already existing traded share which is already accounted for in the earnings per share.

Forcing this dilution at the moment they are exercisable, in my view is equivalent.

Thanks for your time  
Regards,  
Philippe Champagne  
Cisco Systems, Inc.