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Ms. Suzanne Bielstein
Director – Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Letter of Comment No: File Reference: 1240-001

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Dear Ms. Bielstein,

We would like to take this opportunity to comment on the proposed amendment of FASB Statement No. 128.

Summary

First, we do not believe the proposed changes for EPS calculations have any additional theoretical support than the existing EPS standard, and the proposal does not improve financial reporting. Second, the proposed standard is needlessly complex and administratively burdensome. We believe the Board may not have received many comment letters on this issue since many companies have been too overwhelmed with other issues to thoroughly analyze this proposal. The Board should seek more input from implementation groups regarding the practical application of these proposed changes, particularly for a company that has numerous awards each year. For example, a literal reading of the proposed standard would require computing the average market price and average unrecognized compensation under the treasury stock method for each award made during the year to reflect the specific period that each award was outstanding. This is in addition to the calculations required for awards outstanding as of the beginning of the year. Under the proposal, after computing the dilutive number of shares for each specific award for a particular quarter, the average stock price and average unearned compensation (and average liability if the alternative approach is adopted) for each award would then need to be updated for each subsequent year-to-date calculation. This doubles and triples the effort required to compute diluted EPS throughout the entire year. The existing earnings per share calculation should be retained where dilutive shares are determined for a quarter, do not change after the quarter, and are averaged into the year-to-date calculation.

Year-to-date EPS Based On Interim Periods

Year-to-date dilutive shares should continue to be based on the current method of averaging the quarterly computations. We question the theoretical support and usefulness of reflecting subsequent events in EPS by effectively recomputing previous quarters' EPS in the year-to-date computation. Given the complexities that already exist surrounding the application of FAS 128 and the communication problems incurred with the investment community when it was adopted, we do not see why the EPS computation should again be changed. Although possible under the current standard, the proposed standard will lead to more frequent situations when earnings per share for the quarters will not add to the year. This is difficult to communicate and confusing to non-technical users. Any perceived benefits of convergence do not merit deterioration of U.S. GAAP and should not discount understandability and simplicity. In fact, if any changes are to be considered, we support a notion that earnings per share for a year-to-date period should merely equal the sum

of the periods (monthly, quarterly, six-months, or annual) regularly reported by a company. This provides appropriate flexibility to accommodate U.S. and foreign public companies as well as private companies.

Recommendations

If the earnings per share standards are changed, we recommend amending the disclosures to no longer require the presentation of basic EPS on the face of the income statement. Numerous EPS amounts currently are required to be disclosed on the income statement (such as earnings from continuing operations, discontinued operations, accounting changes and net earnings) for both basic and diluted shares. However, diluted earnings per share amounts are the measures emphasized by the investment community and other users of the financial statements. Frankly, we do not find basic EPS useful, but if it is required to be disclosed, it should only be included in the reconciliation of basic and diluted EPS in the footnotes.

We also have suggestions to make the amended standard more understandable and operational. We generally support including the carrying amount of an instrument accounted for as a liability in assumed proceeds. However, if the average stock price in the alternative approach is used for share-based stock awards treated as liabilities, these instruments would rarely, if ever, be dilutive (considering the assumed buyback of shares with the liability and unearned compensation). Therefore, we believe a more direct approach would be to simply exclude employee stock awards accounted for as liabilities from the computation of diluted EPS altogether. Also, (c) of paragraph 21 in the proposed amendment should be changed to read "the average amount of compensation cost attributed to future services and not yet recognized" to clearly articulate the concept demonstrated in Illustration 8 of FAS 128, as amended by FAS 123R. Further, the standard should clarify whether the portion of an award required to be withheld to meet the employer's minimum statutory withholding requirements would be considered stock or cash settled under paragraph 29.

In addition, the standard should illustrate the quarterly and year-to-date computations necessary when there are options outstanding at the beginning of the period combined with options awarded during the period, as well as, clarify whether the average market price under the treasury stock method is calculated as the average for the entire period or just the period a new award was outstanding in these situations. If the Board's intent is that these computations be done separately for <u>each</u> award made during a quarter, and then re-done in each subsequent year-to-date periods as the <u>average</u> share price, unearned compensation and liability change, this should be made very clear. This, of course, creates great complexity.

Conclusion

Two of the stated reasons for issuing this proposed statement were 1) to simplify EPS computation guidance and 2) to increase international EPS comparability. The first goal certainly will not be accomplished because this proposal actually further complicates EPS computations by requiring recomputation of dilutive shares in prior quarters in year-to-date computations for each specific award. Further, even if the amended FAS 128 is issued, IAS 33 and future amendments of IAS 33 by the IASB may not make the international standards consistent with U.S. GAAP. Therefore, we strongly oppose the proposed changes to the computation of earnings per share.

We appreciate the opportunity to respond to the Board's proposed amendment of FASB Statement No. 128 and trust that our comments will be seriously considered in future Board deliberations on this issue.

Sincerely

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ce: Walter J. Galvin

Senior Executive Vice President & Chief Financial Officer