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Letter of Comment No: 4876
File Reference: 1102-100

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Director of Major Projects
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 1102-100

Dear Director,

Starbucks Corporation appreciates the opportunity to provide comments on the Exposure Draft, "Share-Based Payment an amendment of FASB Statements No. 123 and 95." We believe this Exposure Draft creates an opportunity to achieve greater consistency and comparability across companies; however, there are certain matters that should be clarified or reconsidered when developing the final conclusions. We have consolidated our comments into the following three areas for your consideration:

Comparability and usability of financial information

As currently worded, the Exposure Draft does not provide guidance regarding the classification of non-cash compensation on the income statement, which may continue to promote lack of uniformity and confuse financial statement users. Without clear guidance, non-cash compensation may appear in several operating expense lines for one company but in just one operating expense line for another. Furthermore by prohibiting retrospective implementation, year over year financial statement comparisons will be confusing. Financial statement users compare financial metrics, including growth rates, on a period to period trend basis and across different companies, and based on the Exposure Draft such metrics may be based on significantly different underlying information.

To promote full transparency and to ease the ability for financial users to understand the accounting changes, we recommend FASB reconsider permitting the retrospective method and provide more specific guidance on the classification of non-cash compensation on the income statement.

It is extremely difficult for one valuation model to accommodate and accurately value the entire universe of equity compensation vehicles. Given the lack of appropriate guidance in the Exposure Draft and the lack of lead time to evaluate highly subjective model assumptions or to test, validate and analyze model results, it is even more difficult to



implement a complex valuation model without the aid of off-the-shelf technology. As software vendors scramble to accommodate the lattice model, companies are left with few alternatives in the short-term to avoid incurring significant costs for external valuation services. We recommend FASB engage in further meaningful evaluation and testing of the lattice model given its complexity and highly judgmental input assumptions and also provide better defined parameters for implementation. Required implementation of the lattice model should be delayed or at least remain as a preferred model (but not required) until such testing is completed.

The Exposure Draft will require significant amounts of complex disclosures that will not meaningfully improve transparency or usability of information provided for financial statement users. In fact, given the complex lattice valuation model and increased number of highly subjective model assumptions, it will be extremely difficult for companies to disclose those assumptions in a meaningful way without confusing users. We recommend FASB reconsider how the disclosure objectives will be met and the volume of new disclosure information being required with the financial statement users in mind.

Tax implications and burden

We believe that tax benefits from all types of equity compensation, including ISO's and ESPP shares, should be based on the cost recognized in the financial statements. The accounting treatment of taxes arising from differences in the value of equity awards at the time of grant versus time of exercise should be consistent and should be recorded as additional paid in capital at the time of exercise.

The Exposure Draft's proposed tax treatment of measuring deferred tax assets on an individual by individual basis is extremely onerous and impractical. The cost of obtaining and tracking these amounts are likely to outweigh the benefit of the information. In addition, the results of the calculations are not intuitive and have the potential to confuse financial statement users. The equity compensation expense is not adjusted to actual value realized by the employee upon exercise. However, the tax effects, only in situations where additional income tax expense is recorded, are adjusted to the actual realized amounts and cause latent financial statement volatility. We recommend FASB reconsider the tax implications and substantially reduce the tax accounting burden currently included in the Exposure Draft.

Fate of ESPP and Broad-based plans

This Exposure Draft has eliminated the similarities between tax and book accounting and also the tax benefits of certain stock plans. With such drastic accounting changes, companies will be forced to make (or have already made) material changes to existing compensation and stock plan arrangements, such as eliminating broad-based plans and



discounted employee stock purchase plans. Employee ownership of common stock serves the interest of all shareholders as a means of promoting focus on the long-term increase in shareholder value. Non-cash equity compensation is a very effective vehicle to attract and retain talent, but this Exposure Draft clearly discourages companies from continuing to offer such successful compensation programs by mandating detailed tracking requirements that would be prohibitively expensive and virtually impossible to execute and by also forcing employee stock purchase plans to become compensatory in nature (disallowing discounts). Unfortunately, the most likely consequence is that the core resources of most companies – employees – will pay the price and no longer have vested interests in their employer.

Thank you for this opportunity to share our comments on the Exposure Draft. If you have any questions, please do not hesitate to contact me at (206) 318-6060.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Michael Casey".

Michael Casey
executive vice president and
chief financial officer