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Letter of Comment No: 3  
File Reference: FSP123R-D

January 23, 2006

Director  
Financial Accounting Standards Board  
401 Merritt 7  
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Norwalk, CT 06856-5116  
[director@fasb.org](mailto:director@fasb.org)

**Re: Proposed FASB Staff Position No. FAS 123(R)-d  
“Contingent Cash Settlement of Options”**

Goodrich Corporation appreciates the opportunity to comment on the Proposed FASB Staff Position No. FAS 123(R)-d, *Contingent Cash Settlement of Options* (“FSP”). We support the issuance of a final FSP based on the concepts described in the proposed FSP.

As proposed, the FSP will allow companies to consider the probability of the occurrence of a contingent event that is outside the employees’ control (i.e., change in control, death or disability, etc.), which is consistent with the treatment of contingent events under APB Opinion No. 25, *Accounting for Stock Issued to Employees* and FASB Statement No. 123, *Accounting for Stock-Based Compensation*. The requirement of paragraphs 32 and A229 of Statement 123(R) to require options or similar instruments to be classified as liabilities if “the entity can be required *under any circumstances* to settle the option or similar instrument by transferring cash or other assets” could produce counterintuitive results in circumstances where the likelihood of settlement is remote. For example, assume stock options have a contingent cash settlement provision upon a change of control. If the FSP is not adopted, the stock options would be required to be recorded as a liability even though the occurrence of the change of control is remote. This would result in the recording of a liability award under a share-based payment arrangement based on the award’s fair value, which would be re-measured at each reporting date until the date of settlement. Compensation expense would be recorded to create a liability that, in all probability, would be unnecessary since subsequent exercise of the options would result in equity.

*Issue 1: Do you think the Board should restrict the guidance in this FSP only to specific types of contingent events (for example, a change in control)?*

We support the current draft of the FSP, which does not restrict the guidance to specific types of contingent events since it would be difficult to include every scenario in which the contingent event is (a) not considered probable of occurring and (b) outside the control of the employee.

*Issue 2: Do you believe the grandfathering approach more appropriately addresses this issue?*

We expect that some commenters may support the grandfathering approach, which is based upon the guidance in Concepts Statement 6 that an instrument that obligates or could obligate the issuer to transfer assets (or to use assets in providing services) to the holder is a liability. This would result in options and similar instruments issued as employee compensation to be treated in the same manner as financial instruments not issued as employee compensation.

We support the probability approach, which is reflected in the FSP as currently proposed. This approach allows companies to consider the probability that a contingent cash settlement will occur. It is consistent with the treatment of puttable shares as described in paragraph 31 of Statement 123(R). Puttable shares awarded to an employees as compensation are classified as equity if (a) the repurchase feature does not permit the employee to avoid bearing the risks and rewards normally associated with the equity share ownership for a reasonable period of time and (b) it is not probable the employer would prevent the employee from bearing the risks and rewards of equity ownership for a reasonable period of time. Therefore, if the employee could put the shares only upon an event that is not probable of occurrence, the contingent put option would not cause liability accounting. We support the opinion that the classification of share based payments should be the same regardless of whether the exchange is in the form of shares versus an option to purchase shares.

Thank you again for the opportunity to comment on the FSP. We request that the Board give serious consideration to our comments as they further deliberate on this project. We additionally request that the Board adopt the FSP prior to March 31, 2006 so the provisions can be applied upon initial adoption of Statement 123(R).

Sincerely,

/s/ SCOTT A. COTRILL  
Scott A. Cottrill  
*Vice President and Controller*