

May 10, 2004

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7, P. O. Box 5116
Norwalk, Connecticut 06856-5116

Letter of Comment No: 2288
File Reference: 1102-100

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Exposure Draft Regarding Stock Option Accounting

Dear Ms. Bielstein:

Anheuser-Busch appreciates the opportunity to provide comments to the FASB regarding the recent Exposure Draft on accounting for stock-based compensation. As we have previously communicated to the FASB, we believe stock option accounting is not an issue of financial transparency or adequacy of disclosure.

The overriding concern to Anheuser-Busch is that any changes to current stock option accounting rules must ensure that stock option accounting is:

- Simple and understandable by everyone ... especially financial statement users.
- Consistent and comparable between companies and between years.
- Administratively feasible and can be implemented without significant extra cost.

These goals must be achieved in any new rules. If the new rules are complex, do not make intuitive sense or create non-comparability between companies or years, the result will be increased confusion and misunderstanding and the accounting profession will be criticized for stock option accounting similar to recent criticism on pensions and retiree medical accounting.

With these basic principles in mind, we request the FASB reconsider its proposal in the four specific areas summarized below. All of our suggestions are aimed at achieving accounting rules based on logic, simplicity and comparability.

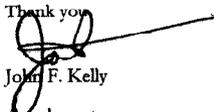
1. The requirement to use historical pro forma reporting for initial expense recognition. We believe forcing companies to use prior year disclosure data for expense purposes (simply because it has been previously disclosed) will provide inherently inaccurate financial statements and destroy the Board's arguments in favor of the Binomial model. It makes absolutely no sense for the FASB to claim the Binomial model is preferable and then require use of the Black-Scholes model for initial expense purposes. If the Binomial model is superior, it should be available for expense calculation purposes for all years.

It also makes no sense for some option grants to be expensed using the Black-Scholes method and some options grants to be expensed using the Binomial method ... which is certain to occur under the current FASB proposal.

2. The prohibition against restatement of prior year results. The FASB should promote clarity and efficiency of disclosure. Anheuser-Busch believes the inability to restate prior year results is contrary to that goal. Comparability will be lost and incremental "pro forma" disclosures will be required. This can only confuse financial statement users and encourage use of "with and without" reporting which is not a good idea and discouraged by the SEC.
3. The disparity in the accounting for income tax benefits. The requirement that excess tax benefits be recognized in equity while any tax benefit shortfall be included in earnings is unnecessarily confusing and illogical. Anheuser-Busch believes any difference between the initial deferred tax asset recognized during the vesting period and the eventual tax benefit should be recorded in equity ... regardless of whether the difference is excess or a shortfall. This view is consistent with the approach preliminarily endorsed by the Board. We also disagree with the conclusions regarding excess tax cash flow classification in the cash flow statement. All tax cash benefits from stock options belong in operating cash flow.
4. The prohibition against the reversal of expense for vested options expiring with no intrinsic value. The inability to adjust compensation expense downward for vested options that expire unexercised because they have no value (strike price exceeds market price of underlying shares) means companies would recognize expense for instruments that prove to be valueless. This is illogical and inconsistent with basic common sense.

The attachment to this letter expands on these points. We would welcome an opportunity to discuss this matter with you or your staff. I can be contacted at (314) 577-3235 or via fax at (314) 577-4249.

Thank you



John F. Kelly

Attachment

Comments Re: Exposure Draft on Share-Based Payments

The Requirement To Use Historical Pro Forma Reporting For Initial Expense Recognition

The FASB has concluded that FAS 123 disclosures (when stock compensation was not expensed) must be applied when recognizing expense in the first years of expensing stock options.

This approach is illogical in light of the FASB's endorsement of the Binomial model. The Board has gone to great lengths – almost to the point of discrediting Black-Scholes – to convince its constituents of the superiority of the Binomial model. Indeed the Board has even cited the recent availability of Binomial models that can accommodate complex data inputs as one reason why expense recognition is now feasible and appropriate.

Yet the majority of pro forma disclosures have been based on fair values determined using Black-Scholes models. If those companies determine a Binomial model yields better valuations, not allowing updated and therefore more relevant data to be used will create inherent inaccuracies in reported expense amounts. Inaccurate financial statements are never a goal of financial reporting, and certainly should not be an outcome of new rule making.

Anheuser-Busch understands the need for consistency in reported figures, but the historical figures are pro forma and based on what is now understood to be a less sophisticated model. In light of the availability of a better valuation tool, expense recognition should be based on the most current and accurate information for all years. Anything less creates comparability issues which will only confuse users of financial statements. Either approach will require footnote discussion, but a one-time discussion of differences in valuation inputs is far better than discussions of differences in actual reported results.

Prohibition Against Restatement of Prior Year Results

The FASB has proposed the "modified prospective" method as the mandatory adoption approach. Anheuser-Busch believes the Board should either allow or mandate the restatement of prior years results. Restatement would place all companies on equal footing, ensure all periods presented are prepared on the same basis and allow full comparability within and among industries and between years. Restatement is also the best way to incorporate new, Binomial-based expense figures in reported results.

Restatement will facilitate adoption-related disclosures by eliminating often confusing "with-and-without" type disclosures between years. These with-and-without disclosures will be especially troublesome if the Board does not reconsider its requirement to recognize expense based on prior years FAS 123 figures.

Does the FASB truly believe comparability and usefulness of results will have been enhanced if companies must first explain that the current results include compensation expense while the prior year does not, and then must further explain that current year expense is not necessarily accurate because although better information is available, the FASB will not allow companies to use it?

Restatement is easily explained and understood and eliminates the potential undesirable outcomes from the proposal.

Comments Re: Exposure Draft on Share-Based Payments

Disparity In The Accounting For Income Tax Benefits and Cash Flow Classification

The elements of the proposal regarding income tax accounting and cash flow reporting appear inconsistent and at odds with the FASB's conceptual views on equity compensation. The requirement for tax benefits received in excess of accrued deferred taxes to be recorded in shareholders equity while tax benefits that fall short of existing deferred tax assets must be recorded in earnings seems especially harsh.

Anheuser-Busch believes any difference between the deferred tax asset recognized during the vesting period and the eventual tax benefit should be recorded in equity, regardless of whether the difference is excess or a shortfall. This approach, which the Board itself preliminarily endorsed, would recognize the significant difficulty in projecting future tax benefit cash flows due to their long-term nature and variability. The FASB's currently proposed accounting will penalize companies for failing to achieve the required level of precision. Additionally, there is no opportunity to adjust pretax compensation expense, so adjusting the tax benefit through earnings has no logical offset. It would be much more consistent, and understandable by financial statement users, to adjust all differences through equity.

We also believe the conclusion on the cash flow classification of tax benefits is inconsistent with the Board's view on compensation expense. Requiring cash tax benefits in excess of deferred taxes to be classified as a financing cash flow implies that at least part of a company's motivation for issuing options is to raise capital, which doesn't reconcile to the Board's baseline rationale for expensing equity compensation. We believe all cash flows related to equity compensation are inherently operating, as supported by EITF 00-15, and propose that all taxes and tax benefits continue to be classified as operating cash flows.

Prohibition Against Expense Reversal for Unexercised Expired Stock Options

The FASB's proposal precludes companies from reversing expense related to options that ultimately expire unexercised and worthless due to being "under water" during the option life. We believe the FASB should reconsider this conclusion and allow adjustments to be made for this particular circumstance. Actual option exercises are impacted by many factors over the life of the option and although valuation models attempt to replicate exercise patterns based on historical data, some events simply cannot be predicted at the grant date. When these factors have such a significant adverse affect as to render the options worthless, an adjustment to compensation expense should be allowed. For this type of adjustment, Anheuser-Busch believes reversal of the related tax benefit in earnings would also be appropriate. It could be difficult for the accounting profession to explain the logic the first time a company is shown to have reported expense for a stock option that expired worthless. The profession could be criticized as out of touch with reality.