Letter of Comment No: 2759-

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From: Mike Cox [mcox@bioanalytical.com]

Sent: Tuesday, May 25, 2004 6:14 PM

To: Director - FASB

Cc: 'Pete Kissinger'; 'Mike Silvon'

Subject: File Reference No. 1102-100

Members of the Board:

In an article by Steve Lohr in the New York Times of May 19, 2004 on the prior days' earnings release of Hewlett-Packard, Mr. Lohr states, "Wall Street analysts typically focus on nongenerally accepted principles earnings, and Hewlett-Packard's...met the projections...."

The divergence of current GAAP from understandable measurements, as in the case of employee stock options, has created a product that the principal consumer of that product, the investing public, cannot understand. To the extent such conceptual accounting techniques muddy the financial statement waters, the audience becomes skeptical and invents its own measurements.

Do stock options have value? Not a question. Does it make sense to diminish the reported asset creation of the earnings process by a concocted value that merely is a reclassification of ownership equity from retained earnings to paid-in-capital? I firmly believe not. As proposed, if an "expense" is incurred by a corporation for providing options to its employees, thereby diminishing reported earnings, and through the mechanism of P/E ratios reducing shareholder value, why is this expense not reversed in future periods upon the non-exercise of vested options? All that is accomplished is detriment to the shareholder absent consistency of accounting on both sides of the transaction.

The effect of stock options is a dilution of value accreting to existing shareholders. This has been better addressed in historical practice than in the current proposal.

In FAS 123, paragraph 101, the Board disingenuously argues that issuing stock options is the same as selling stock for cash and using the cash for compensation. In the situation cited, a financial asset is created, and then consumed in compensation. Moreover, the employee receives known, liquid value. That is quite a different transaction than issuance of a stock option.

Your proposed accounting is confusing, subject to manipulation and unbalanced. Furthermore, it distorts the value of the assets created through operations by reduction through a computed charge that never relates back to cash.

Please reconsider.

Very truly yours,

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