Stacey Sutay

Letter of Comment No: 2149 File Reference: 1102-100

Subject: FW: Share-Based Payment Proposal

----Original Message-----

From: Shelli.Erickson@annaslinens.com [mailto:Shelli.Erickson@annaslinens.com]

Sent: Monday, April 26, 2004 7:10 PM

To: Larry Smith

Subject: Share-Based Payment Proposal

Dear Larry,

I oppose the proposed statement regarding share-based payment. I believe it creates a distortion to the investors. This is a non-cash item that will never create a cash expenditure for the company. Investors would see the expense in the income statement and believe it to be an actual cash cost to the company. This treatment serves only to deflate retained earnings, discourage the use of options as an employee incentive, and create more confusion for investors. The current footnote and diluted EPS disclosures give investors the information that effects them and their share price by showing them the effect if all the options were exercised. The options only dilute EPS. If there is a charge to the income statement the share price will likely drop due to the decrease in the company's earnings thus decreasing EPS. Then if the options are actually exercised there will be an additional dilution to EPS. Something here does not add up.

Additionally, the Black-Scholes model fair value calculation is weighted heavily on the volatility of the company's stock. Many smaller companies and those in the more volatile growth industries would be hardest hit by this proposed standard. It would inhibit their ability to raise capital and develop new products. We need to grow the U.S. domestic products not pass accounting smoke screens that inhibit corporate growth.

Shelli Erickson Anna's Linen Company Director of Financial Reporting and Compliance (714) 460-2883 (Direct) (714) 850-9170 (Fax)