

ikon

From: Deanne.Sherwood@abbott.com
Sent: Wednesday, June 30, 2004 2:36 PM
To: Director - FASB
Subject: File Reference No. 1102-100 [Share-Based Payment]
Importance: High

Letter of Comment No: 5515
File Reference: 1102-100

I am forwarding this ED response regarding File Reference 1102-100 (Share-Based Payment) on behalf of Greg Linder, Vice President and Controller of Abbott Laboratories.

June 30, 2004

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

Re: File Reference No. 1102-100

Dear Sir:

We are pleased to respond to the Exposure Draft, "Share-Based Payment" (ED).

Abbott is a \$19.7 billion worldwide company engaged in the discovery, development, manufacture and sale of human health care products. Abbott's Incentive Stock Program authorizes the granting of stock options, replacement stock options, stock appreciation rights, restricted stock awards, performance units and foreign qualified benefits. Stock options, replacement stock options and restricted stock awards comprise the majority of benefits that have been granted under this program. At December 31, 2003, there were 117.5 million options outstanding granted under this program.

We have reviewed the ED and have the following comments:

Overall, we believe that there is no reliable method to measure the fair value of employee stock options due to the unique terms of employee stock options. However, the Board has concluded that the more precise the fair value measurement model, the better reliability of the accounting. We believe that increased preciseness does not increase reliability of the accounting; it just makes the accounting more complex. We do not believe that the fair value of an employee stock option can be measured with the reliability users of the financial statements expect. We further believe that a more complex method to measure and record fair value is not better than simplified measurement and disclosure.

If the Board concludes that an estimate of fair value is better than no estimate at all, we believe that the Board should limit the use to a simplified measurement model. Users and auditors will expect companies to use the more complex, presumably more precise, valuation models. Since the assumptions used in any model affect the calculated value more than the use of one model over another, we do not believe that the use of a complex model is cost beneficial. Related to this issue is the proposed requirement to account for graded vesting options as separate option grants. This requirement would increase the complexity and required resources without increasing the reliability of the accounting. Again, the

6/30/2004

added "precision" does not warrant the additional accounting.

The accounting for the tax effects and cash flows also adds needless complexity. We believe that both tax deficiencies and excess tax benefits should be recorded through the income statement. Since the excess tax benefits result from transactions that are reflected in the income statement, the entire tax effect should be reflected in the income statement. This proposal appears to mix the accounting for compensation with the accounting for companies' equity securities. If the compensation charge for stock options is charged to the income statement, then the entire charge, including the related tax effects, should be charged to the income statement. In addition, the related cash flow effects should then be included in its entirety in cash flows from operations in the statement of cash flows.

For cost/benefit reasons, we believe that the income statement effects of the proposed change in accounting for employee stock purchase plans are not worth the cost of accounting for the plans in accordance with the ED. The Board should exclude employee stock purchase plans from this proposal.

The proposed measurement of fair value and the required level of accounting required by this ED will require a substantial amount of both internal and external resources. Third party stock option administrators will need to modify computer software to reflect the provisions of the final statement, when issued. In addition, preparers and their accounting firms are currently consumed by the requirements of the Sarbanes-Oxley 404 implementations. Given the current strain on accounting resources, we believe that an effective date for fiscal years beginning after December 15, 2004 is not reasonable. We believe that the effective date should be for fiscal years beginning after December 15, 2005 to give companies time to plan and implement the proposed accounting changes.

Very truly yours,

Greg W. Linder
Vice President and Controller