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Letter of Comment No: 5490
File Reference: 1102-100

June 29, 2004

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Re: File Reference No. 1102-100

Dear Ms. Bielstein

Cardinal Health, Inc. ("Cardinal Health"), respectfully responds to the invitation to comment on the Exposure Draft of the Proposed Statement of Financial Accounting Standards, "Share-Based Payment an amendment of FASB Statements No. 123 and 95" (the "Exposure Draft"). Cardinal Health is a leading provider of products and services supporting the health-care industry. Cardinal Health, which is headquartered in Dublin, Ohio, employs more than 50,000 people on five continents and produces annual revenues of more than \$50 billion. We appreciate this opportunity to provide you with our views on the Exposure Draft.

Cardinal Health's responses to the issues are listed below. The issue from the Exposure Draft is restated in bold type and the Cardinal Health response follows in normal type.

Issue 11: This proposed statement changes the method of accounting for income tax effects established in Statement 123 as originally issued. Paragraphs 41-44 of Appendix A describe the proposed method of accounting for income tax effects and paragraphs C128-C138 describe the Board's rationale. That method also differs from the one required in International Financial Reporting Standard (IFRS) 2, Share-based Payment. Do you agree with the method of accounting for income taxes established by this proposed Statement? If not, what method (including the method established in IFRS 2) do you prefer, and why?

The Board concluded that employee share-based payments pertain to two transactions or events: (1) initial compensation expense recorded on the income statement based upon the fair value on the date of grant, and (2) true-up of the tax benefit resulting from share appreciation. The Exposure Draft suggests that excess tax benefits are to be recorded in additional paid-in capital and tax deficiencies are to be recorded in the income statement. Cardinal Health believes, to be consistent with the principles of FASB Statement No. 109, "Accounting for Income Taxes," the tax impacts of share-based payment transactions should be recognized in the income statement, as we believe the difference is a "permanent difference". However, if the Board maintains that share-based payments are composed of two transactions, we agree with the Board that the excess tax benefits should be recorded in additional paid-in capital. Therefore, we also believe for consistency purposes, that any excess tax deficiency should be recorded as a reduction of additional paid-in capital as both are a result of share value changes in relation

to the fair value at the grant date. Thus, if the Board maintains the two transaction approach, we believe the Board should reconsider the treatment of tax deficiencies.

Cardinal Health also believes that the proposed model in the Exposure Draft would create significant implementation issues. The Exposure Draft requires all option related deferred tax assets to be tracked on an individual basis. Currently, companies do not track option related deferred tax assets on an individual basis; therefore, companies do not have systems in place to track the tax impact at an individual employee level. It would be extremely burdensome and costly to create and maintain tracking systems for option related deferred tax assets at an individual employee level. We do not believe the benefit to financial reporting from the proposed model would outweigh the cost.

Issue 13: This proposed Statement would require the modified prospective method of transition for public companies and would not permit retrospective application (paragraphs 20 and 21). The Board's rationale for that decision is discussed in paragraphs C157 - C162. Do you agree with the transition provisions of this proposed Statement? If not, why not? Do you believe that entities should be permitted to elect retrospective application upon adoption of this proposed Statement? If so, why?

Cardinal Health believes that, in order to enhance comparability of the financial statements, the retroactive restatement method should be permitted. One of the primary goals of financial reporting is to provide users of financial statements with meaningful information that accurately reflects the financial results and financial condition of the company. The retroactive restatement method of transition would provide readers with comparable financial statements for all periods presented. To mitigate the concern regarding changes to previous estimates, if companies elect to restate, the FASB could require companies to use valuations from prior year's FAS 123 pro-forma disclosures, as is currently permitted by FAS 148.

We also believe it would be appropriate to allow retroactive restatement if valuations are re-performed using the lattice model. The Board recognizes the Black-Scholes model may not provide a meaningful valuation of the fair value of stock options; however, the Board is prohibiting the use of the preferred lattice model to value prior year options even though it would result in a more accurate valuation. Since the Board acknowledges the lattice model is preferable, they should allow companies to revalue prior year's options so all of the related expense presented is computed in a consistent manner.

Issue 16: For the reasons discussed in paragraphs C139-C143, the Board decided that this proposed Statement would amend FASB Statement No. 95, "Statement of Cash Flows," to require that excess tax benefits, as defined by this proposed Statement, be reported as a financing cash inflow rather than as a reduction of taxes paid (paragraphs 17-19). Do you agree with reflecting those excess tax benefits as financing cash inflows? If not, why not?

Cardinal Health believes excess tax benefits should continue to be classified in the operating cash flow section. The proposed accounting is inconsistent with the treatment of the tax effect of other investing and financing related activities. For example, interest expense on long-term borrowings and the related tax impact are included in cash flow from operations. We do not believe excess tax benefits should be treated differently than all other income tax related activities, including those that relate to other financing or investing activities.

Effective Date: This proposed Statement would be applied to public entities prospectively for fiscal years beginning after December 15, 2004, as if all share-based compensation awards granted, modified, or settled after December 15, 2004, had been accounted for using the fair-value-based method of accounting.

Cardinal Health is concerned with the proposed effective date of the Exposure Draft. The use of the lattice model is more complex than the closed-form models currently being used by most companies. In all likelihood, companies will require the assistance of valuation experts to initially implement the model.

In order to ensure high quality valuation, companies will need time to analyze data to properly implement this more complex valuation model. Also, under the proposed income tax accounting, companies will need time to develop the systems necessary to support tracking the option related deferred tax asset by individual employee grant. We believe the effective date should therefore be delayed by one year to allow companies the time to properly adopt a lattice model and to implement appropriate systems.

Thank you for your time and consideration.

Sincerely,

/s/ Richard J. Miller

Richard J. Miller
Executive Vice President and
Chief Financial Officer