

Magnum Hunter Resources, Inc.

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A NYSE Listed Company - MHR

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Director of Major Projects
Financial Accounting Standards Board
File Reference No. 1102-100

## Ladies and Gentlemen:

We would like to take this opportunity to comment on Exposure Draft No 1102-100. While we do not believe that the valuation models used to value stock options produce optimal results, we do recognize that stock options have become a major component of compensation packages and need to be included in compensation expense. In light of this belief, the recent scandals in the financial world, and actions taken by the International Accounting Standards Board, we took the opportunity to voluntarily adopt Statement 123 under the prospective transition provision allowed under Statement 148. We understand the need to expense employee stock options in spite of the limitations of the current valuation models, but we do have the following major concerns:

We find the proposed ED very troubling from the standpoint that the Board has appeared to offer an incentive for those who were willing to voluntarily adopt the fair value provisions of Statement 123 only to "go back" on that offer a mere fifteen months later.

Our management team and board of directors carefully considered making the decision to change to the fair value provisions of Statement 123. One of the key factors in deciding if and when to adopt was Statement 148. As we will discuss below, we believe that the prospective method is the most logical transition to fair value accounting for employee stock options. When the Board offered the prospective method only to those who adopted Statement 123 by the end of 2003, the only logical course of action given our views of the transition methods and our belief that a mandatory change to fair value was imminent was to change to the fair value method of accounting for 2003. Because we did adopt FAS 123, all directors and employees were awarded a significantly reduced number of stock options as compared to previous years. Now that the Board is proposing to supersede Statement 148, we feel that we were induced to make a decision under what seem to be conflicting actions on the part of the Board. We feel that those companies who did begin expensing employee stock options prior to December 15, 2003 must be allowed to continue to follow the prospective method.

If the Board finds the prospective transition method so unacceptable, why did Statement 148 continue to allow the method when it was issued in December 2002?

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It is very hard to believe that an organization such as FASB would issue a standard allowing a method that 1) they do not believe in and 2) they have no intention of continuing to allow in the future. If the Board believes the method is incorrect, it should not have allowed it to be used under Statement 148. Had this method not been offered, we most likely would have made a different decision. The thought never entered any of our minds that the Board would not allow us to continue using the prospective method.

The prospective method is preferable to other transition methods.

Through use of the prospective method, human resource departments, management and compensation committees can make informed decisions on how many options to grant and what the cost will be to the company In the past, these decisions were made based on APB 25 and the intrinsic value method. There are too many variables in these grants (such as strike price, vesting periods, and the number granted) that could have been different if they were granted while the company followed a fair value method of accounting for these. By forcing the expensing of all unvested grants, the Board is going to cause the earnings of companies to be adversely impacted by management decisions which were made under an entirely different set of rules. The Board should give management appropriate control over the financial impact of their decisions. The Board's argument in favor of the modified prospective method which contends that companies have already been disclosing the financial impacts of these previously issued, non-vested grants does not seem to outweigh the advantages of the prospective method. Presenting pro forma tables is vastly different from including expenses in actual earnings and earnings per share The numbers which would have gone against earnings if fair value accounting had been used for options would most likely have been vastly different from the numbers presented in the pro forma tables because management would have made their grant decisions with a different set of factors to consider.

There is no explanation or guidance in the ED for companies who adopted Statement 123 as amended by Statement 148.

Throughout the ED, guidance is given for companies that "used the fair-value-based method of accounting under the original provisions of Statement 123 for recognition or pro forma disclosure purposes," but there is no reference made to those companies who used the fair value-based method of accounting under the provisions of Statement 123 as amended by Statement 148. By merely reading the ED, verbiage such as this would almost lead one to think that Statement 148 is still effective. It is interesting that even in paragraph C160 of the ED, wherein the Board explains their reasons for not allowing the prospective method, there is no mention of Statement 148. The only real mention of Statement 148 is in paragraph D2, where it is superseded. Why does there seem to be no consideration or need for explanations to those companies who did adopt Statement 123 as amended by Statement 148?

Those companies who adopted Statement 123 as amended by Statement 148 are at a disadvantage to their peers who did not early-adopt.

By adopting early, these companies are at a disadvantage to their peers who did not get enticed into adopting under the transition methods of Statement 148. Early adopting companies will have a greater adverse impact on their retained earnings than companies who refused to adopt the fair value provisions of Statement 123.

Disallowing the prospective method will not cause numbers to be more consistent.

Even if this ED is adopted and implemented, there will still be periods covered by the income statements during which companies used the intrinsic value method. Earnings between periods will not be consistent, and the use of pro forma tables will still be required as long as income statements are presented which contain awards accounted for under the intrinsic method. Disallowing the continued use of the prospective method will not eliminate the need for the pro forma tables or the lack of consistency between years, and it will actually make our income statements less consistent. We will have some earnings which include no stock compensation under the intrinsic method, several years of earnings in which only grants made after December 31, 2002 are expensed, and then we will have earnings beginning in 2005 which include expenses for all unvested grants.

We understand and support the move towards expensing stock options, but we ask that you consider all of the above concerns and explain the logic behind issuing Statement 148 and then proposing to supersede it such a short time later. Please consider allowing those who have already adopted and have been following the prospective method to continue to use this method in the future.

Sincerely,

Gary C. Evans

President, Chairman, and CEO

On behalf of the employees and directors of

Magnum Hunter Resources, Inc