WARBURG PINCUS

Warburg Pincus LLC 466 Lexington Avenue New York, NY 10017-3147 212-878-0600 tel 212-878-9351 fax

January 31, 2003

www.warburgpincus.com

The Financial Accounting Standar 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856

Letter of Comment No: 194 File Reference: 1102-001 Date Received: /-3/-03

Dear Board Member:

We appreciate the opportunity to respond to your invitation to comment on the subject of Stock Option Accounting.

We are one of the world's largest private equity firms, specializing in making equity investments in both public and private companies. We have invested more than \$14 billion in 466 companies in 29 countries. Our diverse portfolio results from our global presence, our broad industry sector focus and our long-term investment horizon, averaging five to seven years with each portfolio company. Our objective is to create value, in partnership with outstanding management teams, by building significant and durable businesses.

We have always believed that ordinary stock options should not be recognized as an expense because we are of the opinion that the awarding of stock options is an equity transaction between shareholders. We also feel that shareholders presently receive complete information because earnings per share already reflects the effect of stock options in the diluted EPS results.

At the same time, we are fully aware of the reviews taking place, in the United States and within the international community, leading towards the conclusion that the accounting for stock options be more transparent and that the appropriate amounts should be expensed in the income statement.

We would like to address the issue of the proper methods for valuing such options, recognizing that, to the extent that companies elect or are otherwise required to record an expense, you may be considering further guidance on the use of valuation tools.

We have always worked under the premise that Black Scholes, and other related binomial models, was a tool for the business community to value short-term publicly traded options.

We feel very strongly that these models do not recognize the fact that employee options are non-transferable, are not liquid, the underlying shares are often subject to "black out" periods, can be subject to 144 limitations and the employee often cannot sell the underlying stock, or option. In other words, there are additional factors beyond the six factors referenced in Statement 123 and used in the traditional option-pricing models, which impact the actual fair value of employee stock options.

New York
Menlo Park
London
Munich
Hong Kong
Singapore
Tokyo
Seoul
Mumbai

WARBURG PINCUS

Fair value has always been a standard that is one of the key ingredients in proper accounting. We do not believe this standard is being followed under the present rules for valuing options. We support rules that would allow for greater flexibility in determining the fair value of employee stock options. Some alternatives could be as simple as providing for a substantial discount (perhaps as much as 40-50%) from the amounts calculated using the six factors referred to in Statement 123.

We also believe, very strongly, that the FASB rules for determining volatility when applied to private company valuations are more appropriate than those proposed by the IASB. We have many investments in private companies and estimating expected volatility of these companies is neither feasible nor particularly helpful in assessing fair value.

Further, with respect to volatility, we repeat our concerns as to the determination of fair value when the impact of certain past social and economic events distort the ability of predicting future volatility. We believe it would be appropriate to allow companies to adjust valuations to consider additional factors related to developments in the relevant industry, changes in the business environment, relative volatility of the equity markets, generally, or significant macroeconomic developments.

Finally, as you begin the process of comparing and trying to merge the proposals by the IASB to FASB 123 we would like to state that we prefer the FASB approach relating to forfeitures.

Throughout our 30-year history in private equity, Warburg Pincus has invested at all stages of a company's life cycle, from founding start-ups and providing growth capital to leading restructurings, recapitalizations and buy-outs. Our firm, together with our portfolio companies, has consistently supported the creation and application of rules and practices that further the goal of providing accurate and meaningful financial information to the investment community. In the case of stock option accounting, we are hopeful that the outcome of the current review is one which achieves that goal.

As in the past, we expect that the FASB will continue to study this issue in depth and not feel the international and political pressure to rush into any final rules without an extended process that considers the views of providers and users of financial statements.

Very truly yours,

Z/L/J Timothy J. Curt

Managing Director and Treasurer