

Letter of Comment No: 55
File Reference: 1102-001
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Staples®
500 Staples Drive
Framingham, MA 01702

January 28, 2003

MP&T Director – File Reference 1102-001
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Invitation to Comment dated November 18, 2002

Gentlemen:

I am responding to your Invitation to Comment dated November 18, 2002, *Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-based Payment.*

We strongly oppose mandatory expensing of stock options for both policy and technical reasons. As a matter of policy, the role of stock options in the phenomenal growth and success of Staples cannot be overstated. From its founding, Staples has issued options as compensation for employees deep into the organization. These options, and in particular this egalitarian way of issuing them, were instrumental in providing the entrepreneurial incentive to create a \$12 billion company in only 15 years. Taking action that discourages companies from issuing stock options as we did, can only reduce the opportunity for some other company to achieve this same level of success that is so important to the strength of the American economy.

More pertinent to your invitation for comment, there are important technical reasons to resist expensing stock options in the format proposed. We believe that the exchange of employee stock options for employee services should not be recognized on the income statement because their value cannot be reliably and objectively measured. In our view, stock option pricing models do not produce a reasonable or relevant value for employee stock options. Option pricing models are designed to value traded options, which have significantly different attributes from non-traded employee stock options. Furthermore, they are based on extremely subjective assumptions. To use the models, a company must predict the future volatility of its stock, as well as interest rates, dividends and employee behavior. While in other contexts we are required to make subjective judgments as to

future events, in this case there is no true-up at the end of the day where our estimates can be verified in an actual arm's-length transaction. Where the American public is demanding integrity in accounting for public companies, it is a leap backwards to require the inclusion of an inherently unreliable measure in the income statement.

Moreover, current guidelines require extensive disclosure regarding employee stock options which the public can take into account when evaluating a company's financial position. The potential effect of stock options is already reflected in the denominator of the earnings per share calculation. In addition, extensive disclosure about intrinsic value at the grant date is also required. While admittedly a simple approach, intrinsic value on the grant date provides a more reliable and comparable measurement than option pricing models that were developed for other purposes and whose values do not have general acceptance for this purpose. More visibility into stock options may be considered but implementing option pricing models will only make the view murkier.

For these reasons, we strongly urge the Board not to proceed with mandatory expensing of stock options.

Sincerely,

A handwritten signature in black ink that reads "Ron Sargent". The signature is written in a cursive, slightly slanted style.

Ronald L. Sargent
President and Chief Executive Officer
Staples, Inc.