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Dear Members of the FASB and staff:

We are pleased to respond to your exposure draft, "Accounting for Stock-Based Compensation -- Transition and Disclosure."

We believe that the proposal includes several features that will increase the decision usefulness of annual and interim financial reports. Nonetheless, we have some suggestions for improving the proposed standard's contribution to market efficiency.

Regarding the issue of whether alternative transition methods should be allowed, we believe that multiple reporting practices inevitably lead to added processing costs for users that greatly exceed the preparation cost savings enjoyed by management from choosing reporting methods that are simpler but less informative. Thus, we would prefer that you require the full retroactive restatement method as the least costly and most informative for all parties.

However, we temper that recommendation with the additional observation that the existence of acceptable alternatives provides an opportunity for managers to send another signal that describes their commitment to providing useful information. For example, by electing the least expensive and least complete transition method, management signals the markets that it places a low priority on serving their needs. On the other hand, management's decision to apply the most complete transition method signals the markets that it is serious about meeting demands for more information.

We believe that the proposed approach can be strengthened by requiring managers to explain exactly (and clearly) why they chose a transition method that is less informative and more costly for users than full retroactive reporting. Along the same line, we believe it would be

beneficial to require managers who abstain from expense recognition to disclose why they believe incomplete financial reporting serves the shareholders' best interests.

We also applaud your proposal to increase the uniformity and completeness of the *pro forma* disclosures about stock-based compensation for all companies, even if they have not adopted the preferred measurement method.

The requirement for tabular disclosure will improve financial reporting practice and should be implemented, although the exact placement of the table does not greatly concern us. We also support a requirement for interim recognition and/or disclosures in order to serve the capital markets' need for more timely information.

We also suggest two additional disclosure items.

The first is the full amount of the tax benefit from the exercise of non-qualified options. Our research shows that this amount is often hidden in statements of equity by being combined with other items, thus making it impossible for users to determine the amount of this savings and its substantial positive impact on operating cash flow.

The second is an amount based on a fundamentally different theory than the one underlying the SFAS 123 preferable method. We find that method to be inadequate because it adheres anachronistically to matching by systematically allocating the initial amount of the off-balance-sheet prepaid cost among the reporting periods in the vesting phase. We consider this approach to be deficient because it does not faithfully represent the underlying economics of the employer's ongoing obligation to sell the optioned shares at a discount below their as yet unknown market value. As we analyze the transaction, the option grant is a derivative contract that creates a liability. We have also seen substantial evidence in the literature and press that others have reached a similar conclusion, even though you have not yet done so. Because some influential financial statement users demand information consistent with this theory, we urge you to expand the disclosures to include the estimated fair value of all options contracts as of the reporting date. This information costs relatively little for management to generate but produces great benefits because it is virtually impossible for users to

extract from existing disclosures. Without equivocation, we believe this disclosure would greatly enhance the usefulness of public financial statements because it would respond to an emerging information demand.

We also note that the exposure draft declares the board is working with the International Accounting Standards Board to achieve convergence in many standards, including the treatment of stock-based compensation. Like most others, we applaud convergence, but only if all movement is actually in the direction toward greater usefulness and is not convergence merely for the sake of convergence. Because IASB has announced its intent to require recognizing options expense, we believe the FASB should not hesitate to create its own project to reconsider SFAS 123. Further, we are perplexed that you would risk subjugating the Board's standing by making your agenda decision contingent on IASB's action. If today's board considers any aspects SFAS 123 to be unsatisfactory, you should reexamine these issues either in consort with the IASB or on your own.

If and when the FASB's project is launched, we strongly encourage that its scope include reconsideration of the premise that option contracts are equity instruments because that assumption has led to incomplete recognition and disclosures of the full economic impact of entering into these derivative contracts. As we mentioned, we believe the most useful way to account for options treats them like all other non-hedge derivatives by initially recognizing them as liabilities for their fair value and then marking them to market until they are exercised or lapse. This approach will fully describe the ongoing risk exposure and financial consequences of taking a short position in the company's stock.

In addition, this approach will fully account for the tax consequences created by options contracts at their issuance, during their lives, and upon exercise or lapse. In contrast, the SFAS 123 preferred method misrepresents the effect of any exercise deduction in excess of the initial market value of the options. In particular, the unanticipated tax savings increase additional paid-in capital instead of reducing the income tax expense. It cannot be useful to have stock options expense flow through the income statement when the full tax consequences do not. We consider this anomalous result to be misleading and inconsistent with

the board's mission of producing standards that lead to complete reporting.

As we indicated at the beginning, we believe that the exposure draft represents a worthwhile attempt to improve practice related to the narrow task of reporting more complete and useful information about options. However, we believe that practice can be strengthened by a standard that requires management to explain its choices while disclosing estimated values for all outstanding options. We also believe that the time has come for the board to act on its own to improve financial reporting for all aspects of stock-based compensation by implementing the more complete liability method that reflects all economic and financial effects of these contracts. Now is the time to confront these issues.

Thank you for the opportunity to participate in the due process.

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