



Director of Major Projects and Technica Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116

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Letter of Comment No:

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Dear Sirs:

We are pleased to have the opportunity to provide input to the Financial Accounting Standards Board, as you once again consider accounting for stock options. Historically, Safeway has provided input indirectly through our accounting firm. The fact that we are writing directly to the Board should be considered as indication how strongly we feel about this matter. We have an alternative view, broader than the expense/no expense question.

The best approach is <u>not</u> to record an expense for stock options, but instead, eliminate the treasury stock method, which reduces potential dilution in calculating earnings per share.

We strongly object to both the implementation of an expense and the continuation of dilution in calculating earnings per share.

Expensing is wrong for two reasons; there is no reliable and objective method for determining fair value. Second, fair value is irrelevant, since options are not settled in cash or any other asset.

There is no acceptable model or method, including Black-Scholes, for determining the fair value of employee stock options. If the SFAS 123 guidance is required, the problem will not be solved. It could be the politically expedient answer, but bad accounting. The public debate will not go away, but just refocus on the lack of quality of the result. That is not a good outcome for the accounting profession or the public, and will not enhance the public view of the accountant's role in contributing to quality financial reporting.

The most objective and accurate portrayal of the effects of issuing stock options is to reflect their true full potential dilution on earning per share. Use 100% of the options outstanding, eliminate the treasury stock method, and include all options, even if they are presently under water.

Very truly yours,

David F. Bond Senior Vice President Finance & Control

