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Cardinal Health

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Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Dear Board Members:

Cardinal Health, Inc. (Cardinal), respectfully responds to the invitation to comment on Accounting for Stock-Based Compensation: A comparison of FASB Statement 123, Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-based Payment ("Document"). Cardinal is a leading provider of products and services supporting the health-care industry. Cardinal, which is headquartered in Dublin, Ohio, employs more than 49,000 people on five continents and produces annual revenues of more than \$44 billion. We appreciate this opportunity to provide you with our views on the Document.

Cardinal's response to the issues are listed below. The issue from the Document is restated in bold type and the response then follows the issue in normal type. Certain issues are interrelated enough that one response will cover both issues. In this instance the issues will be listed after each other and the response then follows the last issue.

- Issue 3: "Do you believe that employee and non-employee transactions are distinct and, therefore, warrant different measurement dates....?"
- Issue 4: "Do you believe that the fair value of equity awards granted to non-employees that include performance conditions can be measured with sufficient reliability to justify a grant-date measurement method?"

Since both employee and non-employee equity instruments are issued in consideration for something of value received by the company, Cardinal does not believe there should be a difference in the measurement date. Cardinal agrees with the IASB in that there is no conceptual difference between the two types of transactions. However, Cardinal does not agree with the IASB measurement methodology and believes that the accounting for performance based grants should follow the guidance currently prescribed in SFAS 123 for both employee and non-employee grants.

- Issue 5: "Do you believe the notion of issuance is conceptually of importance in the design of a standard on stock-based compensation?"
- Issue 6: "Do you believe an equity instrument subject to vesting or other performance conditions is issued, as defined by Statement 123, at the grant date?"

Cardinal believes that the concept of issuance is critical to the development of an accounting standard on stock-based compensation, and Cardinal also believes that the instrument should be considered issued at the vesting date, not at the grant date. The rational for Cardinal's belief is grounded in the fact that the basic premise of SFAS 123 is that the options are issued as consideration for goods or services to be received in the future. This is evidenced by the fact that the options do not have value to the employee until they vest in the future. In this context, Cardinal does not believe that the instrument used to "pay" for the goods or services should impact the basic principles of the underlying accounting. As such, when payment is made by a traditional means, for example cash, the accounting is not completed until the performance conditions are satisfied and the cash tendered. Transferring the principles of a cash payment to an option payment would lead to the conclusion that the issuance does not occur until the options vest and other performance conditions are satisfied.

 Issue 7: "Do you believe that the effect of forfeitures should be incorporated into the estimate of fair value per equity instrument (IASB approach)?"

Cardinal does not believe that the effect of forfeitures should be incorporated into the estimate of fair value due to the fact that Cardinal believes that the concept of issuance is the proper accounting concept to follow for the accounting for stock based payments. As such, forfeitures are taken into consideration in determining if issuance has occurred.

Issue 8: "Should failure of an award holder to satisfy the conditions that entitle the
holder to retain or receive the promised benefits affect the amount of compensation
expense that should be recognized related to that reward?"

See Cardinal's response to issues 5 and 6 above. The failure to satisfy the conditions would result in the failure of the company to issue the instrument and, therefore, would impact the amount of expense to be recognized.

 Issue 10: "Which of the two attribution methods described by the standards do you believe is more representationally faithful of the economics of stock-based compensation arrangements and why?"

While Cardinal believes that the method prescribed by SFAS 123 better represents the economics of the arrangements, Cardinal does believe that there are inconsistencies in the logic of SFAS 123 that should be addressed, as noted below. Cardinal does not believe that the unit of service concept is an accurate reflection of the economics due to the factors previously discussed related to the performance and issuance concepts. In addition, the IASB attribution methodology is not faithful to the underlying theory when accounting by

subgroup, as outlined in the example in paragraph 48 of the invitation for comment. In this example, there is a group of employees that will never reach vesting so the market value ascribed to that group is zero and therefore, the expense recognized is zero. However, the group did supply services to the company yet their measurement and attribution methodologies yield no accounting for the receipt of services, which appears to be fundamentally opposed to the theory on which their guidance is grounded. Cardinal believes that the attribution method in SFAS 123 results in inconsistent accounting as it recognizes the expense over the service period, which is typically the vesting period, while the market value measurement is calculated over the expected life of the option. Cardinal would like the guidance to bring the measurement and attribution logic into agreement and either measure the value based on the vesting period or recognize the expense over the option life.

 Issue 12: "Do you believe that the actual outcome of performance awards should affect the total compensation expense incurred by an enterprise?"

Cardinal believes that the outcome of performance awards should affect the total compensation expense incurred. The reasoning for Cardinal's belief is the logic stated previously in that Cardinal does not believe that the instrument used to "pay" for the goods or services should impact the basic principles of the underlying accounting. For example, Cardinal does not believe that the accounting theory for an option based performance bonus should be different than a cash based performance bonus. The economics to the company are the same and as such Cardinal believes that the underlying theory should be the same.

 Issue 15: "Do you believe that all of the tax benefits derived from stock-based compensation arrangements should be recognized in the income statement?"

While Cardinal acknowledges that the method prescribed by SFAS 123 would reduce volatility in the income statement, Cardinal agrees with the IASB that the tax effects should flow through the income statement. The tax effect is a result of the taxable compensation expense the company is able to recognize for the stock based payments, and should not be treated differently because of the method of payment used by the company. The measurement date difference between book and tax does not result in an additional equity contribution to the company by the government or the entity that received the stock based payment, so Cardinal does not agree that the impact of this should be accounted for in equity.

Sincerely,

Richard J. Miller Chief Financial Officer