

# JONES APPAREL GROUP, INC.

180 RITTENHOUSE CIRCLE  
BRISTOL, PENNSYLVANIA 19007

February 9, 2007



Mr. Lawrence W. Smith  
Director, TA&I - FASB  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  
[director@fasb.org](mailto:director@fasb.org)

LETTER OF COMMENT NO. |

Re: Proposed FASB Staff Position No. FAS 128-a “Computational Guidance for Computing Diluted EPS under the Two-Class Method”

Dear Mr. Smith:

We appreciate the opportunity to comment on proposed FASB Staff Position FAS 128-a “Computational Guidance for Computing Diluted EPS under the Two-Class Method” (the “proposed FSP”).

It appears the examples included in the proposed FSP regarding the calculation of the excess tax benefit (Step 2(a) under each scenario) are inconsistent with certain provisions of FAS 128, “Earnings per Share.” The examples subtract the option strike price of \$50 from the average stock price for the year of \$60 to determine the excess tax benefit. However, based on certain paragraphs of FAS 128, the average stock price for the year would seem to be irrelevant.

Paragraph 17 of FAS 128 states:

*“The dilutive effect of outstanding call options and warrants (and their equivalents) issued by the reporting entity shall be reflected in diluted EPS by application of the treasury stock method unless the provisions of paragraphs 24 and 50-53 require that another method be applied. Equivalents of options and warrants include nonvested stock granted to employees, stock purchase contracts, and partially paid stock subscriptions. Under the treasury stock method:*

*a. Exercise of options and warrants shall be assumed at the beginning of the period (or at time of issuance, if later) and common shares shall be assumed to be issued.*

*b. The proceeds from exercise shall be assumed to be used to purchase common stock at the average market price during the period.*

*c. The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) shall be included in the denominator of the diluted EPS computation.”*

Paragraph 21 of FAS 128 states:

*“In applying the treasury stock method described in paragraph 17, the assumed proceeds shall be the sum of (a) the amount, if any, the employee must pay upon exercise, (b) the amount of compensation cost attributed to future services and not yet recognized, and (c) the amount of excess tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of the options.”*

Therefore, under the treasury stock method, options are assumed to be exercised on the first day of the period under paragraph 17(a). Tax deductions for options exercised are generally determined by the market value of the shares acquired on the assumed date of exercise – in this case, the market value on first day of the period (the exercise date) would be the compensation the company would deduct for tax purposes. Since the excess tax benefit is based on the differences between the amount deducted for tax compensation and the related financial reporting compensation expense, only the market price at the *beginning of the period* (or date of grant, if later) is relevant. Changes in the stock price *after* the assumed exercise, which are included by the use of the “average” price for the year in the proposed FSP’s examples, are meaningless. The average price is only useful when calculating the assumed share buybacks under paragraph 17(b), which has no bearing on the excess tax benefit.

We believe the examples should be revised to replace the average stock price for the year with the market price of the stock on the date of assumed exercise.

We appreciate the opportunity to comment on the proposed FSP. If you have any questions concerning our comment, please contact me directly at (215) 781-5360.

Sincerely,

A handwritten signature in black ink that reads "Stephen C. Troy". The signature is written in a cursive, flowing style.

Stephen C. Troy  
Senior Vice President of Accounting and Financial Reporting