The Walt Disney Company©

Letter of Comment No: 5800
File Reference: 1102-100

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Ms. Suzanne Bielstein
Director of Major Projects - File Reference No. 1102-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Ms. Bielstein:

The Walt Disney Company appreciates the Financial Accounting Standards Board's ("FASB") efforts to address concerns over the accounting for share-based payments to employees through the issuance of the recent Exposure Draft, *Share-Based Payment, an amendment of FASB Statements No. 123 and 95*, ("ED"). By eliminating the intrinsic value alternative allowed under current rules and requiring all public companies to adopt a fair value method to account for share-based payments to employees, the ED has addressed our desire for a single method of determining expense for employee options. However, there are certain areas in which the ED could be improved. We believe that the recommendations below will result in a more widely accepted share-based compensation model while remaining consistent with the overall objectives of the ED.

Issue 4(b) - Fair Value Measurement

We believe the Board should not express a preference or requirement for any particular option pricing model to measure fair value but should allow preparers to select (and disclose) any widely accepted option pricing model that properly balances incremental cost and complexity with the benefits of a more "precise" estimate. We note that the lattice model will require a significant amount of additional input data that will increase cost and complexity.

This approach would also allow for the application of new option pricing models that may be developed in the future that are superior to the lattice model.

If the FASB ultimately concludes the lattice model is preferred, we believe the final statement should better clarify the "preference". Specifically, is the lattice model required unless (1) it is impracticable to apply or (2) another model gives a value that is not materially different? We would note that the latter condition is somewhat circular in that a preparer would be required to calculate the lattice value to demonstrate it is not materially different.

Issue 11 - Income Taxes

We disagree with the FASB's conclusion that shortfalls in tax benefits should be charged to income tax expense. We concur with the FASB's rationale in recording excess income tax benefits to additional-paid-in-capital ("APIC") on the basis that there are two separate transactions, i.e. a compensation and an equity transaction, (see paragraph C-129) and believe it should also apply to shortfalls. A tax benefit should be recognized at grant date and recorded in the income statement based on the compensation cost calculated by applying the fair value method. At that point in time the valuation of the compensation transaction is complete for financial reporting purposes. Any excess income tax benefit or shortfall resulting from changes in the intrinsic value of the option subsequent to the grant date but prior to exercise represents the effects of an equity transaction (albeit by an employee) and should be recognized as an adjustment to APIC.

We are also concerned by the cost of the ED's approach to income tax effects which will require preparers to track tax impacts at the individual employee grant level on a tranche by tranche basis. We do not believe that the costs associated with tracking deferred tax at this level are justified.

Issue 13 - Transition

We do not believe the FASB should restrict preparers to the modified prospective approach. Although we understand the FASB's concern with a full retrospective approach, we believe preparers will be able to reasonably estimate prior option values using the lattice model (or other widely accepted pricing models). We also believe the FASB should allow a retrospective approach that uses previously determined option values. In essence, this is similar to the mixed valuation model that will result with the modified prospective approach. We also believe the FASB should allow a full prospective approach since it avoids the mixed fair value model of the modified prospective approach. We believe that allowing companies to select from any of these transition methods (similar to the provisions of Statement of Financial Accounting Standards No. 148, *"Accounting for Stock-Based Compensation-Transition and Disclosure*) is feasible because users of financial statements are familiar with the existing disclosures under Statement of Financial Accounting Standards No. 123, *"Accounting for Stock-Based Compensation"* and can be expected to use this data for analytical purposes regardless of the transition methods allowed by the FASB.

We appreciate the Board's consideration of our comments in the upcoming deliberations on the recent exposure draft. If you have any questions I can be reached at (818) 973-4030.

Sincerely,

Brent A. Woodford
Senior Vice President, Corporate Controllership
The Walt Disney Company