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Financial Accounting Standards Board
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File Reference 1102-001
Invitation to Comment Re: Accounting for Stock-Based Compensation

Dear Ms. Bielstein:

Anheuser-Busch appreciates the opportunity to provide comments to the FASB regarding the accounting for stock-based compensation. It is interesting that the FASB is once again considering this subject after the extensive work performed in 1995 on the same issue.

Anheuser-Busch firmly believes that stock option accounting is not an issue of financial transparency or disclosure. All financial information that investors will receive from expensing stock options is already available in Annual Reports under current FAS 123 disclosures. The availability of this full and complete disclosure formed a significant part of the basis for the Board's conclusion in 1995 to not require the expensing of stock options. Nothing has changed. Accordingly, we believe it is key that the FASB re-emphasize this point and not infer that expense recognition for stock options provides more or better information to investors.

Anheuser-Busch is prepared to support any reasonable FASB action regarding stock option accounting provided the Board acts decisively to require a single approach to the accounting and transition. Should the Board conclude expensing of employee stock options is now necessary, Anheuser-Busch advocates full restatement of prior years results as the simplest and most informative approach available. Alternative reporting and transition choices (as currently proposed in the FASB's October 4, 2002 Exposure Draft) will only result in greater confusion and less comparability among investors.

The information necessary to restate prior periods is readily available given FAS 123 fair value disclosure requirements have been in place since 1996. For comparability, only restatement will place all companies on an equal footing, without the distortion of stock option vesting inherent in any of the "build-up" approaches to transition. Allowing multiple adoption alternatives will confuse investors even more at a time when we believe the FASB should be promoting clarity of disclosure.

Anheuser-Busch also believes that if an option-pricing model is used as the basis for expensing stock options, the fair value of granted options must be adjusted for the unique features of employee incentive stock options, such as the lack of transferability, periodic restrictions on exercise and long-term vesting. Otherwise, we are concerned about the potential for persistent over-valuation of employee stock options.

The attachment to this letter expands on these and other points. We would welcome an opportunity to discuss this matter with you or your staff. I can be contacted at 314-577-3235 or via fax at 314-577-4249.

Thank you.

John F. Kelly

Attachment

Invitation to Comment Regarding Accounting for Stock-Based Compensation

Transparency

Anheuser-Busch does not believe there are any issues whatsoever of disclosure, transparency or accessibility of information pertaining to the decision to expense or not expense stock options. All information necessary for a complete evaluation of stock options is readily available in the Annual Report under current FAS 123 disclosure requirements. A decision to expense employee stock options will not provide new or better information to investors, and we believe it is important for the FASB to acknowledge this and not infer otherwise.

Single Approach to Accounting

We are prepared to support any reasonable FASB action regarding stock option accounting provided the Board requires a clear and singular approach to the accounting. Whatever approach the FASB concludes is appropriate -- expensing of stock options or no expensing with detailed disclosure – we believe it is imperative that the Board act decisively and require all preparers to follow a single comprehensive set of rules, without caveats or exclusions. Allowing a choice of alternatives is conceptually inconsistent and will only confuse investors at a time the FASB should be promoting clarity.

Single Method for Transition

Similarly, should the Board conclude that expensing options is necessary, Anheuser-Busch strongly encourages requiring a single transition method to be applied by all companies. The three different transition alternatives recently proposed by the Board will only confuse investors and make meaningful comparisons between companies impossible. Under the FASB's recent proposal, competitors in the same industry could simultaneously apply three different approaches to expense transition, based on their own particular circumstances. This undesirable outcome would be squarely opposed to the FASB's long-stated goal of enhancing consistency and comparability of results --- both within and across industry boundaries.

We recommend the restatement of prior period results as the only approach that will place all companies on equal footing and ensure full comparability by avoiding the distortion of earnings growth inherent in any of the "build-up" approaches. A restatement approach is preferable because it is the simplest alternative, all information is readily available due to companies having provided fair value disclosures since 1996 and, as noted, it renders all periods presented immediately and totally comparable.

Further, a restatement would actually be easier to explain because users would have explicit "with-and-without" expense results to compare. Otherwise, investors will have to potentially sift through disclosures that commingle "expensed" and "non-expensed" options for several years, with the full impact only known when all options are treated the same way.

Adjustments to Fair Value Models

It is commonly held that current option-pricing methodologies do a poor job of capturing the true value of employee stock options because of structural differences between market-traded options and incentive stock options. Anheuser-Busch therefore believes that the fair value of granted options that will be used for expense recognition must be adjusted for features such as the lack of transferability, mandatory blackout periods on exercise, and long-term vesting that are common in employee incentive stock options, but which do not exist in market-traded options. Failure to adjust for these conventions means a market-pricing model such as Black-Scholes inevitably over-values employee options. The FASB may be able to develop a standard discount factor to be applied to guard against over-valuation.

Measurement Date

Should the Board propose expense recognition for employee stock options, Anheuser-Busch agrees with the conclusion in FAS 123 and the IASB Proposed Standard that the grant date is the only appropriate measurement date for these instruments. Employee stock options are effectively recruitment, retention and motivational tools and the understanding between employer and employee is fixed on the date of grant. The company's commitment to issue shares exists as of that date and does not change, assuming the employee meets passage of time vesting requirements.

For fixed price stock options, subsequent vesting or exercise patterns should have no bearing on accounting measurement, as they have no bearing on the employer's obligation to issue shares or the employee right to receive shares. Accordingly, the measurement of option cost must be at the grant date. Use of an exercise or vesting date approach would only serve to distort the true nature of the employment exchange.

Attribution of Expense

We also concur with the FASB and IASB conclusions that any expense recognized under a fair value approach should be attributed ratably over the entire vesting period, absent accelerated vesting features. This approach directly relates to the employees obligation to render service over the vesting period to become eligible to receive the full benefit of the stock options. Any other approach would inappropriately weight expense in periods other than those in which service is rendered.

Expired Out-of-the-Money Stock Options

We believe the FASB needs to determine the implications if stock options expire out-of-the-money. It makes no sense that expired out-of-the-money options would represent an expense of any sort to a company.

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