December 14, 2010

To: Financial Accounting Standards Board ("FASB")
Re: Exposures Draft – Leases (Topic 840)

Dear Sir/Madam:

We are responding to the invitation of the FASB to comment on the exposure draft "Leases" (Topic 840) ("exposure draft" or "the proposed standard"). Pacific Sunwear of California, Inc. is a specialty retailer rooted in the action sports, fashion and music influences of the California lifestyle. We sell a combination of branded and proprietary casual apparel, accessories and footwear designed to appeal to teens and young adults. We currently operate 873 stores across all 50 states and Puerto Rico (all under multi-year leases with mall landlords).

We respectfully object to the proposed standard and its impact on preparers. We believe the increased costs of compliance and other risks that would be created by the proposed standard far outweigh any perceived benefits to readers of financial statements. Given the current economic environment, increasing costs is simply not good for business. The costs of compliance and increased risks associated with the proposed standard will include:

1) Procuring and implementing new lease administration software that can effectively handle the complex calculations required by the proposed standard. Currently, no such system exists in the marketplace.
2) Hiring consultants to analyze all 873 of our store leases (many thousands of pages) to ensure that all relevant lease provisions have been accurately captured upon adoption of the proposed standard.
3) Hiring additional accounting staff to accurately analyze and abstract new or renewed leases to ensure that all relevant financial terms are captured, perform the ongoing assessment of liabilities, and to compile the complex disclosures required by the proposed standard.
4) Increased compliance risk under Section 404 of the Sarbanes-Oxley Act of 2002 due to the complex nature of the proposed standard.
5) Increased auditor fees to audit the implementation of, and subsequent compliance with, the proposed standard.
6) Increased earnings volatility risk given the ongoing reassessment of liabilities required by the proposed standard.
7) Increased impairment expense risk for the right-of-use asset which would negatively impact results of operations to a greater extent than under existing standards.

Comments on the Proposed Standard

We believe that the proposed right-of-use approach may accomplish the Board’s objective to develop a model where assets and liabilities arising under a simple lease are recognized in a principled manner, but we also believe that the proposed standard will have the unintended effect of causing confusion to the investment community and readers of financial statements. In addition to the increased costs and risks noted above, we also have the following additional comments on the substance of the proposed standard:

- **Reassessment of lease term:** Our preference is to not change existing GAAP regarding lease term rules (i.e., do not include option periods unless reasonably assured due to a penalty).
- **Contingent rent:** Due to the inherent uncertainty and subjectivity associated with estimating contingent rents, we do not believe that contingent rent should be included in the proposed present value calculation called for by the proposed standard.

- **Ongoing reassessments:** Reassessment should not be required unless something actually changes. We suggest more of an indicator approach, similar to impairments, with reassessment only required upon more specific triggering events.

- **Aggregation:** The proposed standard should allow and provide for aggregation of leases with similar characteristics and behavior to address practicality concerns for companies with large numbers of leases.

- **Deferred rent credits and construction allowances:** Based on our review of various publications on the proposed standard, there appears to be confusion on the adoption, transition and ongoing accounting for these items. Also, we have concern about the gross up of construction allowances which may already have been considered in the cash flow calculation relating to the right to use asset.

- **Incremental borrowing rate:** Greater clarity is needed regarding the calculation of the incremental borrowing rate. For example, if the rate would change after grossing up assets and liabilities upon adoption, then should that impact be considered for the initial calculation?

- **Impairment:** How will previous impairments of assets be treated during the transition period and thereafter? Our presumption is that they would be captured in the cumulative effect upon adoption. How would the comparative financial statement presentation be treated for prior year impairments?

- **Disclosures:** The amount of required disclosure is excessive and is indicative of the problems the proposed standard presents for comparability among retailers due to differences in estimation methods that will arise related to future lease terms and contingent rent.

- **Transition:** If the proposed standard is adopted, we believe that a prospective adoption would be the least costly approach for preparers. To adopt this standard and require companies to retroactively consider the impact of it on previous years would be unduly burdensome. Additionally, the effective date for the proposed standard should be relatively long to reflect its complexity.

Thank you in advance for your consideration of our comments and please feel free to contact us with any questions.

Sincerely,

Michael L. Henry  
Senior Vice President and Chief Financial Officer

Craig E. Gosselin  
Senior Vice President and General Counsel