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Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

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Dear Ms. Bielstein:

We would like to take this opportunity to comment on the following Proposed Statements of Financial Accounting Standards, "Earnings per Share, an amendment of FASB Statement No. 128", "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3", "Exchanges of Productive Assets, an amendment of APB Opinion No. 29" and "Inventory Costs, an amendment of ARB No. 43, Chapter 4." While we generally support convergence with International Accounting Standards, amendments that might appear to be minor changes to U.S. GAAP for the spirit of convergence can have significant consequences and should not be taken lightly.

Earnings Per Share

We strongly oppose any change to the current computation of earnings per share, and should this proposal be passed, we strongly oppose requiring restatements of prior period earnings per share. The current method of basing dilutive shares on an average of quarterly computations already can create a difference between quarterly and annual EPS which financial statement users have difficulty understanding. Since stock prices are generally more volatile than earnings, the proposed changes will lead to even greater differences between quarterly and annual EPS amounts. We question the theoretical support for reflecting subsequent events (i.e., changes in stock prices) in EPS by effectively recomputing previous quarters' EPS in the annual computation. Obviously, EPS is an important measure that is emphasized by the investment community, and we believe the proposed change will have detrimental ramifications. Given the complexities that already exist surrounding the application of FAS 128 and the communication problems incurred when it was adopted, we do not see why the EPS computation should again be changed. Any perceived benefits of convergence do not merit the deterioration of U.S. GAAP. In fact, if any changes are to be considered, we support a notion that EPS for the year should equal the sum of the quarters, six months, or monthly periods, consistently applied, whichever are regularly reported by the company.

Furthermore, we are strongly opposed to retrospective application of this change and prefer that if it is adopted, EPS computations only be changed prospectively. SEC registrants will have significant difficulties restating EPS for interim periods in addition to all years provided in Financial Data Summaries. The time and costs to implement this proposal will be significant and should not be underestimated. Moreover, analysts and other financial statement users have indicated to us that the FASB's current trend of continuously requiring restatements of prior period financial statements causes considerable confusion, and that restatements should be the exception, not the norm.

If the earnings per share standards are changed, we recommend also amending the disclosures so that basic EPS amounts are no longer required to be presented on the face of the income statement. Numerous EPS amounts currently are required to be disclosed on the income statement (such as earnings from continuing operations, discontinued operations, accounting changes and net earnings) for both basic and diluted shares. However, diluted earnings per share amounts are the measures emphasized by the investment community. We believe it would be reasonable for basic EPS amounts to be disclosed in the footnotes with the reconciliation of basic and diluted shares.

Accounting Changes

Fundamentally, we believe the presumption should be that accounting changes are to be reported as a cumulative effect of change in accounting principle, rather than continuously restating prior period financial statements. It is challenging for companies to communicate and explain these restatements and the reasons behind them. While retrospective application would improve comparability of financial information between periods, these constant restatements diminish public confidence in financial statements and create confusion about the "real numbers." Numerous securities analysts and other financial statement users have indicated that restatements are confusing, do not improve their understanding of the company, and do not help explain the impact of accounting changes. For example, our analysts were surprised and confused by our reporting of a discontinued operation that was operationally very immaterial but that our auditors believed was material because of a sizable tax gain associated with the disposition. Restatements should be required only on an exception basis and at a very high level of significance. The current guidance under APB No. 20 that requires accounting changes to be reported as a cumulative adjustment to beginning retained earnings provides a simpler and better-understood method of adjusting financial statements for changes in accounting principles. In addition, restatements are costly to implement and time-consuming, particularly for SEC registrants that must restate prior interim periods, three years of operating results, footnotes to the audited financial statements, and MD&A discussions in their annual reports, as well as numerous years of data provided in the Financial Data Summary.

Non-monetary Exchanges

We generally support that non-monetary exchanges should be recorded at fair value if the transactions are for a legitimate business purpose. We do not believe that the "commercial substance" criteria are operational or that the proposed change would discourage inappropriate gain recognition or deferral. In almost all cases, the configuration of the expected future cash flows of the asset received would be different from the configuration of the asset transferred, and the entity-specific value of the entity's operations affected would change to some degree. The measurement and evaluation of whether these differences are "significant" would be challenging and inconsistently applied using the proposed guidance. Furthermore, when determining the existence of commercial substance, companies should look beyond these two criteria and consider all facts and circumstances surrounding the transaction to determine if there is a legitimate business purpose. Unless the term "significant" is more clearly defined, we do not believe that the commercial substance criteria is any more operational than the current test of whether the assets exchanged are similar or dissimilar. The existing rules should not be changed until a more consistent and operational standard can be developed. Otherwise SEC registrants will be second-guessed whether they should or should not have used fair value or carryover basis.

Inventory Costs

We believe the issued standard should clarify the terms "double freight" and "rehandling costs" in order for the standard to be operational. Statement 3 of ARB 43, Chapter 4, states in part that "as applied to inventories, cost means in principle the sum of the applicable expenditures and charges directly and indirectly incurred in bringing an article to its existing condition and location." For example, raw materials purchased in bulk and received at a central distribution center could be re-packaged and shipped to production facilities for use, or components manufactured at one plant may be shipped to another facility for incorporation into the finished product. Under the revised standard, it is not clear if the additional packaging, handling and shipping costs should be treated as period costs or as costs of inventory. We believe the double freight and rehandling costs in the above examples should not be considered period costs as they are necessary to bring the items to their existing condition and location. Since removing the words "so abnormal" eliminates the judgment regarding what is considered to be "abnormal," the standard needs to provide a better definition of what costs are considered to be "normal."

We appreciate the opportunity to respond to the Board's Proposed Statements and trust that our comments will be seriously considered in future Board deliberations on this issue.

Sincerely,

Richard J. Schlueter

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