BOARD, STOCK COMP. TEAM
TO: MEMBERS OF THE TASK FORCE ON ACCOUNTING FOR STOCK COMPENSATION

FROM: DIANA WILLIS, FASB

THIS MATERIAL WILL BE DISCUSSED AT THE 2/19/93 MEETING.

February 17, 1993

Mr. Dennis R. Beresford, Chairman
Financial Accounting Standards Board
401 Merritt Seven
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Mr. Beresford:

We have read the proposal dated February 17, 1993 submitted by a coalition of users and preparers of financial statements. That proposal urges the FASB to change its direction on the Stock Compensation Project to a disclosure-based approach, and leave the current accounting standards in place. We agree with that approach even though we believe that not all of the proposed disclosures are necessary. The proposal provides for enhanced stock option disclosures regarding options outstanding as of each balance sheet date, a summary of option activity for each of the years for which statements of earnings, cash flows, and stockholders' equity are presented, and additional information regarding options granted during the reporting period.

We endorse that proposal for traditional fixed stock options and suggest that a similar approach be applied to other types of plans. We hope this will help the Board redirect its efforts to a disclosure-based approach for dealing with the Stock Compensation Project even if it does not encompass exactly the same information as illustrated in the proposal. We recognize that representatives of the user community are most concerned that the additional data set forth on the last page of the example footnote in the proposal regarding options granted in the latest period be presented by all companies as described.

Sincerely,

Arthur Andersen & Co.

Coopers & Lybrand

Deloitte & Touche

Ernst & Young

KPMG Peat Marwick

Price Waterhouse

February 17, 1993

Mr. Dennis R. Beresford,
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Mr. Beresford:

Representatives of a large cross section of the main constituencies affected by the integrity of financial accounting in the U.S. request that you, the Financial Accounting Standards Board, adopt the policy we all endorse concerning the disclosure of stock option-related values in financial statements. We represent companies, both large and small, from a variety of industries, who are the subject of financial accounting standards. We represent large and small, private-and public-sector investors whose livelihoods and pensions depend upon the appropriateness of financial statement disclosure, and upon which we rely to invest close to a trillion dollars--a substantial portion of the capital markets.

Since we represent a very large portion of the main constituencies your actions are designed to protect, and since we have put a very substantial effort into working together to resolve a major issue among ourselves--the most expert and affected parties--we hope you give this policy the weight we believe it deserves.

Our proposal calls for complete, clear, and accurate disclosure of information that investors of all types need to protect and evaluate their investments. This disclosure is in lieu of, not in addition to, any new charge to earnings for stock options. This disclosure calls for the use, by all affected preparers, of three separate methods to estimate amounts attributable to stock options granted. These three methods are parallel to those currently specified in the SEC's newly amended proxy statement compensation disclosure requirements, except that the five percent and ten percent growth projections also are in present value terms.

Representatives of a significant part of the user community are particularly interested in the disclosure set forth on the last page of the attachment. Investors can use this information to compare options-related amounts between companies (and compare options values to other compensation-related expenses within companies). Significantly, this information is formatted in a way that, for the first time, even individual investors can understand. We believe this is an important constituency whose interests are not always served by experts or advisory groups. This constituency increases in importance as employee stock ownership increases.

We believe that expanded disclosure is the best assurance that shareholders can have that their interests are being served. It therefore should eliminate the need for other potentially harmful governmental interference in shareholders' relationships to the companies they invest in.

Sincerely,

Council of Institutional Investors:
California Public Employees' Retirement System
New York City Pension Funds
General Motors Investment Management Corp.
California State Teachers' Retirement System
New Jersey Division of Investment
Florida State Board of Administration
Wisconsin State Investment Board
Ohio State Teachers Retirement System
Pennsylvania Public School Employees' Retirement System
Washington State Investment Board
Minnesota State Board of Investment
Maryland State Retirement Agency
Oregon Public Employees' Retirement System
Pennsylvania State Employees' Retirement System
Colorado Public Employees' Retirement Association
Connecticut Retirement & Trust Funds
Massachusetts State Employees' & Teachers' Retirement System
Iowa Public Employees Retirement System
San Francisco City and County Employees' Retirement System
Illinois State Universities Retirement System
International Paper
Illinois State Board of Investment
Massachusetts Pension Reserves Investment Management Board
Los Angeles City Employees' Retirement System
TRW Investment Management Company
Operating Engineers, Central Pension Fund of the International Union
New Mexico Public Employees Retirement Association
Detroit Policemen & Firemen Retirement System
Montana Board of Investments
Detroit City General Retirement System
Missouri State Employees' Retirement System
District of Columbia Retirement Board
Delaware State Employees Retirement Fund
Philadelphia City Board of Pensions and Retirement
Arkansas Public Employees Retirement System
Sheet Metal Workers' National Pension Fund

The Putnam Management Co., Inc.

Alliance Capital Management

General Motors Investment Management Corp.

General Mills, Inc.

General Electric Company

Apple Computer, Inc.

AT&T

BFGoodrich

Edward V. Regan, Comptroller of New York State

Halliburton Company

United Shareholders Association

National Venture Capital Association

National Association of Corporate Directors

American Business Conference

National Association of Securities Dealers

LENS, Inc.

Peter Lynch, former Portfolio Manager of the Magellan Fund

Time Warner Inc.
The 1199 Health Care Employees Pension Fund
Sacramento County Employees' Retirement
System
Alameda County Employees' Retirement
Association
Carpenters Pension Trust for Southern
California
Dayton Hudson Corporation
Massachusetts Bay Transportation Authority
Retirement Fund
Contra Costa County Employees' Retirement
Association
Montgomery County Employees' Retirement
System
Carpenters Pension Fund for Chicago
District Council
Houston Firemen's Relief and Retirement Fund
International Brotherhood of Electrical
Workers' Pension Benefit Fund
Iowa Municipal Fire & Police
Teamster Affiliates Pension Fund
Bricklayers and Trowel Trades International
Pension Fund
Flint City Employees Retirement System
Building Trades United Pension Fund-
Milwaukee and Vicinity
UAW International Union Staff Retirement
Income Plan
Carpenters Local Unions and Councils
Pension Fund
United Brotherhood of Hotel
Employees and Restaurant
Employees International Union Pension Fund
American Express Retirement Plan
Steelworkers, National Headquarters
Service Employees International Union
International Brotherhood of Teamsters
Retirement and Family Protection Plan
Communications Workers of America
AFL-CIO Staff Retirement Trust Fund
AFSCME Employees Pension Plan
Denver Board of Water Commissioners
Golden Gate Transit-Amalgamated
Retirement Board
Operating Engineers, International
Union Headquarters Pension Plan
Los Angeles Unified School District,
Annuity Reserve Fund
United Mine Workers of America
Amalgamated Retail Retirement Fund
American Federation of Teachers
Air Line Pilots Association
Covington & Burling Retirement
Plan - Account of Steven M.H.
Wallman

Recommended Disclosure Requirements for Traditional Fixed Stock Options

I. A description of each option plan should be presented. Included in this description should be a statement as to whether or not the plan was subject to shareholder approval. If the plan was subject to shareholder approval, the date of the approval and the percentage of affirmative votes with respect to the approval should be given.

II. For options outstanding at each balance sheet date:

A. Number of options outstanding.

B. Exercise prices - including the range of exercise prices and a weighted average of the exercise prices or, if necessary to understand the data presented, a display of the number of options outstanding by ranges of exercise prices.

C. Market prices of the underlying stock at date of grant - including the range of market prices and a weighted average of the market prices or, if necessary to understand the data presented, a display of the number of options outstanding by ranges of exercise prices.

D. Remaining term of options - including the range of remaining terms and a weighted average remaining term or, if necessary to understand the data presented, a display of the remaining term by ranges of exercise prices.

E. Number of option holders.

F. Number of options exercisable .

G. Number of options exercisable that have an exercise price less than the end of period market price and the total proceeds to the corporation if exercised.

H. Percentage of options outstanding to common stock outstanding at the end of period.

I. Percentage of net options outstanding with exercise price less than the end of period market price (the gross options are reduced by the number of shares that could be reacquired with the exercise proceeds using the end of period market price) to common stock outstanding at the end of period.

III. For option activity during each income statement period:

A. Number of options exercised, forfeited and/or expired and any additional information necessary to reconcile the number of options outstanding from the beginning of period to end of period excluding option grants which are disclosed in B below.

B. Data on option grants (depending on the circumstances, it may be necessary to provide this information for individual significant grants or different plans, or the information may be based on a weighted average of a group of small grants):

1. Number of options granted.
2. Exercise price.
3. Market price of underlying stock at date of grant.
4. Option term.
5. Vesting requirements.
6. Number of option holders and largest number of options granted to one individual, average number of options granted to each individual, and lowest number of options granted to one individual.
7. Percentage of options granted to common stock outstanding at date of grant.
8. Measurement of grant for each year calculated on each of the following bases:
   - Assumed 5% annual appreciation of stock price, both undiscounted and discounted (using a risk-free interest rate with disclosure of the rate used).
   - Assumed 10% annual appreciation of stock price, both undiscounted and discounted (using a risk-free interest rate with disclosure of the rate used).
   - Amount calculated using a Black-Scholes formula with the dividend yield and volatility assumptions based on historical five-year, time weighted averages and disclosure of all assumptions.
9. Amounts of increase in shareholder value based on 5% and 10% annual appreciation of stock price (undiscounted) and percent of shareholder value increases to undiscounted amounts calculated in 8. The increase in shareholder value is calculated by multiplying the number of shares of common stock outstanding by the difference between the assumed future price of the stock at the end of the option term and the stock price at the date of the grant.

C. Information on any modification made to options subsequent to their original issuance including: repricings, replacement, changes in term, and changes in vesting requirements.

IV. Additional data on grants made in latest period:

A. Measurements of grant calculated on the following three approaches with an explanation that these measurements are not a prediction of future stock values.

1. Present value of the assumed future appreciation of the stock price using a risk free discount rate as of the option grant date (with disclosure of the rate used) and an assumed 5% annual rate of stock price appreciation for the option term.
2. Present value of the assumed future appreciation of the stock price using a risk free discount rate as of the option grant date (with disclosure of the rate used) and an assumed 10% annual rate of stock price appreciation for the option term.

3. Amount calculated using a Black-Scholes formula with the dividend yield and volatility assumptions based on a historical five-year, time weighted average and disclosure of all assumptions.

The foregoing are the same approaches as required under III-8 above for the discounted amounts and the amount calculated using a Black-Scholes formula.

B. Allocation of measurements made in IV A to the Chief Executive Officer (CEO) and to each of the four most highly compensated executive officers other than the CEO and disclosure of the percent of the grant made to each.

Example Disclosure

Under the 1989 Employee Stock Plan, the Company may grant options to officers and other employees of the company for up to 1,500,000 shares of Company common stock. The plan was approved by the shareholders on May 15, 1990, with an affirmative vote of 94% of the outstanding shares.

A summary of the status of the Company's Employee Stock Plan as of balance sheet date follows:

	1991	1992
Options Outstanding	x,xxx,xxx	x,xxx,xxx
Exercise Price and Market Price at Date of Grant		
Range*	$xx.xx- $xx.xx	$xx.xx- $xx.xx
Weighted Average	$xx.xx	$xx.xx
Remaining Term		
Range*	x.x-xx years	x.x-xx years
Weighted Average	x.x years	x.x years
Number of Option Holders	xxx	xxx
Number of Options Exercisable	xxx,xxx	xxx,xxx
Number Exercisable with Exercise Price Less Than Market Price at Year End and Total Proceeds to the Company if Exercised:		
Number	xxx,xxx	xxx,xxx
Proceeds	$xx,xxx,xxx	$xx,xxx,xxx
Percentage of Options Outstanding to Total Stock Outstanding	x.x%	x.x%
Percentage of Net Options Outstanding with Exercise Price Below Market Price at Year End, Assuming Proceeds Used to Acquire Treasury Stock	y.y%	y.y%

* To enhance users' understanding of the data presented, it may be necessary to display more than one range (e.g., if there have been several grants during the year, the ranges are wide, etc.).

A summary of option activity for each of the years in the three year period ending December 31, 1992 follows:

	Year Ended December 31		
	1990	1991	1992
Options Exercised	(xx)	(xx)	(xx)
Options Forfeited	(xx)	(xx)	(xx)
Options Expired	(xx)	(xx)	(xx)
Data on Options Granted:			
Number of Options Granted	xxx	xxx	xxx
Exercise Price and Market Price/Weighted Average*	$xx	$xx	$xx
Option Terms	10 years	10 years	10 years
Vesting Requirements	20%/year	20%/year	20%/year
Number of Option Holders	x,xxx	x,xxx	x,xxx
Largest Number of Options Granted to One Individual	xxx	xxx	xxx
Average Number of Options Granted to Each Individual	xx	xx	xx
Smallest Number of Options Granted to One Individual	x	x	x
Percent of options granted to common stock outstanding at date of grant	x%	x%	x%
Various amounts based on:(1)			
Assumed 5% stock price appreciation-undiscounted future values			
• to option holders	xxx	xxx	xxx
• to shareholders	xx,xxx	xx,xxx	xx,xxx
• percent of option holder future gains to shareholder future gains	x%	x%	x%
Assumed 10% stock price appreciation - undiscounted future values			
• to option holders	xxx	xxx	xxx
• to shareholders	xx,xxx	xx,xxx	xx,xxx
• percent of option holder future gains to shareholder future gains	x%	x%	x%
Present values (option holders)			
• 5% appreciation	xxx	xxx	xxx
• 10% appreciation	xxx	xxx	xxx
• Black - Scholes	xxx	xxx	xxx

(1) The measurements presented are not predictions of future stock prices. The undiscounted future value amounts represent the difference between the future price of common stock upon termination of the options assuming annual increases in the stock price of 5% and 10%, respectively, less the exercise price times the number of shares outstanding/options granted. The present value amounts are calculated using average risk-free interest rate of ______, ________ and _________ for each year, respectively. The Black-Scholes amounts are calculated using dividend yields of _________, ___________ and ______________ and volatility of __________, ______________ and ____________for each year, respectively.

* To enhance users' understanding of the data presented, it may be necessary to display more than one range (e.g., if there have been several grants during the year, the ranges are wide, etc.).

Additional data regarding options granted during the year ended December 31, 199X is summarized below:

Number of Option Shares Granted: xx,xxx Weighted Average Exercise Price: $xx.xx						
Dollar amount, and percent of all optionee total dollar amounts, allocable to:	Result of Formula Calculation Utilizing Method Specified*:					
	Black-Scholes		5%**		10%**	
All optionees (x,xxx)	$xxx,xxx	100%	$xxx,xxx	100%	$xxx,xxx	100%
CEO	$ xx,xxx	xx%	$ xx,xxx	xx%	$ xx,xxx	xx%
Next Highest Paid Executive Officer	$ xx,xxx	x%	$ xx,xxx	x%	$ xx,xxx	x%
Next Highest Paid Executive Officer	$ xx,xxx	x%	$ xx,xxx	x%	$ xx,xxx	x%
Next Highest Paid Executive Officer	$ x,xxx	x%	$ x,xxx	x%	$ x,xxx	x%
Next Highest Paid Executive Officer	$ x,xxx	x%	$ x,xxx	x%	$ x,xxx	x%
All Other Employees	$xxx,xxx	xx%	$xxx,xxx	xx%	$xxx,xxx	xx%

*Assumptions:

For Black-Scholes Formula - Assumed Dividend Yield - y.yy%; Assumed Stock Price Volatility - .z. Dividend yield and volatility calculated using the registrant's historical five-year, time-weighted (based on a 5, 4, 3, 2, 1 weighting with 5 being the most recent year) averages. Risk free rate approximated by yield on zero-coupon U.S. Government bonds with average maturity equal to full term of option.

For 5% and 10% Formulas - The stock price was assumed to appreciate at these rates compounded over the full term of the option. The amount potentially realized under the option with such assumed rates was then discounted to present value using the risk free rate described above.

**These numbers are for presentation purposes only and are not predictions of future stock prices.