

**Testimony of  
Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
Before the  
Subcommittee on Financial Management, the Budget, and International  
Security of the Committee on Governmental Affairs  
April 20, 2004**

**Attachment 1**

**FACTS about FASB**

# FACTS about FASB 2003–2004

401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116 • [www.fasb.org](http://www.fasb.org)

*Since 1973, the Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports. They are officially recognized as authoritative by the Securities and Exchange Commission (Financial Reporting Release No. 1, Section 101) and the American Institute of Certified Public Accountants (Rule 203, Rules of Professional Conduct, as amended May 1973 and May 1979). Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors and others rely on credible, transparent and comparable financial information.*

*The Securities and Exchange Commission (SEC) has statutory authority to establish financial accounting and reporting standards for publicly held companies under the Securities Exchange Act of 1934. Throughout its history, however, the Commission's policy has been to rely on the private sector for this function to the extent that the private sector demonstrates ability to fulfill the responsibility in the public interest.*

## **THE MISSION OF THE FINANCIAL ACCOUNTING STANDARDS BOARD**

The mission of the Financial Accounting Standards Board (FASB) is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including issuers, auditors and users of financial information.

Accounting standards are essential to the efficient functioning of the economy because decisions about the allocation of resources rely heavily on credible, concise, transparent and understandable financial information. Financial information about the operations and financial position of individual entities also is used by the public in making various other kinds of decisions.

To accomplish its mission, the FASB acts to:

- Improve the usefulness of financial reporting by focusing on the primary characteristics of relevance and reliability and on the qualities of comparability and consistency;
- Keep standards current to reflect changes in methods of doing business and changes in the economic environment;
- Consider promptly any significant areas of deficiency in financial reporting that might be improved through the standard-setting process;

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### **Financial Accounting Standards Board**

*Serving the investing public through transparent information resulting from high-quality financial reporting standards, developed in an independent, private-sector, open due process.*

- Promote the international convergence of accounting standards concurrent with improving the quality of financial reporting; and
- Improve the common understanding of the nature and purposes of information contained in financial reports.

The FASB develops broad accounting concepts as well as standards for financial reporting. It also provides guidance on implementation of standards. Concepts are useful in guiding the Board in establishing standards and in providing a frame of reference, or conceptual framework, for resolving accounting issues. The framework will help to establish reasonable bounds for judgment in preparing financial information and to increase understanding of, and confidence in, financial information on the part of users of financial reports. It also will help the public to understand the nature and limitations of information supplied by financial reporting.

The Board's work on both concepts and standards is based on research aimed at gaining new insights and ideas. Research is conducted by the FASB staff and others, including foreign national and international accounting standard-setting bodies. The Board's activities are open to public participation and observation under the "due process" mandated by formal Rules of Procedure. The FASB actively solicits the views of its various constituencies on accounting issues.

The Board follows certain precepts in the conduct of its activities. They are:

- *To be objective in its decision making* and to ensure, insofar as possible, the neutrality of information resulting from its standards. To be neutral, information must report economic activity as faithfully as possible without coloring the image it communicates for the purpose of influencing behavior in any particular direction.
- *To weigh carefully the views of its constituents* in developing concepts and standards. However, the ultimate determinant of concepts and standards must be the Board's judgment, based on research, public input and careful deliberation about the usefulness of the resulting information.
- *To promulgate standards only when the expected benefits exceed the perceived costs.* While reliable, quantitative cost-benefit calculations are seldom possible, the Board strives to determine that a proposed standard will meet a significant need and that the costs it imposes, compared with possible alternatives, are justified in relation to the overall benefits.
- *To bring about needed changes in ways that minimize disruption to the continuity of reporting practice.* Reasonable effective dates and transition provisions are established when new standards are introduced. The Board considers it desirable that change be evolutionary to the extent that it can be accommodated by the need for relevance, reliability, comparability and consistency.
- *To review the effects of past decisions* and interpret, amend or replace standards in a timely fashion when such action is indicated.

The FASB is committed to following an open, orderly process for standard setting that precludes placing any particular interest above the interests of the many who rely on financial information. The Board believes that this broad public interest is best served by developing neutral standards that result in accounting for similar transactions and circumstances in a like manner and different transactions and circumstances should be accounted for in a different manner.

## **AN INDEPENDENT STRUCTURE**

### ***Financial Accounting Standards Board (FASB)***

The FASB is part of a structure that is independent of all other business and professional organizations. Before the present structure was created, financial accounting and reporting standards were established first by the Committee on Accounting Procedure of the American Institute of Certified Public Accountants (1936–1959) and then by the Accounting Principles Board, also a part of the AICPA (1959–1973). Pronouncements of those predecessor bodies remain in force unless amended or superseded by the FASB.

### ***Financial Accounting Standards Advisory Council (FASAC)***

The FASAC has responsibility for consulting with the FASB as to technical issues on the Board's agenda, project priorities, matters likely to require the attention of the FASB, selection and organization of task forces and such other matters as may be requested by the FASB or its Chairman. At present, the Council has more than 30 members who are broadly representative of preparers, auditors and users of financial information.

### ***Financial Accounting Foundation (FAF)***

The FAF, which was incorporated to operate exclusively for charitable, educational, scientific and literary purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code, is responsible for selecting the members of the FASB and its advisory council, ensuring adequate funding of their activities and exercising general oversight with the exception of the FASB's resolution of technical issues.

### **Governmental Accounting Standards Board**

In 1984, the Foundation established a Governmental Accounting Standards Board (GASB) to set standards of financial accounting and reporting for state and local governmental units. As with the FASB, the Foundation is responsible for selecting its members, ensuring adequate funding and exercising general oversight.

### **Trustees**

The Foundation is separate from all other organizations. However, its Board of Trustees is made up of members from constituent organizations having interest in financial reporting. Nominees from constituent organizations are approved by the Trustees. There also are Trustees-at-large who are not nominated by those organizations, but are chosen by the sitting Trustees. The constituent organizations are:

### *FAF Constituent Organizations*

- American Accounting Association
- American Institute of Certified Public Accountants
- Association for Investment Management and Research
- Financial Executives International
- Government Finance Officers Association
- Institute of Management Accountants
- National Association of State Auditors, Comptrollers and Treasurers
- Securities Industry Association

The members of the FAF Board of Trustees are:

- Manuel H. Johnson (Chairman of the Board and President, FAF), Co-Chairman, Johnson Smick International;
- Stephen C. Patrick (Vice President, FAF), Chief Financial Officer, Colgate-Palmolive Company;
- Judith H. O'Dell (Secretary and Treasurer, FAF), President, O'Dell Valuation Consulting LLC;
- Robert E. Denham, Senior Partner, Munger, Tolles & Olson, LLP;
- Samuel A. DiPiazza, Jr., Chief Executive Officer, PricewaterhouseCoopers;
- Douglas R. Ellsworth, Director of Finance, Village of Schaumburg, Illinois;
- Barbara H. Franklin, President and Chief Executive Officer, Barbara Franklin Enterprises;
- William H. Hansell, Executive Director Emeritus, International City/County Management Association;
- Richard D. Johnson, Former Auditor of State, Iowa;
- Duncan M. McFarland, President, Chief Executive Officer and Managing Partner, Wellington Management Company;
- Frank C. Minter, Retired Vice President and Chief Financial Officer, AT&T International;
- Eugene D. O'Kelly, Chairman and Chief Executive Officer, KPMG LLP;
- Lee N. Price, President and Chief Executive Officer, Price Performance Measurement Systems, Inc.; and
- Jerry J. Weygandt, Andersen Alumni Professor of Accounting, University of Madison-Wisconsin.

### **AN OPEN DECISION-MAKING PROCESS**

Actions of the FASB have an impact on many organizations within the Board's large and diverse constituency. It is essential that the Board's decision-making process be evenhanded. Accordingly, the FASB follows an extensive "due process" that is open to public observation and participation. This process was modeled on the Federal Administrative Procedure Act and, in several respects, is more demanding.

## HOW TOPICS ARE ADDED TO THE FASB'S TECHNICAL AGENDA

The FASB receives many requests for action on various financial accounting and reporting topics from all segments of its diverse constituency, including the SEC. The auditing profession is sensitive to emerging trends in practice and, consequently, it is a frequent source of requests. Requests for action include both new topics and suggested review or reconsideration of existing pronouncements.

The FASB is alert to trends in financial reporting through observation of published reports, liaison with interested organizations and discussions with the EITF—see page seven. In addition, the staff receives many technical inquiries by letter and telephone, which may provide evidence that a particular topic, or aspect of an existing pronouncement, has become a problem. The FASB also is alert to changes in the financial reporting environment that may be brought about by new legislation or regulatory decisions.

The Board turns to many other organizations and groups for advice and information on various matters, including its agenda. Among the groups with which liaison is maintained are the Accounting Standards Executive Committee (AcSEC) and Auditing Standards Board of the AICPA, the International Accounting Standards Board (IASB), and the appropriate committees of such organizations as the Association for Investment Management and Research (AIMR), Financial Executives International (FEI) and Institute of Management Accountants (IMA). As part of the agenda process, the Board may make available for public comment agenda proposals that concisely describe the scope of potential projects. The Financial Accounting Standards Advisory Council (FASAC) regularly reviews the Board's agenda priorities and consults on all major projects added to the technical agenda.

After receiving input from the constituency, the Board must make its own decisions regarding its technical agenda. To aid in the decision-making process, the Board has developed a list of factors to which it refers in evaluating proposed topics.

Those factors include consideration of:

- *Pervasiveness of the issue*—the extent to which an issue is troublesome to users, preparers, auditors or others; the extent to which there is diversity of practice; and the likely duration of the issue (i.e., whether transitory or likely to persist);
- *Alternative solutions*—the extent to which one or more alternative solutions that will improve financial reporting in terms of relevance, reliability and comparability are likely to be developed;
- *Technical feasibility*—the extent to which a technically sound solution can be developed or whether the project under consideration should await completion of other projects;
- *Practical consequences*—the extent to which an improved accounting solution is likely to be acceptable generally, and the extent to which addressing a particular subject (or not addressing it) might cause others to act, e.g., the SEC or Congress;

- *Convergence possibilities*—the extent to which there is an opportunity to eliminate significant differences in standards or practices between the U.S. and other countries with a resulting improvement in the quality of U.S. standards; the extent to which it is likely that a common solution can be reached; and the extent to which any significant impediments to convergence can be identified;
- *Cooperative opportunities*—the extent to which there is international support by one or more other standard setters for undertaking the project jointly or through other cooperative means with the FASB; and
- *Resources*—the extent to which there are adequate resources and expertise available from the FASB, the IASB or another standard setter to complete the project; and whether the FASB can leverage off the resources of another standard setter in addressing the issue (and perhaps thereby add the project at a relatively low incremental cost).

It is not possible to evaluate the above factors in precisely the same way and to the same extent in every instance, but identification of factors to be considered helps to bring about consistent decisions regarding the Board’s technical agenda.

### ***Board Meetings***

The core of the Board’s due process is open decision-making meetings and exposure of proposed standards for public comment. Every technical project involves a number of Board meetings. The Board meets as many times as necessary to resolve the issues. A major project generally includes dozens of meetings over several years. All meetings are open to public observers, although observers do not participate in the discussions. The agenda for each meeting is announced in advance.

The staff presents written material, including analysis and recommendations, to the Board members in advance as the basis for discussion in a Board meeting. The written material is the result of extensive research by the staff, including a detailed review and analysis of all of the significant alternative views for each issue to be discussed at the meeting. The meeting format calls for oral presentation of a summary of the written materials by the staff, followed by Board discussion of each issue presented and questioning of the staff on the points raised. The Board may reach conclusions on one or more of the issues presented. Any conclusions reached are tentative and may be changed at future Board meetings.

### ***The Exposure Draft***

When the Board has reached conclusions on the issues, the staff is directed to prepare a proposed Exposure Draft for consideration by the Board. After further discussion and revisions, Board members vote by written ballot to issue the Exposure Draft. A majority vote of the Board is required to approve a document. Alternative views, if any, are explained in the document.

The Exposure Draft sets forth the proposed standards of financial accounting and reporting, the proposed effective date and method of transition, background information and an explanation of the basis for the Board’s conclusions.

At the end of the exposure period, generally 60 days, all comment letters and position papers are analyzed by the staff. This is a search for new information and persuasive arguments regarding the issues; it is not intended to be simply a “nose count” of how many support or oppose a given point of view. In addition to studying this analysis, Board members review the comment letters to help them in reaching conclusions.

### ***Further Deliberation of the Board***

After the comments have been analyzed and studied, the Board redeliberates the issues. As in earlier stages of the process, all Board meetings are open to public observation. The Board considers comments received on the Exposure Draft, and often incorporates suggested changes in the final document. If substantial modifications appear to be necessary, the Board may decide to issue a revised Exposure Draft for additional public comment. When the Board is satisfied that all reasonable alternatives have been considered adequately, the staff is directed to prepare a draft of a final document for consideration by the Board. A vote is taken on the final document, again by written ballot. Four votes are required for adoption of a pronouncement.

### ***Statements of Financial Accounting Standards***

The final product of most technical projects is a Statement of Financial Accounting Standards (SFAS). Like the Exposure Draft, the Statement sets forth the actual standards, the effective date and method of transition, background information, a brief summary of research done on the project and the basis for the Board’s conclusions, including the reasons for rejecting significant alternative solutions. It also identifies members of the Board voting for and against its issuance and includes reasons for any dissents.

### ***Additional Due Process***

For major projects, the Board generally goes significantly beyond the core due process described above. Soon after a major project is placed on the Board’s technical agenda, a task force or working group usually is appointed, including preparers, auditors and users of financial information who are knowledgeable about the subject matter. Experts from other disciplines also may be appointed. Care is taken to ensure that various points of view on the issues involved are represented.

The task force meets with and advises the Board and staff on the definition and scope of the project, the nature and extent of any additional research that may be needed and the preparation of a discussion document and related material as a basis for public comment. Task force meetings are open to public observers. Task forces and working groups play an important role in the standard-setting process by providing expertise, a diversity of viewpoints and a mechanism for communication with those who may be affected by proposed standards.

Before it begins deliberations on a new major project, the Board often asks the FASB staff to prepare a Discussion Memorandum or other discussion document. The task force provides significant assistance and advice in this effort. The discussion document generally sets forth the definition of the problem, the scope of the project and the financial accounting and reporting issues; discusses research findings and relevant literature; and presents alternative solutions to the issues under consideration and arguments and implications relative to each. The discussion document is published to invite constituents to comment on the project before the Board begins deliberations.



After a discussion document or an Exposure Draft is issued for public comment, the Board may decide to hold a public hearing or a public roundtable meeting. These meetings provide an opportunity for the Board and staff to ask questions about information and viewpoints offered by constituents who participated in the comment process. Any individual or organization may request to be heard at a public hearing, and the FASB attempts to accommodate all such requests. Public observers are welcome.

### ***Statements of Concepts***

In addition to Statements of Financial Accounting Standards (SFAS), the FASB also issues Statements of Concepts. Those do not establish new standards or require any change in the application of existing accounting principles; instead, they are intended to provide the Board and constituents with a foundation for setting standards and concepts useful as tools for solving problems. The framework defined in the Statements of Concepts helps the Board identify the right questions to ask in structuring technical projects and contributes to a consistent approach over time. Because of their long-range importance, Statements of Concepts are developed under the same extensive due process the FASB follows in developing Statements of Financial Accounting Standards on major topics.

### ***Other Documents***

In addition to broad issues of financial accounting and reporting, the Board considers narrower issues related to implementation of existing standards and other problems arising in practice. Depending on their nature, application and implementation problems may be dealt with by the Board in Statements or Interpretations, by the staff in Technical Bulletins or in Implementation Guidance in question-and-answer form. All of those are subject to discussion at public Board meetings and to exposure for comment, although Technical Bulletins and Implementation Guidance are exposed more narrowly.

### ***Emerging Issues Task Force (EITF)***

The EITF was formed in 1984 in response to the recommendations of the FASB's task force on timely financial reporting guidance and an FASB Invitation to Comment on those recommendations. EITF members are drawn primarily from public accounting firms but also include representatives of large companies. The Chief Accountant of the Securities and Exchange Commission attends EITF meetings regularly as an observer with the privilege of the floor. Lawrence W. Smith, FASB Director, Technical Application and Implementation Activities, also serves as Chairman of the EITF.

Composition of the EITF is designed to include persons in a position to be aware of emerging issues before they become widespread and before divergent practices regarding them become entrenched. Therefore, if the group can reach a consensus on an issue, usually that consensus is taken by the FASB as an indication that no Board action is needed. A consensus is defined as an agreement, provided that no more than two of the thirteen voting members object. Consensus positions of the EITF are considered part of GAAP. If consensus is not possible, it may be an indication that action by the FASB is necessary.

The EITF meets six times a year. Meetings are open to the public and, generally, are attended by substantial numbers of observers. Because interest in the EITF is high, the FASB has separate subscription plans for keeping up-to-date on the issues.

### ***Availability of Publications***

To encourage public comment, Exposure Drafts and other discussion documents are distributed primarily through the FASB website.

Statements of Standards, Statements of Concepts and Interpretations also are distributed broadly when published through FASB subscription plans and may be purchased separately by placing an order at the FASB website.

The FASB strives to keep the public informed of developments on its projects through a monthly newsletter, *The FASB Report*, and a weekly notice, *Action Alert*, which provides notice of upcoming Board meetings and their agendas with brief summaries of actions taken at previous meetings. *Action Alert* is available by e-mail subscription at the FASB website.

### ***FASB Website***

The FASB website includes general information about the Board and its activities, information on upcoming public meetings, announcements of Board actions, summaries and status of all active technical agenda projects, summaries of previously issued FASB Statements and Interpretations, the quarterly plan for FASB projects and information about membership in the Foundation, as well as information on how to order publications online, by phone or mail.

The website can be accessed at [www.fasb.org](http://www.fasb.org).

### ***The Public Record***

Transcripts of public hearings, letters of comment and position papers, research reports and other relevant materials on projects leading to issuance of pronouncements become part of the Board's public record. The public records on all projects are available for inspection in the public reference room at FASB headquarters in Norwalk, Connecticut. Copies of public records also may be purchased at prices that vary according to the volume of material that has to be copied by accessing the FASB website at [www.fasb.org](http://www.fasb.org) or by contacting Records Retention at (203) 847-0700, ext. 270, for more information.

## **ADDITIONAL INFORMATION**

### ***General Information***

For further information about the FASB, including Board meeting schedules, access the FASB website at [www.fasb.org](http://www.fasb.org), call or write Financial Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116, telephone (203) 847-0700 or via e-mail at [director@fasb.org](mailto:director@fasb.org).

### ***To Order Publications***

Statements, Interpretations, Exposure Drafts and other documents published by the FASB may be obtained by placing an order on the FASB website at [www.fasb.org](http://www.fasb.org) or by contacting the FASB Order Department at 1-800-748-0659, weekdays 9:00 a.m. to 5:00 p.m. EST.

### ***Public Hearings and Comment Letters***

For information about submitting written comments on documents or about public hearings, access the FASB website at [www.fasb.org](http://www.fasb.org) or contact the FASB Project Administration Department at (203) 847-0700, ext. 389.

### ***Public Reference Room and Files***

The FASB maintains a public reference room open during office hours, Monday through Friday. The public reference room contains all FASB publications, comment letters on documents and transcripts of public hearings. Copies of this material may be obtained for a specified charge by accessing the FASB website at [www.fasb.org](http://www.fasb.org) or by contacting Records Retention at (203) 847-0700, ext. 270, for an appointment.

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To order additional copies of *FACTS about FASB* without charge, contact Public Relations at (203) 847-0700, ext. 252, or fax a request to (203) 849-9714.

## **MEMBERS OF THE FASB**

The seven members of the FASB serve full time and are required to sever all connections with the firms or institutions they served prior to joining the Board. While collectively they represent diverse backgrounds, they also must possess “knowledge of accounting, finance and business, and a concern for the public interest in matters of financial accounting and reporting.”

Board members are appointed for five-year terms and are eligible for reappointment to one additional five-year term. Expiration dates (at June 30) of current terms are indicated in captions beneath the members’ photographs.

***Robert H. Herz*** was appointed FASB Chairman, effective July 1, 2002. He was a Senior Partner with PricewaterhouseCoopers, its North America Theater Leader of Professional, Technical, Risk & Quality and a member of the firm’s Global and U.S. Boards. He also served as a part-time member of the IASB.

*He joined Price Waterhouse upon graduating from the University of Manchester in England with a B.A. degree in economics. He later joined Coopers & Lybrand as its Senior Technical Partner and later held a similar position with PricewaterhouseCoopers.*

*He has authored numerous publications and chaired the AICPA SEC Regulations Committee, the Transnational Auditors Committee of the International Federation of Accountants and was a member of the EITF.*

***G. Michael Crooch*** was a Partner with Arthur Andersen and Director of the firm’s International Professional Standards Group before joining the FASB on July 1, 2000. Mr. Crooch was the American Institute of Certified Public Accountants’ (AICPA) delegate to the International Accounting Standards Committee (IASC) and served on the IASC’s Executive Committee. He also served on the Institute’s Accounting Standards Executive Committee, including three years as the Committee Chairman. He earned bachelor’s and master’s degrees from Oklahoma State University and a Ph.D. from Michigan State University.

**Leslie F. Seidman** was named to the FASB, effective July 1, 2003. Prior to joining the Board, she managed her own financial reporting consulting firm. Among the previous posts she held were Vice President at J.P. Morgan & Company, where she was responsible for establishing accounting policies, and Assistant Director of Implementation and Practice Issues at the FASB. She started her career as an auditor at Arthur Young & Company. She earned a B.A. degree from Colgate University and an M.S. degree from New York University.

**Edward W. Trott** was appointed as a member of the FASB, effective October 1, 1999. Since 1992, he headed the Accounting Group of KPMG's Department of Professional Practice. Before joining the Board, he was a member of the FASB's Emerging Issues Task Force, the Financial Reporting Committee of the Institute of Management Accountants, the FASB's Advisory Council and the Accounting Standards Executive Committee and Auditing Standards Board of the AICPA. He holds a bachelor's degree from the University of North Carolina and an M.B.A. degree from the University of Texas.

**Katherine Schipper** was appointed to the FASB, effective September 2001. Prior to joining the FASB, she was the L. Palmer Fox Professor of Business Administration at Duke University's Fuqua School of Business. She has served the American Accounting Association (AAA) as President and as Director of Research. She was a member of the FASB's Advisory Council (FASAC) from 1996 to 1999. Ms. Schipper holds a B.A. degree from the University of Dayton and M.B.A., M.A. and Ph.D. degrees from the University of Chicago.

**Gary S. Schieneman** was appointed to the FASB, effective July 1, 2001. Prior to joining the FASB, Mr. Schieneman served as Director, Comparative Global Equity Analysis, of Merrill Lynch. He is a member of the American Institute of Certified Public Accountants (AICPA), the New York Society of Security Analysts and the Association for Investment Management and Research (AIMR). He received a bachelor's degree in accounting from the University of Illinois and earned an M.B.A. degree from New York University.

**George J. Batavick** was named a member of the FASB, effective August 1, 2003. He was previously Comptroller of Texaco Inc. where he had company-wide responsibility for strategy and policy matters covering all aspects of accounting and financial reporting. Prior to this post, he held a number of key positions, including Deputy Comptroller and Director of Internal Auditing. Before joining Texaco, he was with Getty Oil Company. He began his career at Arthur Andersen. He is a graduate of St. Joseph's University in Philadelphia where he earned a B.S. degree.

### **FASB Staff**

The Board is assisted by a staff of approximately 40 professionals drawn from public accounting, industry, academe and government, plus support personnel. The staff works directly with the Board and task forces, conducts research, participates in public hearings, analyzes oral and written comments received from the public and prepares recommendations and drafts of documents for consideration by the Board.

FASB Fellows are an integral part of the research and technical activities staff. The Fellowship program provides the Board the benefit of current experience in industry, academe and public accounting and offers the Fellows first-hand experience in the accounting standard-setting process. Fellows take a leave of absence from their firms or universities and serve as project managers or consultants on a variety of projects.

***Suzanne Q. Bielstein** is Director, Major Projects and Technical Activities for the FASB. Previously, she served in various capacities at the FASB, including Assistant Director of Technical Research and Project Manager on the business combinations and combinations for not-for-profit organizations. Prior to joining the FASB in early 1999, she spent five years with Caradon plc in two different roles—Vice President of Planning, North America, and Vice President and Corporate Controller of Clarke American Checks, Inc. (a subsidiary of Caradon). Before joining Caradon, Ms. Bielstein was an Audit Partner at KPMG in Boston. Ms. Bielstein earned a B.B.A. degree in accounting from the University of Notre Dame.*

***Kimberley Ryan Petrone**, who has been a member of the FASB staff since 1989, was named Director, Planning, Development and Support Activities in April 2002. Previously, Ms. Petrone was a Project Manager on the Board's business combinations project from 1997 through issuance of Statements 141 and 142 in July 2001 and has been involved in a number of other FASB projects. Before joining the FASB, Ms. Petrone was a Corporate Accounting and Financial Reporting Manager with Savin Corporation. Prior to Savin, she was with AMAX Inc. She earned a B.S. degree in accounting from the University of Bridgeport and an M.B.A. degree from the University of Connecticut.*

***Lawrence W. Smith** was named Director, Technical Application and Implementation Activities of the FASB in August 2002. Prior to assuming this post, he was a Partner with KPMG for 14 years, headquartered most recently in Stamford, Connecticut. From 1992–1996, Mr. Smith served as a Partner in KPMG's Department of Professional Practice in New York. During his 25-year tenure with KPMG, he served as Engagement Partner and SEC Reviewing Partner on a number of international Fortune 1000 clients. He is a past member of the Technical Standards Subcommittee of the Professional Ethics Committee of the AICPA. Mr. Smith received an M.S. degree in accounting from Northeastern University.*

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**Attachment 2**

**Excerpts from Recent Materials about the Importance of the FASB's  
Independence and Concerns about Proposed Legislation**

## **Excerpts from Recent Materials about the Importance of the FASB's Independence and Concerns about Proposed Legislation**

I know there are several bills in Washington that could erode confidence in the FASB, including the Enzi-Reid Stock Option Accounting Reform Act. While I personally won't tell you how to vote on that specific piece of legislation, it is absolutely critical that . . . you do everything you can to keep accounting standard setting in the private sector and preserve the role of the FASB. No accounting body has ever worked so well and it is unlikely that any replacement or increased government oversight will improve upon its performance.

*W. Steve Albrecht, Professor of Accounting and Associate Dean, Marriott School of Management, Brigham Young University, March 5, 2004*

**Politics and financial-reporting standards don't mix.** Accounting standards should be set by an independent and objective group of experts, free from political pressure, after careful study and an open comment period in which feedback is invited from all constituents. That is FASB's mandate. Elected officials must overcome the temptation to intervene and set a "politically correct" agenda for an independent standard-setter.

*The Association for Investment Management and Research (a worldwide, non-profit professional association of 70,000 securities analysts, fund managers, and investment advisors), April 9, 2004*

Financial markets' credibility and health would be best served if options were treated as an expense and Congress respected the independence of the FASB.

*The Baltimore Sun, April 16, 2004*

By and large FASB would be better off if Congress just stayed out of the rulemaking process.

*Dennis R. Beresford, Executive Professor of Accounting, The University of Georgia, and former Chairman of the Financial Accounting Standards Board, March 22, 2004*

It is very disappointing to see that members of Congress are again threatening to veto FASB on accounting for stock options. It is in no one's best interest to politicize accounting, and I hope that there will be a more evenhanded debate this time.

*Dennis R. Beresford, Executive Professor of Accounting, The University of Georgia, and former Chairman of the Financial Accounting Standards Board, July 2003*

I urge you to support the Financial Accounting Standards Board, its due process and the importance of maintaining the continuation of independent private-sector initiatives in the development and setting of accounting and financial standards.

*Richard H. Booth, President and Chief Executive Officer, HSB Group, Inc., March 3, 2004*

Companies who voluntarily expense have already begun to demonstrate that it yields more accurate earnings numbers, restores investor confidence, and can be accomplished without eliminating the benefits for rank-and-file employees. While H.R. 3574 would delay the implementation of FASB requirements, I strongly believe we must act now to increase discipline within the system and strengthen investor confidence by ending the special treatment that stock options have enjoyed for decades.

*The Honorable Michael N. Castle, United States House of Representatives, March 3, 2004*

Which brings me to the deeper and far more troubling core of what is wrong with this bill: the compromising of the FASB's independence. I oppose the injection of Congressional bias into the independent standard-setting process of the FASB – a process that was strongly endorsed by Congress during the development of the Sarbanes-Oxley Act, and ultimately embedded in the Act itself.

*Jack T. Ciesielski, CPA, CFA, Owner, R.G. Associates, Inc., March, 1, 2004*

The eagerness of lawmakers to work with Silicon Valley executives on legislation to control accounting standard-setting is a frightening sight to behold; it provides more evidence of the need for standard-setting that's out of their direct political grasp. An independent FASB is the best hope of America's individual investors, who don't have a well-oiled lobbying machine and aren't well-represented by elected officials.

*Jack T. Ciesielski, CPA, CFA, Owner, R.G. Associates, Inc., May 5, 2003*



Until the properly authorized expert independent organization, FASB, acts to correct this problem, many companies will hide behind differing earnings treatments and disdain performance-based options even while recognizing that they are the better approach to executive compensation. Congress should be careful not to politicize this issue and should permit FASB to take on this issue on its intrinsic merits. The recent support of the FASB by SEC Chairman Donaldson is encouraging as to the view at the SEC.

*Peter C. Clapman, Senior Vice President and Chief Counsel of Corporate Governance, TIAA-CREF (a full-service financial services provider with approximately \$262 billion in assets under management supporting the pensions of nearly 3 million individuals at nearly 15,000 institutions in the educational and research field), May 20, 2003*

The Securities and Exchange Commission long ago recognized the private sector's role in establishing accounting standards. We believe it would be a shame for this Congress to undo almost 70 years of independent thinking in this critical area.

*Scott Curtin, Managing Partner, Grant Thornton LLP, Kansas City, April 13, 2004*

The integrity of financial reporting requires that U.S. companies expense all stock options, contrary to the proposal of the Stock Option Accounting Reform Act (S. 1890 & H.R. 3574). The expensing of only stock options held by the five most highly compensated executive officers has the effect of overstating the profitability and assets of a corporation, and thereby misleading investors.

*Richard A. Curtis, Executive Director, The Highway Patrol Retirement System (a \$625 million pension fund), February 5, 2004*

While I am passionate about requiring the expensing of stock options, the principal purpose of this letter is to ask that the FASB be allowed to do its job. Congress should stay out of the debate. Congress has also been bashing auditors (partly justified) for not standing up to their clients. It is alleged that the auditors champion the interests of their clients for fear of losing fees. They are criticized of this even when the clients' interests prove to be correct. Many members of Congress are guilty of championing the interests of their constituents, regardless of how senseless the cause, for fear of losing political contributions. A pretty safe, if not honorable, thing to do 10 years ago. Now, however, when (it is estimated) 500 companies are voluntarily adopting the expensing of stock options and many investor advocates have favored expensing, those in Congress must realize it isn't only the ones that pass out all the contributions that have a vote!

*Raymond L. Dever, CPA (Retired), Tucson, AZ, February 26, 2004*

The supporters of this bill insult the intelligence of anybody with knowledge of accounting or finance. Not expensing employee stock options is accounting *FRAUD*. Chairman Alan Greenspan says options “should be expensed,” and the argument that they can’t be accurately valued is “flat wrong.” When it comes to options Silicon Valley will only be happy with options having a value of zero, anything else is not acceptable to TechNet. The Black-Scholes options’ pricing model is time tested, elegant, and accurate.

*Andrew H. Dral, Sacramento, CA, December 30, 2003*

Allow the Experts to Require Expensing of Options—Keep Politics Out. Options are a critical compensation tool, but they are not free. Current rules allow companies to choose not to list options as an expense on their financial statements. When options are not expensed, financial statements do not accurately reflect a company’s true financial state. In addition, current rules can encourage executive pay packages bloated with options grants that appear “free” to the company. The Financial Accounting Standards Board has stated its intent to require companies to list the cost of stock options in their financial statements. In 1994, Congress blocked a similar effort. . . . [T]his time, Congress must keep out and allow FASB to require options expensing.

*The Honorable John Edwards, United States Senate, July 7, 2003*

Congress should not substitute political decisions for the technical accounting decisions of our private sector independent accounting standards board. I will use every option at my disposal to fight any legislation that would undo the new rule or otherwise threaten independence.

*The Honorable Peter G. Fitzgerald, United States Senate, April 1, 2004*

After the disastrous financial accounting scandals of ENRON and TYCO, it is best for accounting standards to be determined by the experts, not politicians. We urge you to oppose H.R. 3574 or any legislation that interferes with the full adoption of FASB’s new draft rule and their independence.

*The Honorable Paul E. Gillmor, The Honorable Michael Castle, and The Honorable Pete Stark, United States House of Representatives, April 1, 2004*

H.R. 3574 would undo the progress made by the Sarbanes-Oxley Act of 2002 and recent Securities and Exchange Commission (SEC) Policy Statement reaffirming the Financial Accounting Standards Board (FASB) as the nation's accounting standard setter. Protecting the standard-setting process from political intervention was an important reason for these recent steps. The role of FASB is to pursue transparency and accuracy in accounting standards, not to choose among competing public policies. The FASB designs the ruler. It is for others to decide what to do with the measurements.

*The Honorable Paul E. Gillmor, United States House of Representatives, March 4, 2004*

We should not be setting accounting standards on a political basis. Also, the failure to expense options provides false and misleading statements to shareholders, because it does not accurately report the true costs to the company and shareholders, which explains the broad support for stock options expensing by financial experts such as SEC Chairman William Donaldson, Federal Reserve Chairman Alan Greenspan, former Fed Chairman Paul Volcker and Warren Buffett.

*The Honorable Paul E. Gillmor, United States House of Representatives, March 3, 2004*

Some members of Congress say they need to “protect” stock options to protect American technological leadership. That is a useful goal, and there are many things lawmakers could do to help attain it. Adequately funding federal research is one of them; conspiring with tech companies to perpetuate an accounting fiction isn't.

*Lee Gomes, The Wall Street Journal, March 22, 2004*

We are writing to you to again express our views on H.R. 3574, “Stock Option Accounting Reform Act” and to urge Congress not to prevent the Financial Accounting Standards Board from doing its job of independently setting U.S. accounting standards. We believe that this pending legislation should be withdrawn and that the authority of FASB not be undermined by this legislation.

*Laurie Fiori Hacking, Executive Director, Ohio Public Employees Retirement System (a \$58.7 billion fund serving three quarters of a million Ohioans, making the system the 10<sup>th</sup> largest state pension fund in the U.S.), April 5, 2004*

Requiring companies to expense only options granted to the CEO and the next four highest compensated executives, as proposed in S. 1890, is insufficient, and it appears to be based on a desire to report overly optimistic numbers rather than report comprehensive financial information. However, this is a decision that should not be made in Congress. Rather, the Financial Accounting Standards Board (FASB), an[] independent entity, is where this decision making should take place.

*Laurie Fiori Hacking, Executive Director, Ohio Public Employees Retirement System (a \$56 billion fund serving three quarters of a million Ohioans, making the system the 10<sup>th</sup> largest state pension fund in the U.S.), December 18, 2003*

Congress should keep out of the accounting principles debate because most members of Congress are not schooled in accounting as an information science or as a behavior catalyst or as an economic measurement.

*Mark E. Haskins, Professor of Business Administration, Darden School of Graduate Business Administration, University of Virginia, March 22, 2004*

To make the problem worse, my industry is now trying to get Congress to compromise the independence of the accountants on accounting policy. Hopefully Congress will demur. The SEC and FASB are not perfect, but they are good accountants and need to retain their independence.

*Reed Hastings, CEO, Netflix Inc., April 5, 2004*

Allowing FASB to determine the proper accounting treatment for stock options will mean that the treatment will be fairly reflected in the financial statements. For Congress to intervene in the issue of the proper treatment of stock options would mean that the accounting rules would reflect considerations other than fairly representing the financial condition of the business. This does not promote transparency in financial statements and thus is not in the best interests of the investor. Therefore, we urge you to oppose . . . [S. 1890/H.R. 3574].

*J. Thomas Higginbotham, American Institute of Certified Public Accountants (the national, professional organization of CPAs, with more than 330,000 members in business and industry, public practice, government and education), March 11, 2004*

The exposure draft by the Financial Accounting Standards Board, recommending that stock options be expensed on the income statement, although remaining agnostic on the method, produced an even greater howl of outrage from the tech sector and its tame politicians than had been expected. . . . When politicians . . . start setting accounting rules, the U.S. financial system is in trouble!

*Martin Hutchinson, United Press International, April 5, 2004*

It may seem attractive to put off this fight once again, but it is not going away. H.R. 1372 is an understandable effort, but the studies contemplated by H.R. 1372 are no answer to the problem. They are only a reason for another delay.

*The Honorable Roderick M. Hills, former Chairman of the United States Securities and Exchange Commission, June 3, 2003*

This is not the first time FASB has attempted to require appropriate expensing of stock options. In the mid-1990's FASB attempted to require option expensing, but was pressured by Congress to abandon its position. This thwarting of FASB's role as an independent body did nothing to protect shareholders from the corporate collapses that have plagued investors over the past several years. This time, we hope Congress will respect FASB's independence and not interfere with a process that we believe will result in providing shareholders with more transparent financial statements.

*James P. Hoffa, General President, International Brotherhood of Teamsters (representing 1.4 million active members and over 600,000 retirees, and individual pension and health and welfare benefit trusts with assets over \$100 billion), March 3, 2004*

Other leaders on Capitol Hill have agreed with me about the wisdom of protecting the independence of the Financial Accounting Standards Board. Earlier this year, Senator Shelby and Senator Sarbanes, the two most powerful members of the Senate Banking Committee, asserted their bipartisan opposition to intervening in the activities of the board. Chairman Oxley has also previously said that compromising the independence of the private board that set accounting rules “could negatively impact efforts to improve the transparency of financial reports.” I wholeheartedly agree. Deciding what should be accounted for and how it should be accounted for is the job of the Financial Accounting Standards Board, not the Congress.

*The Honorable Paul E. Kanjorski, Ranking Member, Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises, Committee on Financial Services, United States House of Representatives, March 3, 2004*

The expensing of stock options is long overdue. It will help bring corporate balance sheets into line with reality, and allow investors to measure the true value of executive compensation packages. . . . In the name of transparency, this bill would actually allow corporations to continue to obscure critical information. It is dramatically out of step with the increasing demand for openness and the transparency in the wake of the corporate scandals of the last two years.

*Adam Kanzer, Director of Shareholder Advocacy, Domini Social Investments, August 13, 2003*

Although Congress has an important oversight role with respect to financial accounting and reporting for public enterprises, Congress should not be getting involved in writing specific accounting standards. The FASB must be allowed to exercise its independence to study the issues and promulgate appropriate accounting standards under a full due process open to public debate. Congress should not override FASB’s expertise in accounting matters. The Board was established as an independent body to try and avoid undue influence by any single party. The Board’s thorough, open, and public due process is subject to active oversight by the private sector Financial Accounting Foundation and the United States Securities and Exchange Commission. We would be very concerned if political influence was brought to bear on a financial statement line item.

*Claude Lamoureux, Interim Chair, Accounting and Auditing Practices Committee, The International Corporate Governance Network (an international network of institutional investors, shareholder advocates and corporate governance experts collectively holding more than \$10 trillion in assets), February 2, 2004*

The bill, which purports to bridge the gap between expensing and antiexpensing factions, does nothing of the sort. It would require expensing only of options granted to each company's chief executive and the four other highest-paid executives – and mandate the use of a valuation method that amounts to a cure worse than the disease.

*Louis Lavelle, BusinessWeek, November 26, 2003*

Some in Congress are proposing to overrule FASB, but many industry leaders and investors have already spoken out against legislation that would interfere with FASB's independent judgment on accounting issues, including Alan Greenspan, William Donaldson, John Snow, Paul Volcker, Arthur Levitt, Charles Bowsher, Warren Buffett, John Biggs, the Investment Company Institute, Council of Institutional Investors, AFL-CIO, and Consumer Federation of America, to list a few.

*The Honorable Carl Levin and The Honorable John McCain, United States Senate, March 31, 2004*

Stock options are the 800 pound gorilla that has yet to be caged by corporate reform. Corporate scandals have shown how current U.S. accounting rules are fueling stock option abuses linked to deceptive accounting, excessive executive pay, and nonpayment of taxes by profitable corporations. Honest accounting of stock options would strengthen the accuracy of U.S. financial statements and help restore investor confidence in our financial markets. FASB and the International Accounting Standards Board have already proposed treating stock options as an expense, and over 275 U.S. companies have begun doing so on a voluntary basis. Legislation blocking requirements for stock option expensing is not only wrong on the issue, it is also an attack on FASB's independence. The legislation would take the unprecedented step of directing the SEC, once FASB exercises its independent judgment on an accounting issue, not to recognize or enforce that accounting judgment. It sends exactly the wrong message to investors about our commitment to accounting reform.

*The Honorable Carl Levin, United States Senate, May 1, 2003*

Naturally, Congress also has opinions. On the House side, a significant number of Representatives (many no doubt influenced by campaign contributions) think that FASB should be stopped in its tracks. But on the Senate side, Richard Shelby (R-Alabama), chairman of the Banking Committee, which has jurisdiction over the matter, seems determined to keep Congress out of it. The setting of accounting standards, he says, "should be left to the professionals."

*Carol J. Loomis, Fortune, April 19, 2004*

A lobbying blitz has begun to derail the FASB once again. Two bills have been introduced in Congress. One would deter the FASB from acting for three years while the issue was “studied,” as if it hadn’t been studied to death. The other would dictate a compromise rule change that would leave the issued hopelessly muddled.

.....  
Congress, which has the ultimate say on whether Washington intervenes, is divided. Write your congressman: Don’t let the silicon pigs skin you again.

*Roger Lowenstein, author of “Origins of the Crash: The Great Bubble and Its Undoing” and an outside director of the Sequoia Fund, SmartMoney, April 2004*

While I may suggest a different model than FASB ultimately adopts, let me be clear: *anything* FASB does on this is better than the existing approach, and *anything* Congress does to stand in the way is nothing but thuggery. FASB’s interest is to optimize information flow. Congressional machinations to limit this flow are ultimately a cost to all of us for the benefit of the few. That’s wrong.

We’re not talking about a change in economics, but rather a change in information flow. Where Congress is seeking to restrict information flow for the benefit of few flies in the face of what a non-political entity like FASB is chartered to do in the first place.

*Bill Mann, Senior Analyst, The Motley Fool, and Member of the FASB’s User Advisory Council, March 17, 2004*

The Senate holds hearings today to discuss a bill that would once again place political limitations on the FASB’s ability to make decisions on what constitutes good accounting. AeA and other well-heeled lobbying groups have already spent enormous sums pressing their cases on why this is a disaster for American entrepreneurial spirit – as is their right to do. While I find their arguments bankrupt and their attitude decidedly anti-shareholder, they’ve got the kind of currency that counts in the halls of Washington: big dollars.

*Bill Mann, Senior Analyst, The Motley Fool, and Member of the FASB’s User Advisory Council, November 12, 2003*

FASB has the expertise and independence to resolve stock option accounting, and Congress should not be legislating accounting rules or threatening FASB’s independence.

*The Honorable John McCain, United States Senate, March 31, 2004*



The expensing of stock options allows investors, analysts, corporate executives and employees, and auditors to properly understand the bottom line of corporations. This legislation blocking stock option expensing not only undermines FASB's independence, but undermines the effort to restore confidence in our financial markets as well.

*The Honorable John McCain, United States Senate, May 1, 2003*

Any politician who touches this is touching a real third rail now. They'd be promoting bad accounting and kowtowing to rich C.E.O.'s of tech companies dangling campaign contributions.

*Patrick S. McGurn, Special Counsel, Institutional Shareholder Services, March 21, 2004*

This is tech-executive protectionism masquerading as reform.

*Patrick S. McGurn, Special Counsel, Institutional Shareholder Services, November 20, 2003*

H.R. 3574 holds that if a pricing model is used to determine the fair value of an option, the assumed volatility of the underlying stock shall be zero. It is the case that under the assumption of zero volatility, any pricing model used will give about the same estimate of value. Thus, in effect, H.R. 3574 specifies the option-pricing model to use for expensing. This option valuation model is seriously flawed as an estimator of fair value. It is universally accepted that a large part of an option's value is the result of the volatility of the underlying stock price. But there are no real-world traded stocks whose volatility is zero and furthermore, technology firms which issue large amounts of options tend to have above-average levels of volatility. Thus the *mandated* approach of H.R. 3574 will uniformly undervalue all options and for at-the-money options it will uniformly undervalue the options by a large amount. This one provision will *de facto* preserve the current and past practice of not expensing options issued at or out of the money.

*Robert C. Merton, John and Natty McArthur University Professor, Harvard Business School, and 1997 recipient of the Alfred Nobel Memorial Prize in Economic Sciences, March 3, 2004*

As a Certified Public Accountant, I am very concerned over the government intervention in the setting of accounting standards. At present two bills (S 1890 and HR 3574) are before Congress that attempt to implement a political remedy to the highly publicized stock option controversy.

I urge you to support the accounting and financial community's efforts to pursue a comprehensive and reasonable course in setting accounting standards. The Financial Accounting Standards Board is currently considering the accounting issues related to stock options in a national as well as global context.

I ask that you support private sector standards settings and oppose the S 1890.

*Russell V. Meyers, Certified Public Accountant, Witt Mares Eggleston Smith, PLC, March 16, 2004*

**The tech lobby continues to argue against expensing options; we disagree and expose the flawed logic. . . .**

**Investors we surveyed don't accept the tech lobby's argument that job creation and U.S. competitiveness require keeping option expense out of the income statement.** Investors also shun creative legislative attempts such as limiting expense to five executives and exempting newly public companies for three years.

*Steven Milunovich, CFA, First Vice President, and Richard Farmer, Assistant Vice President, Merrill Lynch Global Securities Research & Economics Group, Global Fundamental Equity Research Department, Merrill Lynch, February 3, 2004*

Consider the 10-year war over stock options accounting. Even the scarecrow can see that options should be deducted from revenues along with employee costs. But some technology titans, who like being able to siphon off shareholder wealth, continue to battle against truth in financial statements. They urge employees to write to Congress and they pay lobbyists to sprinkle money in all the right places on Capitol Hill.

*Gretchen Morgenson, The New York Times, March 21, 2004*

Investors and the capital markets rely on transparent financial reporting and an independent accounting standard-setting process. As we have previously stated in other contexts, we urge Congress to preserve the independence of the Financial Accounting Standards Board (FASB) and to avoid legislation that would have the effect of restricting the FASB's ability to establish accounting standards.

Further, we reaffirm our support, already expressed to the FASB, for the mandatory expensing of all employee stock options, whose fair value would be determined in a manner suitable for the reporting company.

*Dennis M. Nally, Chairman and Senior Partner, PricewaterhouseCoopers LLP, Eugene O'Kelly, Chairman and Chief Executive Officer, KPMG LLP, James H. Quigley, Chief Executive Officer, Deloitte & Touche USA LLP, and James S. Turley, Global Chairman and CEO, Ernst & Young LLP, March 17, 2004*

I firmly believe that Congress should continue to leave accounting standard setting in the private sector, with the understanding that the SEC already has ultimate authority with respect to accounting at publicly traded companies.

By not supporting this legislation, you would be acting to maintain high-quality independent private-sector financial-accounting standard setting in the United States.

*Mark W. Nelson, Eleanora and George Landew Professor of Management and Professor of Accounting, Cornell University's Johnson Graduate School of Management, March 3, 2004*

THE stock market bubble might have been less severe. The wild swings in federal budget deficits might have been reduced. Companies would owe a lot less money. Less wealth would have been transferred from shareholders to managers, then perhaps less paper wealth would have been created. Richard A. Grasso might still be running the New York Stock Exchange.

All that might have happened if American politicians, a decade ago, had not forced the Financial Accounting Standards Board to back down from its proposal to force companies to record as a compensation expense the value of stock options given to employees.

Now the accounting standards board is trying again, and this time it will probably succeed, although there is no guarantee. Some companies are pushing a "compromise" that would deduct the expense – at ridiculously low values – of only those options given to high executives. There is no logical reason options given to one employee would be an expense while those given to another would not. But the hope is that politicians will be able to claim they are voting for little-guy recipients, not greedy corporate bosses.

*Floyd Norris, The New York Times, April 2, 2004*

Congressional action on this issue will ultimately only damage the FASB's credibility and will make it even more difficult in the future for the FASB to adopt standards with which any constituency disagrees. The ultimate losers if that occurs will be investors, who play a significant role in our economy by investing in companies debt and equity securities, and, ironically, those who oppose the FASB's efforts to improve the accounting for stock-based compensation. As noted in the FASB's mission statement, accounting standards "are essential to the efficient functioning of the economy because decisions about the allocation of resources rely heavily on credible, concise, transparent and understandable financial information." If investors do not have confidence in the accounting standards used in preparing financial statements, they either will not invest or will charge a significant premium for the capital they provide. Either outcome would have an adverse economic consequence, both for the companies attempting to raise capital as well as for our economy as a whole.

*Edward Nusbaum, CEO, Grant Thornton LLP, March 17, 2004*

. . . EDS is withdrawing its membership in the Employee Stock Option Expensing Coalition. EDS supports the Financial Accounting Standards Board's (FASB) current project to improve the accounting for equity-based compensation, including the mandatory expensing of all employee stock options. It is expected that the FASB project will result in a final standard in November 2004. We are committed to fully complying with the language and intent of the requirements of that standard when issued. EDS supports the independence of the FASB. We are not interested in participating in any effort that might be viewed as undermining FASB's standard setting process. Please refrain from using EDS' name as a supporter of the Coalition's efforts.

*Michael E. Paolucci, Vice President, Global Compensation and Benefits, EDS,  
March 4, 2004*

HR 3574 would for the first time directly insert Congress into the FASB's independent, objective, thorough, and open accounting standard setting process. It would establish a precedent that would surely prompt others to seek political intervention in future technical activities of the FASB, irrespective of the public good that results from credible, transparent financial reporting.

*Ned Regan, President, Baruch College, and Trustee of the Financial Accounting  
Foundation, March 23, 2004*

As the 10<sup>th</sup> largest institutional investor in the U.S., OPERS has a fiduciary duty to protect the financial futures of its retirees and members. The bill would allow corporations to continue to report overly optimistic numbers rather than report more accurate and comprehensive information. . . . Any effort to diminish the important role of FASB as an independent body will only serve to further harm investors who have already experienced a loss of both money and confidence in the U.S. capital markets.

*Cynthia Richson, Corporate Governance Officer, The Ohio Public Employees Retirement System (with assets of approximately \$58.7 billion, OPERS is the largest state pension fund in Ohio, the 10<sup>th</sup> largest state pension system in the U.S. and the 17<sup>th</sup> largest in the world), January 14, 2004*

This bill is a bad idea for three fundamental reasons:

- It undermines the authority of the FASB at a time when it is essential that we restore faith in our financial reporting system,
- The bill does not reflect the economic substance of the transaction taking place and provides a political, rather than an economic answer to an important valuation problem, and
- It undermines the faith of young people in the integrity of our political system.

*Larry Rittenberg, PhD, CPA, CIA, Professor of Accounting, University of Wisconsin, and Terry Warfield, PhD, Associate Professor of Accounting, University of Wisconsin—Madison, March 10, 2004*

Just a year after giving near unanimous approval to legislation designed in part to allow FASB to develop accounting rules free from the threat of outside interference, some members of Congress have already reneged on that promise and are trying to prevent FASB from adopting a stock options expensing rule that it believes is in investors' best interests. . . . If they succeed, they will not only undermine the transparency of corporate financial disclosures, they will deal a fatal blow to the independence of the accounting standard-setting process.

*Barbara Roper, Director of Investor Protection, Consumer Federation of America, August 13, 2003*

Congress should not politicize or interfere with FASB's independence and professionalism in setting accounting standards to improve the accounting for equity-based compensation or for any other project. As CPAs, we urge you to strongly oppose H.R. 3574 and H.R. 1372, and any other legislation that would override the independent judgment of FASB. We hope you will agree with our view that the accounting standard setting process is best left to independent experts in the private sector.

*The Honorable E. Clay Shaw, Jr. and the Honorable Collin Peterson, United States House of Representatives, March 23, 2004*

I don't think we should make those rules in the Banking Committee or even in Congress. . . . [FASB] understands the implications. There are economic implications here, but it also gets into corporate governance and honesty in financial statements.

*The Honorable Richard C. Shelby, Chairman of the Committee on Banking, Housing, and Urban Affairs, United States Senate, June 30, 2003*

For these reasons, we strongly oppose the "Broad-Based Stock Option Plan Transparency Act of 2003" ("HR 1372"), which would prohibit the SEC from recognizing as GAAP any new accounting standards related to the treatment of stock options for more than three years. More is at stake here than just option accounting or executive compensation. Our markets will be damaged if it appears that our accounting standards are still being held hostage to the political dynamics that prevented effective regulation in the 1990s. The credibility of the American capital markets is at stake.

*Damon Silvers, Associate General Counsel, AFL-CIO (representing more than 66 national and international unions and their membership of more than 13 million working women and men, and with union-sponsored pension plans with \$400 million in assets), June 3, 2003*

This new bill doesn't do anything. . . . This is just a veiled attempt to try and let them [the tech industry] off the hook.

*The Honorable Pete Stark, United States House of Representatives, November 20, 2003*

With all due respect, the appropriate process and forum for setting technical and high-quality standards for financial accounting and reporting is not lobbying in the halls of Congress. Rather, the standard-setting process needs to stay with an independent and expert FASB, solely dedicated to that fair, unbiased and transparent financial reporting essential to the growth and stability of the nation's economy. Enactment of H.R. 3574 can only undermine investor trust and confidence in the market, and frustrate that proper deployment of capital critical to our economic prosperity.

*Edward J. Theobald, Chairman, Board of Trustees, The New Hampshire Retirement System (a trustee, employee-contributory pension plan, covering over 60,000 New Hampshire public workers: fire, police, teacher, state and local public employees; the fund invests billions of dollars in publicly traded companies solely for the purpose of funding the retirement benefits of its members), March 15, 2004*

FASB's decision to require stock option expensing in 2005 will strengthen investor confidence in the financial statements of large and small businesses, thus lowering their cost of capital. The efficient allocation of capital to the most economically valuable business activities depends on consistent accounting rules. For this reason, we believe all businesses should expense stock options, so that stock options do not artificially boost any company's reported reports. Congress should let FASB do its job.

*Richard L. Trumka, Secretary-Treasurer, American Federation of Labor and Congress of Industrial Organizations (representing 13 million members, benefit plans with \$5 trillion in assets, and pension plans holding almost \$400 billion in assets), March 3, 2004*

To put the matter most pointedly. If the U.S. Congress, or political authorities in other countries, seek to override the decisions of the competent professional standard setters – including those of the IASB for which I have responsibility – accounting standards will inevitably lose consistency, coherence and credibility, weakening the fabric of the international financial system.

*The Honorable Paul A. Volcker, Chairman of the Trustees of the International Accounting Standards Committee Foundation, and former Chairman of the Federal Reserve System, June 3, 2003*

Speaking not only as a constituent but also as an advisory credit union professional to the FASB, the importance of this issue is paramount to millions of Americans who desperately need confidence in the accounting rules for American businesses. The independence of the standard setting process is vital to their best interests.

Please do not support legislation that seeks to circumvent this process.

*Scott M. Waite, Senior Vice President, Chief Financial Officer, Patelco Credit Union, March 17, 2004*

We are quite concerned that overt actions, however, well-intentioned they may be, that have the effect of undermining the authority of the FASB to set accounting standards will be detrimental to the Board and its constituents. As we cannot envision a viable alternative to the private sector standard setting process we have today, it is important that Congress not undertake actions that would undermine and potentially cripple that process. We believe that the legislation should be withdrawn and that responsibility for the resolution of this matter be left to the FASB, with vigilant oversight by the Securities and Exchange Commission.

*Kim R. Wallin, CMA, CFM, CPA, Chair, Institute of Management Accountants (the largest organization in this country devoted exclusively to management accounting and financial management professionals inside the corporation, with approximately 65,000 members), March 31, 2004*

Opponents of expensing also claim that Congress must act because the green-eyeshade types aren't taking into account the devastating effect they say expensing will have on the economy; the legislation they are pushing would block the FASB rule while an economic impact study is conducted. Yet the CBO says requiring expensing "is unlikely to hurt the overall economy" and in fact could make it more productive. The anti-expensing forces are running out of arguments.

*The Washington Post, April 7, 2004*

The good news is that the Senate, where Banking Committee Chairman Richard C. Shelby (R-Ala.) opposes the measure, doesn't seem inclined to succumb to the opponents' unpersuasive arguments – or their (perhaps more persuasive) campaign contributions. The risk is that the anti-expensing forces, unable to get their measure through the Senate on its own, will try to attach it to a spending bill or some other must-pass legislation. Anyone who remembers the recent corporate scandals should guard against that.

*The Washington Post, April 2, 2004*



Worse still, Mr. Enzi's bill would in effect block FASB's own expensing rule from taking effect while a "comprehensive economic impact study" is conducted. And Mr. Enzi would require FASB to adopt a "truing-up" requirement under which the actual cost of the option (once it's exercised, expires or is forfeited) is ultimately reflected on the corporate books. There are legitimate criticisms of the complexity and manipulability of the expensing models that FASB is considering, and truing-up may be a reasonable approach, but isn't this just the kind of decision that ought to be left to the accountants at FASB – not the non-accountants in Congress?

*The Washington Post, January 2, 2004*

At the same time, there are disturbing signs of backsliding. Less than a year after affirming the importance of maintaining the independence of the Financial Accounting Standards Board, which writes the non-auditing rules for accountants, lawmakers are foolishly weighing interfering with the board's move to require expensing of stock options.

*The Washington Post, July 30, 2003*

You don't need to know where you come out on this arcane dispute to know who ought to be deciding it – and who ought to keep their noses out of it. This is a matter for accountants, not politicians, and it would have been handled by the accountants long ago were it not for the political clout (and the campaign checks) of high-technology companies.

*The Washington Post, May 21, 2003*

Investors expect and deserve accounting standards that promote transparency and meaningful financial reporting, and an independent standards-setting process best satisfies their needs.

We urge Congress to recognize the critical contribution of an independent FASB to the effective operation of the capital markets, and to reject any proposal that would substitute legislation for the FASB's independent standards-setting process.

*Jack A. Weisbaum, Chairman of the Board, BDO Seidman, LLP (a national professional services firm providing assurance, tax, financial advisory and consulting services to private and publicly traded businesses), March 19, 2004*

Ohio's public pension fund managers strongly support the independent authority of FASB in setting accounting standards, which would be severely undermined by H.R. 3574. This legislation would be a significant setback in the new era of honest accounting that has been ushered in by the Sarbanes-Oxley Act.

*Daniel K. Weiss, CPA, JD, Chief Financial Officer, Highway Patrol Retirement System, On Behalf of the State of Ohio Public Employee Pension Funds (representing one-and-a-quarter million members and beneficiaries, and combined invested assets of 135 billion dollars), March 3, 2004*

Congressional interference on stock option expensing, or any other accounting issue, is always inappropriate. The Council finds the current legislative efforts to impair the FASB's independence particularly disappointing during a time when investors have collectively suffered tremendous losses in the U.S. capital markets, due in part to corporate scandals resulting from overly-aggressive or fraudulent accounting practices. Any efforts to stonewall the FASB will ultimately hurt millions of U.S. investors.

*Ann Yerger, Deputy Director, The Council of Institutional Investors (an association of more than 140 corporate, public and union pension funds collectively responsible for more than \$3 trillion in pension assets), March 2, 2004*

Requiring companies to expense only options granted to the CEO and the next four highest compensated executives, as proposed in S. 1890, is insufficient, and it appears to reflect an interest rooted more in attractive numbers than comprehensive information. But this is a decision that should not be made in Congress in the first place.

*Ann Yerger, Deputy Director, The Council of Institutional Investors (an association of more than 140 corporate, public and union pension funds collectively responsible for more than \$3 trillion in pension assets), November 21, 2003*

As a partner in a Wall Street law firm and the author of the text *Accounting Irregularities and Financial Fraud*, I have been becoming increasingly concerned over the prospect of political considerations potentially influencing the formulation of generally accepted accounting principles. That is particularly the case with S. 1890, insofar as the political analysis is apparently to include an assessment of the "economic impact" of the accounting standard rather than solely the overriding objective of reporting the truth. At public companies, allowing the "economic impact" of an accounting decision to influence the public reporting of financial results is often labeled "fraud."

*Michael R. Young, Partner, Wilkie Farr & Gallagher LLP, March 8, 2004*

**Testimony of  
Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
Before the  
Subcommittee on Financial Management, the Budget, and International  
Security of the Committee on Governmental Affairs  
April 20, 2004**

**Attachment 3**

**List of Companies (Alphabetical and by State) That Currently Expense or  
Intend to Expense Stock Options Using the Fair Value Method**

**February 12, 2004**

**Companies that currently expense or intend to expense stock options using the fair value method:**

Of the 483 companies that have adopted or will adopt fair value expensing of stock options, 279 (58%) have market capitalizations in excess of \$1 billion and 113 (23%) are S&P 500 companies.

The 113 companies from the S&P 500 represent 23% of the index based on number of companies and 41% of the index based on market capitalization.

(\$ in millions)

Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
SUA	Abbey National PLC	Dec-03	No	N/A	2002	3/7/2003	Finance	Investment Management	Retroactive Restatement
ABER	Aber Diamond Corp	Jan-04	No	1,951	2003	12/3/2002	Non-Energy Minerals	Other Metals/Minerals	Method Not Specified
AKR	Acadia Rly Trust	Dec-03	No	392	2002	3/28/2003	Finance	Real Estate Investment Trusts	Prospective
AES	AES Corp	Dec-03	Yes	6,077	2003	3/26/2003	Utilities	Electric Utilities	Prospective
AEM	Agnico-Eagle Mines Limited	Dec-03	No	1,088	2003	5/7/2003	Non-Energy Minerals	Precious Metals	Prospective
ACNAF	Air Canada	Dec-03	No	40	2002	2/12/2003	Transportation	Airlines	Prospective
ALAB	Alabama National Bancorporation	Dec-03	No	674	1998	1998	Finance	Regional Banks	Prospective (b)
AIN	Albany International Corp	Dec-03	No	1,083	2003	8/8/2003	Process Industries	Textiles	Prospective
ARE	Alexandria Real Estate Equity Inc	Dec-03	No	1,185	2003	3/31/2003	Finance	Real Estate Investment Trusts	Prospective
Y	Allegheny Corp	Dec-03	No	1,756	2003	3/20/2003	Finance	Property/Casualty Insurance	Prospective
AACB	Alliance Atlantis Communications, Inc	Mar-04	No	687	2003	8/7/2003	Consumer Services	Broadcasting	Prospective
AC	Alliance Capital Management Holdings LP	Dec-03	No	2,849	2003	5/14/2003	Finance	Investment Managers	Prospective
AZ	Allianz AG	Dec-03	No	47,229	2003	11/28/2003	Finance	Multi-Line Insurance	Retroactive Restatement
ALL	Allstate Corp	Dec-03	Yes	31,984	2003	8/12/2002	Finance	Property/Casualty Insurance	Prospective
AMZN	Amazon (c)	Dec-03	No	20,329	N/A	7/23/2002	Retail Trade	Internet Retail	Not Adopted
AMB	AMB Property Corp	Dec-03	No	2,866	2002	7/8/2002	Finance	Real Estate Investment Trusts	Prospective
ABK	Ambac Financial Group Inc	Dec-03	Yes	8,239	2003	10/17/2002	Finance	Specialty Insurance	Prospective
ACO	AMCOL International Corp	Dec-03	No	576	2003	5/14/2003	Non-Energy Minerals	Construction Materials	Prospective
AEE	Ameren Corp	Dec-03	Yes	7,842	2003	3/5/2003	Utilities	Electric Utilities	Prospective
ACAS	American Capital Strategies	Dec-03	No	1,813	2003	5/14/2003	Finance	Finance/Rental/Leasing	Prospective
AXP	American Express	Dec-03	Yes	66,563	2003	8/12/2002	Finance	Financial Conglomerates	Prospective
SOFN	American Independence Corp	Sep-03	No	119	2003	11/2002	Finance	Life/Health Insurance	Prospective
AIG	American International Group	Dec-03	Yes	186,025	2003	8/11/2002	Finance	Multi-Line Insurance	Prospective
ANL	American Land Lease Inc	Dec-03	No	143	2003	3/26/2003	Finance	Real Estate Investment Trusts	Prospective
AMK	American Technical Ceramic	Jun-04	No	72	2003	9/26/2003	Electronic Technology	Electronic Components	Prospective
ACF	AmeriCredit Corp	Jun-04	No	2,692	2003	11/10/2003	Finance	Finance/Rental/Leasing	Prospective
AMTD	Ameritrade Holding Corp	Sep-03	No	6,686	2003	10/31/2003	Finance	Investment Banks/Brokers	Prospective
APC	Anadarko Petroleum Corp	Dec-03	Yes	12,520	2003	3/14/2003	Energy Minerals	Oil & Gas Production	Prospective
AGCC	Anchor Glass Container Corp.	Dec-03	No	392	2003	5/15/2003	Process Industries	Containers/Packaging	Prospective
ANR	Annuity And Life RE Holdings	Dec-03	No	38	2003	11/14/2003	Finance	Life/Health Insurance	Prospective
AIV	Apartment Investment & Management Co.	Dec-03	Yes	3,314	2003	3/7/2003	Finance	Real Estate Investment Trusts	Prospective
AIT	Applied Industrial Technologies Inc	Jun-04	No	476	2003	10/14/2003	Distribution Services	Wholesale Distributors	Modified Prospective
ARCH	Arch Wireless Inc	Dec-03	No	0	2003	8/12/2003	Communications	Wireless Telecommunications	Prospective
ARI	Arden Realty Group	Dec-03	No	1,997	2003	3/28/2003	Finance	Real Estate Investment Trusts	Prospective
ARTL	Aristotle Corp	Dec-03	No	85	2002	11/7/2002	Consumer Non-Durables	Apparel/Footwear	Prospective
HOST	Arlington Hospitality Inc	Dec-03	No	20	2003	11/14/2003	Consumer Services	Hotels/Resorts/Cruiselines	Method Not Specified
ARM	ArvinMeritor, Inc	Sep-03	No	1,521	2003	2/12/2003	Producer Manufacturing	Auto Parts: OEM	Modified Prospective
ASH	Ashland Inc	Sep-03	Yes	3,191	2003	2/13/2003	Energy Minerals	Oil Refining/Marketing	Modified Prospective
APQCF	Asia Pacific Resources Ltd	Feb-04	No	74	2003	7/1/2003	Non-Energy Minerals	Other Metals/Minerals	Prospective
ALF	Assisted Living Concepts Inc	Dec-03	No	N/A	2003	8/14/2003	Health Services	Hospital/Nursing Management	Prospective
T	AT&T	Dec-03	Yes	15,411	2003	10/22/2002	Communications	Major Telecommunications	Prospective
ALRE	Atlas Resources International Inc	Mar-04	No	1	2003	11/14/2003	Process Industries	Agricultural Commodities/Milling	Prospective
AVB	Avalon Bay Communities Inc	Dec-03	No	3,499	2003	5/14/2003	Finance	Real Estate Investment Trusts	Prospective
AVI	Avis Group Hldgs Inc (d)	Dec-03	No	N/A	2003	3/6/2003	Finance	Finance/Rental/Leasing	Prospective
BKR	Baker Michael Corp	Dec-03	No	91	2003	3/28/2003	Industrial Services	Engineering & Construction	Prospective
BDG	Bandag Inc	Dec-03	No	807	2002	11/14/2002	Consumer Durables	Automotive Aftermarket	Modified Prospective
BAC	Bank of America Corp	Dec-03	Yes	118,174	2003	8/12/2002	Finance	Major Banks	Prospective
BK	Bank of New York Co. Inc	Dec-03	Yes	24,616	2003	8/13/2002	Finance	Major Banks	Prospective
BNS	Bank of Nova Scotia	Oct-03	No	25,711	2003	12/4/2002	Finance	Major Banks	Prospective
OZRK	Bank of the Ozarks Inc	Dec-03	No	390	2003	7/11/2003	Finance	Regional Banks	Prospective
ONE	Bank One	Dec-03	Yes	56,902	2002	7/16/2002	Finance	Major Banks	Prospective
MWH	BayCorp Holdings Corp	Dec-03	No	9	2003	8/14/2002	Utilities	Electric Utilities	Prospective
BCE	BCE Inc	Dec-03	No	20,568	2003	12/18/2002	Communications	Major Telecommunications	Prospective
BSC	Bear Stearns Cos Inc	Nov-03	Yes	8,140	2003	2/28/2003	Finance	Investment Banks/Brokers	Prospective
BED	Bedford Property Investors Inc	Dec-03	No	485	2003	3/11/2003	Finance	Real Estate Investment Trusts	Modified Prospective
BLS	BellSouth Corp	Dec-03	Yes	54,704	2003	2/28/2003	Communications	Major Telecommunications	Retroactive Restatement
BETA	Beta Oil & Gas Inc	Dec-03	No	37	2003	3/31/2003	Energy Minerals	Oil & Gas Production	Prospective
BBL	BHP Billiton PLC	Jun-04	No	51,840	2003	10/23/2003	Non-Energy Minerals	Other Metals/Minerals	Modified Prospective
BICR	Bicoral Inc	Dec-03	No	933	2003	3/13/2003	Health Technology	Medical Specialties	Prospective
BA	Boeing Co	Dec-03	Yes	35,501	1998	1998	Electronic Technology	Aerospace & Defense	Prospective (b)
BOKF	BOK Financial Corp.	Dec-03	No	2,289	2003	11/14/2003	Finance	Regional Banks	Retroactive Restatement
BSHI	Boss Holdings Inc	Dec-03	No	14	2003	3/28/2003	Consumer Non-Durables	Apparel/Footwear	Prospective
BDN	Brandywine Realty Trust	Dec-03	No	1,105	2002	3/27/2003	Finance	Real Estate Investment Trusts	Prospective
BRE	BRE Properties, Inc	Dec-03	No	1,672	2003	10/14/2002	Finance	Real Estate Investment Trusts	Prospective
CGT	CAE Inc	Mar-04	No	1,027	2003	8/8/2003	Electronic Technology	Aerospace & Defense	Method Not Specified
CALC	California Coastal Communities, Inc	Dec-03	No	110	2003	8/7/2003	Finance	Real Estate Development	Modified Prospective
CPN	Calpine Corp	Dec-03	Yes	2,404	2003	8/23/2002	Utilities	Alternative Power Generation	Prospective
CLPO	Calprop Corp	Dec-03	No	4	2002	4/25/2003	Consumer Durables	Homebuilding	Prospective
CAC	Camden National Corp	Dec-03	No	247	2003	8/27/2002	Finance	Regional Banks	Prospective
CCJ	Cameco Corp	Dec-03	No	2,543	2003	1/28/2004	Non-Energy Minerals	Other Metals/Minerals	Prospective
CLU	Canada Life Financial Corp (e)	Dec-03	No	N/A	2003	12/9/2002	Finance	Life/Health Insurance	Prospective
CNI	Canadian National Railway Company	Dec-03	No	11,282	2003	4/23/2003	Transportation	Railroads	Prospective
COS UN	Canadian Oil Sands Trust	Dec-03	No	N/A	2003	10/23/2003	Miscellaneous	Investment Trusts/Mutual Funds	Method Not Specified
CP	Canadian Pacific Railway Limited	Dec-03	No	4,106	2003	1/27/2004	Transportation	Railroads	Prospective
GUSH	Canargo Energy Corp	Dec-03	No	59	2003	11/14/2003	Industrial Services	Oilfield Services/Equipment	Prospective

(\$ in millions)

Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
CCBG	Capital City Bank Group Inc	Dec-03	No	566	2003	5/15/2003	Finance	Regional Banks	Prospective
CTDN	Capital Directions Inc	Dec-03	No	33	2002	3/31/2003	Finance	Major Banks	Prospective
COF	Capital One Financial Corp	Dec-03	Yes	16,704	2003	1/21/2004	Finance	Finance/Rental/Leasing	Prospective
CSWC	Capital Southwest Corp	Mar-04	No	263	2003	8/8/2003	Finance	Miscellaneous	Prospective
CRE	Carramerica Realty Corp	Dec-03	No	1,669	2003	2/28/2003	Finance	Real Estate Investment Trusts	Prospective
CATY	Cathay Bancorp, Inc (f)	Dec-03	No	1,367	2003	4/15/2003	Finance	Regional Banks	Method Not Specified
CBL	CBL & Associates Properties, Inc	Dec-03	No	1,829	2003	10/29/2002	Finance	Real Estate Investment Trusts	Prospective
	CBRE Holdings Inc. (g)	Dec-03	No	N/A	2002	4/30/2003	Finance	Real Estate Investment Trusts	Prospective
FUN	Cedar Fair, L.P.	Dec-03	No	1,598	2003	9/8/2003	Consumer Services	Movies/Entertainment	Modified Prospective
CZ	Celanese AG	Dec-03	No	2,006	2002	10/22/2002	Process Industries	Chemicals: Specialty	Method Not Specified
CLS	Celestica Inc	Dec-03	No	3,880	2003	1/29/2004	Electronic Technology	Electronic Components	Prospective
CD	Cendant Corp (d)	Dec-03	Yes	22,949	2003	8/28/2002	Consumer Services	Other Consumer Services	Prospective
CTX	Centex Corp	Mar-04	Yes	6,523	2004	9/12/2002	Consumer Durables	Homebuilding	Prospective
CETVF	Central European Media Enterprise	Dec-03	No	505	2003	5/7/2003	Consumer Services	Broadcasting	Prospective
CHG	CH Energy Group Inc	Dec-03	No	733	2003	2/19/2003	Utilities	Electric Utilities	Modified Prospective
CHTR	Charter Communications	Dec-03	No	1,426	2002	8/6/2002	Consumer Services	Cable/Satellite TV	Prospective
CME	Chicago Mercantile Exchange Holdings Inc	Dec-03	No	2,794	2003	1/10/2003	Finance	Investment Banks/Brokers	Retrospective Restatement
CEVC	China Energy Ventures Corp	Dec-03	No	19	2002	4/16/2003	Communications	Specialty Telecommunications	Prospective
CHH	Choice Hotels International, Inc	Dec-03	No	1,369	2003	9/25/2002	Consumer Services	Hotels/Resorts/Cruiselines	Prospective
CWON	Choice One Communications	Dec-03	No	42	2003	11/21/2002	Communications	Specialty Telecommunications	Prospective
CB	Chubb Corp	Dec-03	Yes	13,607	2003	8/14/2002	Finance	Property/Casualty Insurance	Modified Prospective
CSB	Ciba Specialty Chemicals Holdings Inc	Dec-03	No	5,525	2003	2/4/2003	Process Industries	Chemicals: Specialty	Modified Prospective
CIN	Cinergy Corp	Dec-03	Yes	6,896	2003	7/24/2002	Utilities	Electric Utilities	Prospective
C	Citigroup	Dec-03	Yes	255,251	2003	8/4/2002	Finance	Financial Conglomerates	Prospective
CLF	Cleveland-Cliffs Inc	Dec-03	No	458	2003	4/24/2003	Non-Energy Minerals	Steel	Prospective
CMS	CMS Energy Corp	Dec-03	Yes	1,415	2003	3/31/2003	Utilities	Electric Utilities	Prospective
KO	Coca-Cola Co.	Dec-03	Yes	123,501	2002	7/14/2002	Consumer Non-Durables	Beverages: Non-Alcoholic	Modified Prospective
COHT	Cohesant Technologies Inc	Nov-03	No	19	2003	3/31/2003	Producer Manufacturing	Industrial Machinery	Modified Prospective
CLP	Colonial Properties Trust	Dec-03	No	1,053	2003	3/28/2003	Finance	Real Estate Investment Trusts	Prospective
CMA	Comerica	Dec-03	Yes	9,994	2002	8/6/2002	Finance	Major Banks	Prospective
CMMD	Command Securities	Mar-04	No	9	2002	6/30/2003	Commercial Services	Miscellaneous Commercial Services	Prospective
CBSH	Commerce Bancshares, Inc	Dec-03	No	3,321	2003	2/3/2003	Finance	Regional Banks	Retrospective Restatement
CA	Computer Associates	Mar-04	Yes	15,213	2003	7/29/2002	Technology Services	Packaged Software	Prospective
COP	ConocoPhillips	Dec-03	Yes	46,121	2003	9/25/2002	Energy Minerals	Integrated Oil	Prospective
MCF	Conlong Oil & Gas	Jun-04	No	68	2002	8/5/2002	Energy Minerals	Oil & Gas Production	Prospective
CBE	Cooper Industries	Dec-03	Yes	5,256	2003	8/6/2002	Producer Manufacturing	Electrical Products	Prospective
CORS	Corus Bankshares Inc	Dec-03	No	1,046	2003	1/20/2004	Finance	Regional Banks	Modified Prospective
COST	Costco Wholesale Corp	Aug-03	Yes	17,360	2003	8/14/2002	Retail Trade	Discount Stores	Prospective
CACC	Credit Acceptance Michigan	Dec-03	No	693	2003	4/24/2003	Finance	Finance/Rental/Leasing	Retrospective Restatement
CSR	Credit Suisse Group	Dec-03	No	46,415	2003	8/5/2003	Finance	Major Banks	Prospective
CREO	Creo Inc.	Sep-03	No	550	2004	2/3/2004	Technology Services	Packaged Software	Method Not Specified
CEI	Crescent Real Estate Equities Co.	Dec-03	No	1,789	2003	3/28/2003	Finance	Real Estate Investment Trusts	Prospective
CWN	Crown American Realty	Dec-03	No	N/A	2003	8/13/2003	Finance	Real Estate Investment Trusts	Modified Prospective
CCI	Crown Castle International Inc.	Dec-03	No	2,726	2003	5/13/2003	Communications	Specialty Telecommunications	Prospective
CSGS	CSG Systems International	Dec-03	No	771	2003	12/10/2003	Technology Services	Data Processing Services	Prospective
CSX	CSX Corp	Dec-03	Yes	6,754	2003	2/26/2003	Transportation	Railroads	Prospective
CUM	Cummins Inc	Dec-03	Yes	2,146	2003	5/12/2003	Producer Manufacturing	Trucks/Construction/Farm Machinery	Prospective
DCX	DaimlerChrysler AG - ADR	Dec-03	No	46,923	2003	7/24/2003	Consumer Durables	Motor Vehicles	Prospective
DTMG	DataMEG Corp	Dec-03	No	40	2003	4/16/2003	Electronic Technology	Electronic Components	Prospective
DLM	Del Monte Foods Company	Apr-04	No	2,279	2003	7/22/2003	Consumer Non-Durables	Food: Major Diversified	Prospective
DFG	Delphi Financial Group, Inc	Dec-03	No	1,171	2003	7/23/2003	Finance	Life/Health Insurance	Prospective
DB	Deutsche Bank AG	Dec-03	No	43,759	2003	3/27/2003	Finance	Major Banks	Prospective
DTPI	Diamondcluster International	Mar-04	No	380	2003	8/13/2003	Commercial Services	Miscellaneous Commercial Services	Prospective
DVS	Diversified Security Solutions Inc	Dec-03	No	31	2003	5/15/2003	Commercial Services	Miscellaneous Commercial Services	Prospective
NSKY	Document Security Systems Inc.	Dec-03	No	53	2003	11/14/2003	Commercial Services	Commercial Printing/Forms	Prospective
DOL	Dole Foods (h)	Dec-03	No	N/A	2003	7/19/2002	Consumer Non-Durables	Food: Major Diversified	Prospective
DTG	Dollar Thrifty Automotive Group Inc	Dec-03	No	627	2003	5/14/2003	Finance	Finance/Rental/Leasing	Prospective
DRL	Doral Financial Corp	Dec-03	No	3,545	2003	2/4/2003	Finance	Finance/Rental/Leasing	Modified Prospective
DOW	Dow Chemical Company	Dec-03	Yes	38,708	2003	8/26/2002	Process Industries	Chemicals: Major Diversified	Prospective
DPL	DPL Inc	Dec-03	No	2,560	2003	2/20/2003	Utilities	Electric Utilities	Prospective
DW	Drew Industries Inc	Dec-03	No	279	2002	3/28/2003	Producer Manufacturing	Building Products	Prospective
DRE	Duke Realty	Dec-03	No	4,491	2002	7/31/2002	Finance	Real Estate Investment Trusts	Prospective
DD	DuPont	Dec-03	Yes	44,027	2003	1/15/2002	Process Industries	Chemicals: Major Diversified	Prospective
DDN	Dynamex Inc	Jul-03	No	138	2004	6/16/2003	Transportation	Air Freight/Couriers	Modified Prospective
DYN	Dynegy Inc	Dec-03	Yes	1,685	2003	4/11/2003	Utilities	Gas Distributors	Prospective
EACE	eAcceleration Corp	Dec-03	No	N/A	2003	11/12/2003	Technology Services	Packaged Software	Modified Prospective
ECLG	Ecollege.com Inc	Dec-03	No	389	2003	1/21/2004	Technology Services	Internet Software/Services	Prospective
EGAM	EGames Inc	Jun-04	No	14	2003	11/14/2002	Consumer Durables	Recreational Products	Prospective
ELI	Elite Pharmaceuticals Inc	Mar-04	No	39	2003	2/14/2003	Health Technology	Pharmaceuticals: Generic	Prospective
EMR	Emerson Electronics	Sep-03	Yes	26,929	2003	8/6/2002	Producer Manufacturing	Electrical Products	Prospective
NYNY	Empire Resorts Inc	Dec-03	No	78	2003	5/15/2003	Consumer Services	Casinos/Gaming	Prospective
EBF	Ennis Business Forms Inc	Feb-04	No	260	2003	6/27/2003	Commercial Services	Commercial Printing/Forms	Prospective
ETR	Entergy Corp	Dec-03	Yes	13,449	2003	3/19/2003	Utilities	Electric Utilities	Prospective
ETOP	Entropin Inc	Dec-03	No	3	1999	1999	Health Technology	Pharmaceuticals: Other	Prospective (b)
ENT	Equant NV (v)	Dec-03	No	3,211	2002	3/17/2003	Technology Services	Information Technology Services	Modified Prospective
EOP	Equity Office Properties	Dec-03	Yes	11,853	2003	3/31/2003	Finance	Real Estate Investment Trusts	Prospective
EOR	Equity Residential	Dec-03	Yes	8,016	2003	5/13/2003	Finance	Real Estate Investment Trusts	Prospective
RE	Everest Re Group, Ltd	Dec-03	No	4,863	2002	10/21/2002	Finance	Property/Casualty Insurance	Prospective
EXPE	Expedia, Inc (i)	Dec-03	No	N/A	2003	2/5/2003	Consumer Services	Other Consumer Services	Prospective
XOM	Exxon Mobil Corp (j)	Dec-03	Yes	269,614	2003	3/26/2003	Energy Minerals	Integrated Oil	Prospective
FNM	Fannie Mae	Dec-03	Yes	75,262	2003	7/23/2002	Finance	Finance/Rental/Leasing	Prospective
FFG	FBL Financial Group, Inc	Dec-03	No	780	2003	8/29/2002	Finance	Life/Health Insurance	Prospective
FCH	FelCor Lodging Trust Inc	Dec-03	No	694	2003	10/30/2002	Finance	Real Estate Investment Trusts	Prospective
FNF	Fidelity National Financial Inc	Dec-03	No	6,114	2003	10/23/2003	Finance	Specialty Insurance	Prospective
FCBP	First Community Bancorp	Dec-03	No	615	2003	11/7/2003	Finance	Regional Banks	Prospective
FLLC	First Financial Bancorp California	Dec-03	No	29	2003	5/14/2003	Finance	Major Banks	Prospective
FR	First Industrial Realty Trust, Inc	Dec-03	No	1,448	2003	2/12/2003	Finance	Real Estate Investment Trusts	Prospective
FKYS	First Keystone Corp	Dec-03	No	111	2003	5/13/2003	Finance	Major Banks	Prospective
FNCB	First National Community Bancorp, Inc	Dec-03	No	171	2003	5/9/2003	Finance	Major Banks	Prospective
FNRN	First Northern Community Bancorp	Dec-03	No	93	2003	8/14/2003	Finance	Regional Banks	Prospective

(\$ in millions)

Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
FRC	First Republic Bank	Dec-03	No	596	2003	6/23/2003	Finance	Regional Banks	Prospective
FBF	FleetBoston Financial Corp	Dec-03	Yes	47,346	2002	8/14/2002	Finance	Major Banks	Prospective
FLM	Fleming Companies Inc	Dec-03	No	0	2003	8/8/2002	Distribution Services	Food Distributors	Method Not Specified
FNBG	FNB Bancorp	Dec-03	No	87	2003	3/31/2003	Finance	Regional Banks	Prospective
F	Ford Motor Company (k)	Dec-03	Yes	26,998	2003	9/12/2002	Consumer Durables	Motor Vehicles	Modified Prospective
FDG	Fording Canadian Coal Trust	Dec-03	No	1,662	2003	2/4/2004	Energy Minerals	Coal	Prospective
WFA	France Telecommunications (v)	Dec-03	No	2,588	2002	3/21/2003	Communications	Major Telecommunications	Modified Prospective
FRE	Freddie Mac	Dec-03	Yes	43,167	2002	7/23/2002	Finance	Finance/Rental/Leasing	Retrospective Restatement
GBL	Gabelli Asset Management Inc	Dec-03	No	1,293	2003	7/26/2002	Finance	Investment Managers	Prospective
GBP	Gables Residential	Dec-03	No	1,029	2003	11/4/2002	Finance	Real Estate Investment Trusts	Prospective
GXY	Galaxy Nutritional Foods	Mar-04	No	47	2003	8/14/2003	Consumer Non-Durables	Food: Meat/Fish/Dairy	Prospective
AJG	Gallagher (Arthur J)	Dec-03	No	3,001	2003	1/27/2004	Finance	Insurance Brokers/Services	Prospective
GBCB	GBC Bancorp (f)	Dec-03	No	N/A	2003	7/16/2003	Finance	Regional Banks	Method Not Specified
GE	General Electric	Dec-03	Yes	337,674	2002	7/31/2002	Producer Manufacturing	Industrial Conglomerates	Prospective
JOB	General Employment Enterprises, Inc	Sep-03	No	8	2002	8/5/2002	Commercial Services	Personnel Services	Method Not Specified
GM	General Motors	Dec-03	Yes	27,920	2003	8/6/2002	Consumer Durables	Motor Vehicles	Prospective
GPC	Genuine Parts	Dec-03	Yes	5,739	2003	3/5/2003	Distribution Services	Wholesale Distributors	Prospective
GP	Georgia Pacific Corp	Dec-03	Yes	7,141	2003	11/10/2003	Process Industries	Pulp & Paper	Prospective
GTAX	Gilman & Ciozia	Jun-04	No	5	2002	1/21/2004	Consumer Services	Other Consumer Services	Prospective
GS	Goldman Sachs Group Inc	Nov-03	Yes	47,134	2003	8/13/2002	Finance	Investment Banks/Brokers	Prospective
GVA	Granite Construction Inc	Dec-03	No	885	2003	3/28/2003	Industrial Services	Engineering & Construction	Prospective
GXP	Great Plains Energy	Dec-03	No	2,326	2003	11/14/2002	Utilities	Electric Utilities	Modified Prospective
GREY	Grey Global Group Inc	Dec-03	No	895	2003	8/14/2002	Commercial Services	Advertising/Marketing Services	Prospective
GNTY	Guaranty Bancshares, Inc	Dec-03	No	61	2002	9/6/2002	Finance	Regional Banks	Modified Prospective
GTRC	Guitar Center	Dec-03	No	825	2003	6/13/2003	Retail Trade	Specialty Stores	Prospective
HRB	H&R Block Inc (l)	Apr-04	Yes	10,401	2004	9/11/2002	Consumer Services	Other Consumer Services	Prospective
	Haight's Cross Communications, Inc.	Dec-03	No	N/A	2002	10/2/2003	Consumer Services	Publishing: Educational and Professional	Prospective
HAF	Hallmark Financial Services Inc	Dec-03	No	24	2003	5/15/2003	Finance	Property/Casualty Insurance	Prospective
HANA	Hanaro Telecom Inc	Dec-03	No	961	2003	6/6/2003	Communications	Major Telecommunications	Modified Prospective
JHF	Hancock John Financial Services	Dec-03	Yes	12,049	2003	5/14/2003	Finance	Financial Conglomerates	Prospective
HDL	Handelman Company	Apr-04	No	536	2003	9/10/2002	Distribution Services	Wholesale Distributors	Prospective
JHX	Hardie James Industries NV	Mar-04	No	2,293	2003	5/28/2003	Non-Energy Minerals	Construction Materials	Retrospective Restatement
HAR	Harman International Industries	Jun-04	No	4,882	2003	8/19/2002	Consumer Durables	Electronics/Appliances	Prospective
HIG	Hartford Financial Services Group, Inc	Dec-03	Yes	18,300	2003	9/24/2002	Finance	Multi-Line Insurance	Prospective
	Hartman Commercial Properties REIT	N/A	No	N/A	2003	8/6/2003	Finance	Real Estate Investment Trusts	Prospective
HNR	Harvest Natural Resources	Dec-03	No	391	2003	3/31/2003	Energy Minerals	Oil & Gas Production	Prospective
HE	Hawaiian Electric Industries Inc	Dec-03	No	1,927	2002	1/21/2003	Utilities	Electric Utilities	Modified Prospective
HCP	Health Care Property Investors Inc	Dec-03	No	3,683	2002	2/20/2003	Finance	Real Estate Investment Trusts	Prospective
HCN	Health Care REIT Inc	Dec-03	No	1,906	2003	5/1/2003	Finance	Real Estate Investment Trusts	Prospective
HPC	Hercules Inc	Dec-03	Yes	1,353	2003	8/7/2003	Process Industries	Chemicals: Major Diversified	Prospective
HPG	Heritage Propane Partners	Aug-03	No	732	2003	11/26/2003	Utilities	Gas Distributors	Modified Prospective
HIW	Highwoods Properties Inc	Dec-03	No	1,450	2003	3/20/2003	Finance	Real Estate Investment Trusts	Prospective
HD	Home Depot Inc	Jan-04	Yes	80,702	2003	8/23/2002	Retail Trade	Home Improvement Chains	Prospective
HME	Home Properties of New York Inc	Dec-03	No	1,235	2003	8/7/2002	Finance	Real Estate Investment Trusts	Modified Prospective
HRL	Hormel Foods Corp	Oct-03	No	3,743	2003	11/7/2003	Consumer Non-Durables	Food: Meat/Fish/Dairy	Prospective
HMT	Host Marriott Corp	Dec-03	No	3,770	2002	10/16/2002	Finance	Real Estate Investment Trusts	Prospective
HI	Household International Inc (m)	Dec-03	No	N/A	2002	8/12/2002	Finance	Finance/Rental/Leasing	Prospective
THX	Houston Exploration Company	Dec-03	No	1,141	2003	2/21/2003	Energy Minerals	Oil & Gas Production	Prospective
HBC	HSBC Holdings PLC (m)	Dec-03	No	170,100	2002	2/20/2003	Finance	Major Banks	Prospective
HU	Hudson United Bancorp	Dec-03	No	1,700	2003	3/14/2003	Finance	Regional Banks	Prospective
HUVL	Hudson Valley Holding	Dec-03	No	456	2002	3/27/2003	Finance	Regional Banks	Prospective
HS	Hughes Electronics Corp	Dec-03	No	24,155	2003	5/8/2003	Consumer Services	Cable/Satellite TV	Prospective
HBEK	Humboldt Bancorp	Dec-03	No	213	2003	3/28/2003	Finance	Major Banks	Prospective
ICOC	ICO Inc	Sep-03	No	59	2003	2/14/2003	Industrial Services	Oilfield Services/Equipment	Prospective
N	Inco Limited	Dec-03	No	6,914	2003	2/4/2003	Non-Energy Minerals	Other Metals/Minerals	Prospective
IMKTA	Ingles Markets Inc	Sep-03	No	241	2003	12/22/2003	Retail Trade	Food Retail	Prospective
IFS	Insignia Financial Group, Inc (g)	Dec-03	No	N/A	2002	7/24/2002	Finance	Real Estate Development	Prospective
INMD	Integrated America Inc	Dec-03	No	26	2003	11/13/2003	Health Services	Medical/Nursing Services	Prospective
USAI	Interactive Corp (l)	Dec-03	No	22,590	2003	7/24/2002	Retail Trade	Internet Retail	Prospective
ITGB	International Thoroughbreds Breeders	Jun-04	No	9	2003	10/14/2003	Consumer Services	Casinos/Gaming	Prospective
MMH	Interstate Hotels & Resorts, Inc	Dec-03	No	125	2003	5/12/2003	Consumer Services	Hotels/Resorts/Cruiselines	Prospective
INVS	INVESTools Inc	Dec-03	No	105	2003	3/21/2003	Finance	Savings Banks	Prospective
IOM	iomega	Dec-03	No	314	2003	7/24/2002	Electronic Technology	Computer Peripherals	Prospective
IPCR	IPC Holdings, Ltd	Dec-03	No	1,987	2003	3/18/2003	Finance	Property/Casualty Insurance	Prospective
IRM	Iron Mountain Inc	Dec-03	No	3,554	2003	3/21/2003	Commercial Services	Miscellaneous Commercial Services	Prospective
SFI	iStar Financial	Dec-03	No	4,072	2003	7/24/2002	Finance	Real Estate Investment Trusts	Prospective
HUGO	Ivanhoe Mines Limited	Dec-03	No	1,478	2002	11/17/2003	Non-Energy Minerals	Other Metals/Minerals	Modified Prospective
JPM	J.P. Morgan Chase & Co.	Dec-03	Yes	79,446	2003	8/12/2002	Finance	Financial Conglomerates	Prospective
JEF	Jefferies Group, Inc	Dec-03	No	2,151	2003	2/5/2003	Finance	Investment Banks/Brokers	Prospective
JAS.A	Jo-Ann Stores Inc	Jan-04	No	592	2003	5/20/2003	Retail Trade	Specialty Stores	Modified Prospective
JCI	Johnson Controls Inc	Sep-03	Yes	11,065	2003	10/9/2002	Producer Manufacturing	Auto Parts: OEM	Prospective
JNY	Jones Apparel Group Inc	Dec-03	Yes	4,431	2003	7/31/2002	Consumer Non-Durables	Apparel/Footwear	Prospective
KWD	Kellwood Co. (w)	Jan-04	No	1,106	2003	8/28/2002	Consumer Non-Durables	Apparel/Footwear	Not Adopted
KEY	KeyCorp	Dec-03	Yes	12,949	2003	10/17/2002	Finance	Major Banks	Prospective
KSE	Keyspan Corp	Dec-03	Yes	5,801	2003	9/26/2002	Utilities	Gas Distributors	Prospective
KTR	Keystone Property Trust	Dec-03	No	620	2003	4/14/2003	Finance	Real Estate Investment Trusts	Prospective
KRC	Kilroy Realty Corp	Dec-03	No	953	2002	8/13/2002	Finance	Real Estate Investment Trusts	Prospective
KIM	Kimco Realty Corp	Dec-03	No	5,130	2003	3/27/2003	Finance	Real Estate Investment Trusts	Prospective
KMRT	Kmart Holding Corp	Jan-04	No	2,479	2003	8/29/2003	Retail Trade	Discount Stores	Prospective
KNOL	Knology	Dec-03	No	510	2002	3/31/2003	Electronic Technology	Communications Equipment	Prospective
LAB	Labranche & Co. Inc	Dec-03	No	597	2003	5/15/2003	Finance	Investment Banks/Brokers	Prospective
LEA	Lear Corp	Dec-03	No	4,443	2003	10/18/2002	Producer Manufacturing	Auto Parts: OEM	Prospective
LEE	Lee Enterprises	Sep-03	No	2,031	2003	7/22/2002	Consumer Services	Publishing: Newspapers	Retrospective Restatement
LM	Legg Mason Inc	Mar-04	No	5,862	2003	11/14/2003	Finance	Investment Banks/Brokers	Prospective
LEG	Leggett & Platt	Dec-03	Yes	4,780	2003	11/20/2002	Consumer Durables	Home Furnishings	Prospective
LVL	Level 3 Communications, Inc	Dec-03	No	4,062	1998	1998	Technology Services	Information Technology Services	Prospective (b)
LBI	Liberte Investments Del	Jun-04	No	185	2003	11/14/2003	Finance	Real Estate Investment Trusts	Prospective
LRY	Liberty Property Trust	Dec-03	No	3,101	2003	4/22/2003	Finance	Real Estate Investment Trusts	Prospective
LECO	Lincoln Electric Holdings, Inc	Dec-03	No	1,024	2003	10/16/2002	Producer Manufacturing	Industrial Machinery	Prospective
LNC	Lincoln National Corp	Dec-03	Yes	7,858	2003	8/8/2002	Finance	Life/Health Insurance	Retrospective Restatement

(\$ in millions)

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LINN	Lion Inc	Dec-03	No	10	2003	5/15/2003	Commercial Services	Financial Publishing/Services	Prospective
LYG	Lloyds TSB Group PLC	Dec-03	No	47,886	2003	6/23/2003	Finance	Financial Conglomerates	Prospective
STAR	Lone Star Steakhouse & Saloon Inc	Dec-03	No	542	2002	4/14/2003	Consumer Services	Restaurants	Retrospective Restatement
LOW	Lowe's Companies, Inc	Jan-04	Yes	42,200	2003	8/19/2002	Retail Trade	Home Improvement Chains	Prospective
LTC	LTC Properties Inc	Dec-03	No	262	2003	3/31/2003	Finance	Real Estate Investment Trusts	Prospective
LUME	Lumenis LTD	Dec-03	No	71	2003	3/28/2003	Health Technology	Medical Specialties	Prospective
LYO	Lyondell Chemical Co.	Dec-03	No	3,005	2003	8/13/2002	Process Industries	Chemicals: Specialty	Prospective
MTB	M & T Bank Corp	Dec-03	No	10,863	2003	9/19/2002	Finance	Regional Banks	Retrospective Restatement
MRD	MacDermid Inc	Dec-03	No	1,038	2001	4/1/2001	Process Industries	Industrial Specialties	Prospective
MAC	Macerich Company	Dec-03	No	2,778	2002	8/12/2002	Finance	Real Estate Investment Trusts	Prospective
CLI	Mack Call Realty Corp	Dec-03	No	2,365	2002	2/26/2003	Finance	Real Estate Investment Trusts	Prospective
MHR	Magnum Hunter Resources	Dec-03	No	588	2003	8/6/2003	Energy Minerals	Oil & Gas Production	Prospective
MHC	Manufactured Home Communities Inc	Dec-03	No	758	2003	5/13/2003	Finance	Real Estate Investment Trusts	Modified Prospective
MRO	Marathon Oil	Dec-03	Yes	10,777	2003	8/6/2002	Energy Minerals	Oil Refining/Marketing	Prospective
TUG	Maritrans Inc	Dec-03	No	152	2003	3/11/2003	Transportation	Marine Shipping	Prospective
MAS	Masco Corp	Dec-03	Yes	12,397	2003	3/14/2003	Producer Manufacturing	Building Products	Prospective
MXRE	Max Re Capital Ltd	Dec-03	No	1,085	2003	9/9/2002	Finance	Multi-Line Insurance	Prospective
MAY	May Dept. Stores	Jan-04	Yes	9,667	2003	8/16/2002	Retail Trade	Department Stores	Prospective
MBI	MBA Inc	Dec-03	Yes	9,189	2002	7/29/2002	Finance	Specialty Insurance	Modified Prospective
MIG	Meadowbrook Insurance Group, Inc	Dec-03	No	136	2003	5/8/2003	Finance	Property/Casualty Insurance	Prospective
MEL	Mellon Financial Corp	Dec-03	Yes	13,968	2003	8/13/2002	Finance	Investment Managers	Prospective
MRBK	Mercantile Bankshares	Dec-03	No	3,492	1995	1995	Finance	Regional Banks	Prospective (b)
MHX	Meristar Hospitality Corp	Dec-03	No	450	2003	3/31/2003	Finance	Real Estate Investment Trusts	Prospective
MER	Merrill Lynch & Co. (n)	Dec-03	Yes	55,845	N/A	8/13/2002	Finance	Investment Banks/Brokers	Not Adopted
MCC	Mestek Inc	Dec-03	No	159	2003	5/15/2003	Producer Manufacturing	Building Products	Prospective
MET	MetLife Inc	Dec-03	Yes	26,203	2003	8/12/2002	Finance	Life/Health Insurance	Prospective
MTG	MGIC Investment Corp	Dec-03	Yes	6,760	2003	5/15/2003	Finance	Property/Casualty Insurance	Prospective
MSCC	Microsemi Corp	Sep-03	No	898	2003	5/14/2003	Electronic Technology	Semiconductors	Modified Prospective
MSFT	Microsoft Corp	Jun-04	Yes	298,316	2004	7/8/2003	Technology Services	Packaged Software	Retrospective Restatement
MRR	Mid-Atlantic Realty Trust	Dec-03	No	N/A	2003	4/30/2003	Finance	Real Estate Investment Trusts	Prospective
MLS	Mills Corp	Dec-03	No	2,266	2002	3/31/2003	Finance	Real Estate Investment Trusts	Prospective
GRO	Mississippi Chemical Corp	Jun-04	No	4	2003	11/19/2002	Process Industries	Chemicals: Agricultural	Prospective
MOLA	Molson Inc	Mar-04	No	2,488	2003	11/6/2002	Consumer Non-Durables	Beverages: Alcoholic	Method Not Specified
MONM	Monmouth Capital Corp	Dec-03	No	21	2003	5/14/2003	Finance	Real Estate Investment Trusts	Prospective
MNRTA	Monmouth Real Estate Investment Corp	Sep-03	No	137	2003	5/14/2003	Finance	Real Estate Investment Trusts	Prospective
MRH	Montpelier Re Holdings Ltd	Dec-03	No	2,412	2002	11/5/2002	Finance	Property/Casualty Insurance	Method Not Specified
MCO	Moody's Corp	Dec-03	Yes	9,509	2003	12/13/2002	Commercial Services	Financial Publishing/Services	Prospective
MWD	Morgan Stanley	Nov-03	Yes	63,140	2003	8/13/2002	Finance	Investment Banks/Brokers	Prospective
NCC	National City Corp	Dec-03	Yes	20,985	2003	10/29/2002	Finance	Major Banks	Prospective
NADS	National Diversified Services Inc.	Dec-03	No	N/A	2003	3/28/2003	Finance	Real Estate Investment Trusts	Prospective
NFP	National Financial Partners Corp	Dec-03	No	1,030	2003	8/8/2003	Commercial Services	Financial Publishing/Services	Prospective
NGG	National Grid Transco PLC	Mar-04	No	22,906	2003	6/11/2003	Utilities	Electric Utilities	Retrospective Restatement
NAP	National Processing Inc	Dec-03	No	1,089	2003	2/19/2003	Technology Services	Data Processing Services	Prospective
NWLIA	National Western Life Insurance Co	Dec-03	No	551	2003	5/15/2003	Finance	Life/Health Insurance	Modified Prospective
NFLX	Netflix, Inc	Dec-03	No	1,866	2003	6/9/2003	Retail Trade	Internet Retail	Retrospective Restatement
NEU	Neuberger Berman (o)	Dec-03	No	N/A	2003	7/24/2002	Finance	Investment Managers	Prospective
NJR	New Jersey Resources Corp	Sep-03	No	1,057	2003	10/30/2002	Utilities	Gas Distributors	Prospective
NXL	New Plan Excel Realty Trust Inc	Dec-03	No	2,463	2003	3/6/2003	Finance	Real Estate Investment Trusts	Prospective
NSK	New Skies Satellites NV	Dec-03	No	816	2003	5/1/2003	Communications	Specialty Telecommunications	Prospective
NXY	Nexen Inc	Dec-03	No	4,655	2003	7/17/2003	Energy Minerals	Oil & Gas Production	Prospective
NMR	Nomura Holdings Inc	Mar-04	No	32,195	2002	12/18/2002	Finance	Investment Banks/Brokers	Modified Prospective
NRD	Noranda Inc	Dec-03	No	4,299	2002	11/19/2002	Non-Energy Minerals	Other Metals/Minerals	Prospective
NT	Nortel Networks	Dec-03	No	32,375	2003	1/24/2003	Electronic Technology	Telecommunications Equipment	Prospective
NWAC	Northwest Airlines Corp	Dec-03	No	979	2003	3/20/2003	Transportation	Airlines	Prospective
NFI	NovaStar Financial Inc	Dec-03	No	1,122	2003	12/28/2003	Finance	Real Estate Investment Trusts	Method Not Specified
ORH	Odyssey Re Holdings Corp	Dec-03	No	1,515	2003	8/1/2003	Finance	Property/Casualty Insurance	Prospective
ORI	Old Republic International Corp	Dec-03	No	4,690	2003	8/8/2003	Finance	Property/Casualty Insurance	Prospective
OMG	OM Group Inc	Dec-03	No	912	2003	12/24/2003	Process Industries	Chemicals: Specialty	Prospective
OMM	OMI Corp	Dec-03	No	793	2003	11/10/2003	Industrial Services	Oilfield Services/Equipment	Prospective
ONCY	Oncolytics Biotech Inc	Dec-03	No	89	2003	11/19/2003	Health Technology	Biotechnology	Prospective
OKE	Oneok Inc	Dec-03	No	1,844	2003	2/21/2003	Utilities	Gas Distributors	Prospective
ORNGF.PK	Orange PLC (v)	Dec-03	No	N/A	2002	6/24/2003	Communications	Wireless Telecommunications	Modified Prospective
OHB	Oriens Homebuilders Com	Jun-04	No	2,272	2003	9/23/2003	Consumer Durables	Homebuilding	Prospective
PCAR	PACCAR Inc	Dec-03	Yes	9,179	2003	9/24/2002	Producer Manufacturing	Trucks/Construction/Farm Machinery	Prospective
PHS	PacificCare Health Systems	Dec-03	No	2,198	2003	4/30/2003	Health Services	Managed Health Care	Prospective
SPOT	Panamsat Corp	Dec-03	No	3,235	2003	3/6/2003	Communications	Specialty Telecommunications	Prospective
PZZA	Papa John's International, Inc	Dec-03	No	615	2002	7/30/2002	Consumer Services	Restaurants	Prospective
PLL	Parallel Petroleum Corp	Dec-03	No	91	2003	10/31/2003	Energy Minerals	Oil & Gas Production	Prospective
PRE	Partnerre Limited	Dec-03	No	3,143	2003	8/13/2003	Finance	Multi-Line Insurance	Prospective
PNG	Penn-America Group, Inc	Dec-03	No	219	2003	8/7/2003	Finance	Property/Casualty Insurance	Modified Prospective
PEI	Pennsylvania REIT	Dec-03	No	883	2003	3/31/2003	Finance	Real Estate Investment Trusts	Modified Prospective
PEP	Pepsico Inc	Dec-03	Yes	84,574	2003	12/2/2003	Consumer Non-Durables	Food: Major Diversified	Retrospective Restatement
PRGO	Perrigo Co.	Jun-04	No	1,261	2003	1/24/2003	Health Technology	Pharmaceuticals: Other	Retrospective Restatement
PNX	Phoenix Companies Inc	Dec-03	No	1,199	2003	5/15/2003	Finance	Life/Health Insurance	Prospective
PNW	Pinnacle West Capital Corp	Dec-03	Yes	3,583	2002	11/14/2002	Utilities	Electric Utilities	Prospective
PJC	Piper Jaffray Companies	Dec-03	No	870	2003	6/25/2003	Finance	Investment Banks/Brokers	Prospective
PCL	Plum Creek Timber Co.	Dec-03	Yes	5,570	2002	8/2/2002	Finance	Real Estate Investment Trusts	Prospective
PMC	PMC Capital Inc	Dec-03	No	67	2003	3/31/2003	Miscellaneous	Investment Trusts/Mutual Funds	Prospective
PCC	PMC Commercial Trust	Dec-03	No	100	2003	3/31/2003	Finance	Real Estate Investment Trusts	Prospective
PNC	PNC Financial Services Group, Inc	Dec-03	Yes	15,642	2003	9/30/2002	Finance	Major Banks	Prospective
PPP	Pogo Producing Company	Dec-03	No	2,543	2003	8/9/2002	Energy Minerals	Oil & Gas Production	Prospective
BPOP	Popular, Inc	Dec-03	No	5,882	2002	10/9/2002	Finance	Major Banks	Method Not Specified
PRAA	Portfolio Recovery Association Inc	Dec-03	No	408	2002	3/17/2003	Commercial Services	Miscellaneous Commercial Services	Prospective
PPS	Post Properties Inc	Dec-03	No	1,064	2003	5/15/2003	Finance	Real Estate Investment Trusts	Prospective
POT	Potash Sask Inc	Dec-03	No	4,287	2003	2/5/2004	Process Industries	Chemicals: Agricultural	Prospective
PPL	PPL Corp	Dec-03	Yes	8,107	2003	10/4/2002	Utilities	Electric Utilities	Prospective
PRDS	Predictive Systems Inc (p)	Dec-03	No	N/A	2002	9/19/2002	Technology Services	Information Technology Services	Prospective
PCO	Premcor	Dec-03	No	2,244	2002	8/6/2002	Energy Minerals	Oil Refining/Marketing	Prospective
PP	Prentiss Properties Trust	Dec-03	No	1,481	2003	3/28/2003	Finance	Real Estate Investment Trusts	Prospective
PSMT	PriceSmart	Aug-03	No	46	2003	8/5/2002	Retail Trade	Discount Stores	Prospective

(\$ in millions)

Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
PRM	Primedia Company Inc	Dec-03	No	730	2003	2/5/2004	Consumer Services	Publishing: Books/Magazines	Prospective
PFG	Principal Financial Group	Dec-03	Yes	11,405	2002	8/7/2002	Finance	Financial Conglomerates	Prospective
PG	Procter & Gamble (q)	Jun-04	Yes	132,716	N/A	8/5/2002	Consumer Non-Durables	Household/Personal Care	Not Adopted
PGR	Progressive Corp Ohio	Dec-03	Yes	17,852	2003	5/12/2003	Finance	Property/Casualty Insurance	Prospective
PL	Protective Life	Dec-03	No	2,482	1995	1995	Finance	Life/Health Insurance	Prospective (b)
PRVD	Provide Commerce Inc.	Jun-04	No	239	2003	9/22/2003	Retail Trade	Catalog & Mail Order	Prospective
PFGI	Provident Financial Group, Inc	Dec-03	No	1,667	2003	1/15/2003	Finance	Regional Banks	Prospective
PRU	Prudential Financial Inc	Dec-03	Yes	24,380	2003	8/13/2002	Finance	Financial Conglomerates	Prospective
PSB	PS Business Parks, Inc	Dec-03	No	937	2002	9/9/2002	Finance	Real Estate Investment Trusts	Prospective
PSA	Public Storage Inc	Dec-03	No	6,028	2002	11/14/2002	Finance	Real Estate Investment Trusts	Prospective
PHM	Pulte Homes, Inc	Dec-03	Yes	5,522	2003	3/17/2003	Consumer Durables	Homebuilding	Prospective
OZMRE	Quartz Mountain Resources Ltd.	Jul-03	No	6	2003	2/3/2004	Non-Energy Minerals	Precious Metals	Prospective
IOW	Quebecor World Inc	Dec-03	No	4,330	2003	2/6/2004	Commercial Services	Commercial Printing/Forms	Prospective
QUIP	Quipp Inc	Dec-03	No	20	2003	3/14/2003	Producer Manufacturing	Industrial Machinery	Prospective
RAE	Rae Systems Inc	Dec-03	No	229	2003	5/8/2003	Technology Services	Internet Software/Services	Modified Prospective
RAVN	Raven Industries	Jan-04	No	255	2002	8/20/2002	Producer Manufacturing	Miscellaneous Manufacturing	Modified Prospective
RJF	Raymond James Financial	Sep-03	No	1,847	2003	2/3/2003	Finance	Investment Banks/Brokers	Modified Prospective
RCNC	RCN Corp	Dec-03	No	126	2000	2000	Communications	Major Telecommunications	Prospective (b)
O	Realty Income	Dec-03	No	1,549	2002	7/26/2002	Finance	Real Estate Investment Trusts	Prospective
RA	Reckson Associated Realty Corp	Dec-03	No	1,480	2002	12/16/2002	Finance	Real Estate Investment Trusts	Prospective
RFCG	Refocus Group Inc	Dec-03	No	9	2002	3/19/2003	Health Technology	Medical Specialties	Modified Prospective
RGA	Reinsurance Group of America, Inc	Dec-03	No	1,980	2003	1/30/2003	Finance	Life/Health Insurance	Prospective
RNR	RenaissanceRe Holdings Ltd	Dec-03	No	3,626	2003	10/14/2002	Finance	Property/Casualty Insurance	Prospective
RBNC	Republic Bancorp Inc	Dec-03	No	860	2003	3/21/2003	Finance	Regional Banks	Prospective
REP	Republic Bancshares Inc	Dec-03	No	409	2003	11/14/2003	Finance	Regional Banks	Prospective
RVP	Retractable Technologies Inc	Dec-03	No	142	2002	11/14/2002	Health Technology	Medical Specialties	Prospective
REY	Reynolds & Reynolds Company	Sep-03	No	1,810	2003	12/12/2003	Technology Services	Information Technology Services	Retrospective Restatement
RFS	RFS Hotel Investors, Inc (r)	Dec-03	No	N/A	2003	8/1/2002	Finance	Real Estate Investment Trusts	Prospective
RAD	Rite Aid Corp	Feb-04	No	2,983	2004	7/3/2003	Retail Trade	Drugstore Chains	Modified Prospective
RJR	RJ Reynolds Tobacco Holdings Inc	Dec-03	Yes	4,998	2003	5/15/2003	Consumer Non-Durables	Tobacco	Prospective
ROH	Rohm & Haas Co.	Dec-03	Yes	8,831	2003	3/17/2003	Process Industries	Chemicals: Major Diversified	Prospective
RONC	Ronson Corp	Dec-03	No	10	2003	11/14/2003	Electronic Technology	Aerospace & Defense	Prospective
RSA	Royal & Sun Alliance Insurance Group PLC	Dec-03	No	5,052	2002	6/27/2003	Finance	Multi-Line Insurance	Modified Prospective
RYG	Royal Group Technologies	Sep-03	No	934	2003	2/5/2004	Producer Manufacturing	Building Products	Prospective
RUSM	Russel Metals Inc	Dec-03	No	270	2003	2/6/2004	Distribution Services	Wholesale Distributors	Prospective
RML	Russell Corp	Dec-03	No	583	2003	5/21/2003	Consumer Non-Durables	Apparel/Footwear	Prospective
SAFC	Safeco Corp	Dec-03	Yes	6,158	2003	10/25/2002	Finance	Multi-Line Insurance	Prospective
SKS	Saks Inc	Jan-04	No	2,321	2003	8/20/2002	Retail Trade	Department Stores	Prospective
SHS	Sauer-Danfoss Inc	Dec-03	No	676	2003	8/13/2003	Producer Manufacturing	Auto Parts: OEM	Prospective
BFS	Saul Centres Inc	Dec-03	No	436	2003	8/14/2003	Finance	Real Estate Investment Trusts	Prospective
SBC	SBC Communication	Dec-03	Yes	84,949	2002	1/28/2003	Communications	Major Telecommunications	Retrospective Restatement
BUNZ	Schlotskys Inc	Dec-03	No	17	2003	8/13/2002	Consumer Services	Restaurants	Prospective
SLB	Schlumberger Ltd	Dec-03	Yes	35,817	2003	7/23/2003	Industrial Services	Oilfield Services/Equipment	Prospective
SCT	Scottish Annuity & Life Holdings Ltd	Dec-03	No	770	2003	8/12/2003	Finance	Life/Health Insurance	Modified Prospective
SMG	Scotts Co.	Sep-03	No	2,035	2003	7/25/2002	Process Industries	Chemicals: Agricultural	Prospective
SCST	SCS Transportation Inc	Dec-03	No	254	2003	4/30/2003	Transportation	Trucking	Prospective
SNBJ	Security Bank Corp	Dec-03	No	156	2002	2/28/2003	Finance	Regional Banks	Prospective
SECX	SED International Holdings Inc	Jun-04	No	10	2003	2/14/2003	Distribution Services	Electronics Distributors	Prospective
SVM	ServiceMaster	Dec-03	No	3,415	2003	7/31/2002	Consumer Services	Other Consumer Services	Prospective
SI	Siemens AG	Sep-03	No	72,390	2003	12/5/2003	Producer Manufacturing	Industrial Conglomerates	Prospective
SPG	Simon Property	Dec-03	Yes	9,957	2002	7/31/2002	Finance	Real Estate Investment Trusts	Prospective
SSD	Simpson Manufacturing Co. Inc	Dec-03	No	1,222	2003	5/9/2003	Producer Manufacturing	Building Products	Prospective
SFD	Smithfield Foods, Inc	Apr-04	No	2,637	2002	8/22/2002	Consumer Non-Durables	Food: Meat/Fish/Dairy	Prospective
SSCC	Smurfit Stone Container Corp	Dec-03	No	4,230	2003	8/12/2003	Process Industries	Containers/Packaging	Prospective
SONX	Sonex Research Inc	Dec-03	No	3	2003	5/20/2003	Industrial Services	Environmental Services	Modified Prospective
SBNK	Sonoma Valley Bancorp	Dec-03	No	46	2003	3/25/2003	Finance	Savings Banks	Prospective
SWHI	SonomaWest Holdings Inc	Jun-04	No	10	2002	2002	Finance	Real Estate Development	Prospective
SJI	South Jersey Industries Inc	Dec-03	No	535	2003	8/14/2003	Utilities	Gas Distributors	Prospective
SUG	Southern Union Panhandle Corp	Jun-04	No	N/A	2002	5/30/2003	Utilities	Gas Distributors	Prospective
SWWC	Southwest Water Co.	Dec-03	No	205	2002	3/28/2003	Utilities	Water Utilities	Retrospective Restatement
SOV	Sovereign Bancorp	Dec-03	No	6,627	2002	7/19/2002	Finance	Savings Banks	Prospective
FON	Sprint FON Group	Dec-03	Yes	16,596	2003	8/12/2003	Communications	Major Telecommunications	Prospective
PCS	Sprint PCS Group	Dec-03	Yes	8,993	2003	5/14/2003	Communications	Wireless Telecommunications	Prospective
SFG	Stancorp Financial Group, Inc	Dec-03	No	1,905	2003	1/30/2003	Finance	Life/Health Insurance	Prospective
STSI	Star Scientific Inc	Dec-03	No	134	1999	1999	Consumer Non-Durables	Tobacco	Prospective (b)
STT	State Street Corp	Dec-03	Yes	18,011	2003	8/13/2002	Finance	Financial Conglomerates	Prospective
SCTP	Steel City Productions Inc (u)	Dec-03	No	0	2003	3/31/2003	Retail Trade	Specialty Stores	Prospective
SCS	Steelcase Inc	Feb-04	No	2,019	2004	9/23/2002	Producer Manufacturing	Office Equipment & Supplies	Prospective
STCS	Sterling Construction Company, Inc (u)	Dec-03	No	22	2003	8/14/2003	Distribution Services	Wholesale Distributors	Prospective
SGLBF	Stratos Global Corp	Dec-03	No	N/A	2003	1/22/2004	Communications	Specialty Telecommunications	Prospective
STU	Student Loan Corp	Dec-03	No	2,878	2003	3/25/2003	Finance	Finance/Rental/Leasing	Prospective
SMT	Summit Properties Inc	Dec-03	No	677	2003	3/17/2003	Finance	Real Estate Investment Trusts	Prospective
SLC	Sun Life Financial Services of Canada	Dec-03	No	16,299	2002	7/31/2002	Finance	Financial Conglomerates	Prospective
SUN	Sunoco, Inc	Dec-03	Yes	4,336	2002	9/11/2002	Energy Minerals	Oil Refining/Marketing	Modified Prospective
STI	SunTrust Banks, Inc	Dec-03	Yes	20,400	2002	8/13/2002	Finance	Major Banks	Prospective
SKT	Tanger Factory Outlet Centers	Dec-03	No	443	2003	5/6/2003	Finance	Real Estate Investment Trusts	Modified Prospective
TGT	Target Corp	Jan-04	Yes	35,638	2003	4/10/2003	Retail Trade	Discount Stores	Prospective
TARR	Tarragon Realty Investors	Dec-03	No	206	2002	8/5/2002	Finance	Real Estate Investment Trusts	Prospective
TCO	Taubman Centers, Inc	Dec-03	No	1,160	2003	3/24/2003	Finance	Real Estate Investment Trusts	Prospective
TBWC	TB Woods Corp.	Dec-03	No	46	2003	5/2/2003	Producer Manufacturing	Industrial Machinery	Modified Prospective
TCB	TCF Financial Corp	Dec-03	No	3,558	2000	2000	Finance	Regional Banks	Prospective (b)
TNL	Technitrol, Inc	Dec-03	No	756	2003	10/21/2002	Electronic Technology	Electronic Components	Prospective
TKN	Teknion Corp	Nov-03	No	N/A	2003	7/8/2003	Producer Manufacturing	Office Equipment & Supplies	Prospective
TLN	TeliaSonera AB	Dec-03	No	23,853	2002	6/30/2003	Communications	Major Telecommunications	Retrospective Restatement
TELM	Tellium Inc (s)	Dec-03	No	N/A	2003	8/15/2003	Electronic Technology	Telecommunications Equipment	Prospective
TIN	Temple-Inland	Dec-03	Yes	3,217	2003	8/5/2002	Process Industries	Containers/Packaging	Prospective
THC	Tenet Healthcare Corp	Dec-03	Yes	5,763	2003	3/18/2003	Health Services	Hospital/Nursing Management	Retrospective Restatement
HRZ	The Hertz Corp (k)	Dec-03	No	N/A	2003	3/18/2003	Finance	Finance/Rental/Leasing	Modified Prospective
PHC	The Peoples Holding Company	Dec-03	No	264	2002	11/19/2002	Finance	Regional Banks	Method Not Specified
TOD	Todd Shipyards Corp	Mar-04	No	89	2003	6/10/2003	Producer Manufacturing	Metal Fabrication	Prospective



(\$ in millions)

Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
TORM	TOR Minerals International Inc	Dec-03	No	40	2003	5/14/2003	Process Industries	Industrial Specialties	Modified Prospective
TD	Toronto Dominion Bank	Oct-03	No	21,545	2003	3/26/2003	Finance	Major Banks	Prospective
TAC	Transalta Corp	Dec-03	No	2,536	2003	3/28/2003	Utilities	Electric Utilities	Method Not Specified
TRH	Transatlantic Holdings	Dec-03	No	4,374	2003	3/28/2003	Finance	Property/Casualty Insurance	Prospective
RIG	Transocean Inc	Dec-03	Yes	8,618	2003	3/26/2003	Industrial Services	Contract Drilling	Prospective
TAP.B	Travelers Property Casualty Corp	Dec-03	Yes	18,260	2003	10/16/2002	Finance	Property/Casualty Insurance	Prospective
TRZ	Trizec Properties Inc	Dec-03	No	2,392	2003	11/6/2003	Finance	Real Estate Investment Trusts	Prospective
TRMK	Trustmark Corp.	Dec-03	No	1,726	2003	3/21/2003	Finance	Regional Banks	Prospective
T.M.V	Tumi Resources Ltd	Dec-03	No	N/A	2003	7/31/2003	Non-Energy Minerals	Metals Mining	Prospective
TUP	Tupperware International	Dec-03	Yes	1,083	2003	8/6/2002	Consumer Durables	Home Furnishings	Prospective
UCI	Uci	Dec-03	No	608	2003	3/28/2003	Finance	Life/Health Insurance	Prospective
UIL	UIL Holdings Corp	Dec-03	No	677	2003	2/28/2003	Utilities	Electric Utilities	Prospective
UMH	United Mobile Homes, Inc	Dec-03	No	139	2003	5/14/2003	Finance	Real Estate Investment Trusts	Prospective
UNBJ	United National Bancorp (f)	Dec-03	No	N/A	2002	3/20/2003	Finance	Regional Banks	Retroactive Restatement
UPS	United Parcel Service Inc	Dec-03	Yes	80,125	2003	8/14/2002	Transportation	Air Freight/Couriers	Prospective
UTR	Untrin, Inc	Dec-03	No	2,977	2003	4/10/2003	Finance	Multi-Line Insurance	Prospective
UCL	Unocal Corp	Dec-03	Yes	9,535	2003	8/11/2003	Energy Minerals	Oil & Gas Production	Prospective
UNM	Unumprovident Corp	Dec-03	Yes	4,330	2003	2/6/2004	Finance	Life/Health Insurance	Prospective
UAIR	US Airways Group, Inc	Dec-03	No	236	2003	8/14/2003	Transportation	Airlines	Prospective
USB	US Bancorp	Dec-03	Yes	54,360	2004	1/20/2004	Finance	Regional Banks	Retroactive Restatement
VLY	Valley National Bancorp	Dec-03	No	2,673	2002	7/17/2002	Finance	Regional Banks	Prospective
VMDC	VantageMed Corp	Dec-03	No	13	2003	5/15/2003	Health Services	Services to the Health Industry	Prospective
VNDC	Vendingdata Corp	Dec-03	No	50	2003	8/18/2003	Electronic Technology	Electronic Equipment/Instruments	Prospective
VZ	Verizon Communications Inc	Dec-03	Yes	102,001	2003	12/5/2002	Communications	Major Telecommunications	Prospective
VLGEA	Village Supermarket Inc	Jul-03	No	99	2003	6/6/2003	Retail Trade	Food Retail	Prospective
VC	Visteon Corp	Dec-03	Yes	1,399	2003	10/18/2002	Producer Manufacturing	Auto Parts: OEM	Prospective
VOOC	Vornado Operating Company	Dec-03	No	5	2003	3/25/2003	Finance	Real Estate Development	Prospective
VNO	Vornado Realty Trust	Dec-03	No	6,544	2003	8/7/2002	Finance	Real Estate Investment Trusts	Prospective
WHI	W Holding Co. Inc	Dec-03	No	2,140	2003	3/31/2003	Finance	Savings Banks	Modified Prospective
BER	W R Berkley Corp	Dec-03	No	3,211	2003	5/15/2003	Finance	Property/Casualty Insurance	Prospective
WPL	W.P. Stewart & Co., Ltd	Dec-03	No	1,016	2003	7/31/2002	Finance	Investment Managers	Prospective
WB	Wachovia	Dec-03	Yes	60,837	2002	7/18/2002	Finance	Major Banks	Prospective
WMT	Wal-Mart Stores Inc	Jan-04	Yes	243,438	2003	8/14/2002	Retail Trade	Discount Stores	Retroactive Restatement
WRNC	Warnaco Group, Inc	Dec-03	No	790	2003	5/15/2003	Consumer Non-Durables	Apparel/Footwear	Prospective
WM	Washington Mutual, Inc	Dec-03	Yes	39,028	2003	1/29/2003	Finance	Savings Banks	Prospective
WPO	Washington Post Co.	Dec-03	No	8,090	2002	7/15/2002	Consumer Services	Publishing: Newspapers	Prospective
WFT	Weatherford International Ltd	Dec-03	No	5,332	2003	1/30/2004	Industrial Services	Oilfield Services/Equipment	Prospective
WBST	Webster Financial	Dec-03	No	2,333	2002	7/24/2002	Finance	Savings Banks	Prospective
WRI	Weingarten Realty Investors	Dec-03	No	2,541	2003	3/17/2003	Finance	Real Estate Investment Trusts	Prospective
WRP	Wellsford Real Properties, Inc	Dec-03	No	110	2003	5/9/2003	Finance	Real Estate Development	Prospective
WFSI	WFS Financial Inc	Dec-03	No	1,781	2003	6/11/2003	Finance	Finance/Rental/Leasing	Prospective
WINA	Winmark Corp	Dec-03	No	124	2002	3/19/2003	Retail Trade	Specialty Stores	Prospective
WIN	Winn-Dixie Stores Inc	Jun-04	Yes	936	1996	1996	Retail Trade	Food Retail	Prospective (b)
INT	World Fuel Services	Dec-03	No	368	2002	8/1/2002	Commercial Services	Miscellaneous Commercial Services	Prospective
XL	XL Capital Ltd	Dec-03	Yes	10,967	2003	2/11/2003	Finance	Property/Casualty Insurance	Prospective
YCC	Yankee Candle Co. Inc	Dec-03	No	1,391	2003	10/22/2003	Consumer Non-Durables	Consumer Sundries	Prospective
ZNT	Zenith National Insurance Corp	Dec-03	No	666	2002	3/14/2003	Finance	Multi-Line Insurance	Prospective
ZHNE	Zhone Technologies Inc (s)	Dec-03	No	407	2003	5/1/2003	Electronic Technology	Telecommunications Equipment	Prospective

Source: Company reports and press releases; FactSet Research Systems Inc.; Bear Stearns estimates.

N/A - Information not available

Highlighted companies announced their intentions to expense stock options this week

- (a) Announcement dates listed represent the earliest date we were able to identify the company announcing that it intended to adopt the fair value method
- (b) The company adopted FAS No. 123 before the issuance of FAS No. 148, therefore, the prospective method was the only method of adoption available to the company
- (c) In a July 23, 2002 press release, Amazon stated that "The Company announced that by the beginning of 2003 all stock-based awards granted thereafter will be expensed." To date the company has not formally adopted the fair value method. The company has not granted any options in 2003. It has used other compensation methods such as restricted stock which are expensed regardless of whether a company adopts the fair value method for stock option grants
- (d) Avis Group was acquired by Centand in March 2001.
- (e) On July 10, 2003, Great-West Lifeco Inc completed its acquisition of Canada Life Financial Corporation.
- (f) On October 20, 2003, Cathay Bancorp, Inc. and GBC Bancorp completed their merger.
- (g) In July 2003, CBRE Holdings Inc. and Insignia Financial Group, Inc merged operations.
- (h) On March 28, 2003, Dole Food Company, Inc. (NYSE: DOL) became a private company when it was acquired by David H. Murdock, Dole's Chairman and Chief Executive Officer.
- (i) Expedia is a subsidiary of Interactive Corp.
- (j) Rather than grant stock options or stock appreciation rights (SARs), Exxon Mobil granted 11.072 million shares of restricted common stock and restricted common stock units in November 2002
- (k) On March 9, 2001, Hertz became a wholly owned subsidiary of Ford when Ford reacquired the outstanding 18.5% of Hertz' stock
- (l) H&R Block stated that it intends to begin expensing the cost of stock options in its next fiscal year, assuming that the Financial Accounting Standards Board (FASB) clarifies its rules on this issue
- (m) On March 28, 2003, Household was acquired by HSBC Holdings plc.
- (n) On August 13, 2002, Merrill Lynch stated in a press release that "We are joining other leading financial firms in committing to the development and application of a uniform and consistent method of expensing options - with an appropriate transition period." The company expects the change to be effective for stock options granted for the performance year 2003." As of January 25, 2004 the company has not changed over to the fair value method.
- (o) On October 31, 2003, Lehman Brothers completed its acquisition of Neuberger Berman
- (p) On Thursday, 19 June 2003, Predictive Systems was acquired by International Network Services (INS) and is now a wholly owned subsidiary of INS
- (q) In an August 5, 2002 conference call, Procter & Gamble said it is prepared to begin expensing options no later than fiscal 2004, but the company stopped short of guaranteeing the change. As of February 1, 2004, the company was still using the intrinsic value method.
- (r) On July 10, 2003, RFS Hotel Investors, Inc. was acquired by CNL Hospitality Properties, Inc. (CNL)
- (s) On November 13, 2003, Zhone Technologies, Inc. and Tellium, Inc. merged. The combined company is named Zhone Technologies, Inc. and will be headquartered in Oakland, California.
- (t) On January 2, 2004, the PNC Financial Services Group, Inc. acquired United National Bancorp.
- (u) Steel City Products is a subsidiary of Sterling Construction Company.

Note: The Financial Accounting Standards Board is preparing an exposure draft on equity-based compensation. At its October 29th, 2003 meeting, the Board unanimously voted for the proposed accounting standard to be effective for fiscal periods beginning after December 15, 2004 (January 1, 2005 for calendar year companies). The Board also voted to require ALL companies to use the "modified prospective" method when implementing the new standard. Under the modified prospective method, companies will apply the fair value method of expensing stock options to ALL unvested options and options granted in the year of adoption (1995 for calendar year companies) and subsequently. This effectively results in the stock option expense recognized in the year of adoption being the same expense that would have been recognized had the fair value method been applied to options granted since 1995. Companies that had not adopted the fair value method until the effective date of the proposed standard will still disclose prior year stock option expense amounts in the footnotes to the financial statements.

(\$ in millions)

Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
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Peer Perform (Neutral): 49.6 / 10.4

Underperform (Sell): 16.0 / 5.7

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Using the Fair Value Method  
Arranged by State, Compiled by the FAF Library  
Based upon February 12, 2004 Report by  
Accounting and Taxation Research, Bear Stearns**

ALABAMA NATIONAL BANCORPORATION  
1927 FIRST AVENUE NORTH  
BIRMINGHAM, AL 35203-4009

PROTECTIVE LIFE CORP  
2801 HIGHWAY 280 SOUTH  
BIRMINGHAM, AL 35223

SAKS INC  
750 LAKESHORE DRIVE  
BIRMINGHAM, AL 35211

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\*Excluding REITS and international companies.

**Companies\* That Currently Expense or Intend to Expense Stock Options  
Using the Fair Value Method  
Arranged by State, Compiled by the FAF Library  
Based upon February 12, 2004 Report by  
Accounting and Taxation Research, Bear Stearns**

PINNACLE WEST CAPITAL CORP  
400 NORTH 5<sup>TH</sup> STREET  
PHOENIX, AZ 85004

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\*Excluding REITS and international companies.

**Companies\* That Currently Expense or Intend to Expense Stock Options  
Using the Fair Value Method  
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BANK OF THE OZARKS INC  
12615 CHENAL PARKWAY  
LITTLE ROCK, AR 72211

WAL-MART STORES INC  
702 SOUTH WEST EIGHTH STREET  
BENTONVILLE, AR 72716

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\*Excluding REITS and international companies.

**Companies\* That Currently Expense or Intend to Expense Stock Options  
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Based upon February 12, 2004 Report by  
Accounting and Taxation Research, Bear Stearns**

CALIFORNIA COASTAL COMMUNITIES INC  
SUITE 250  
6 EXECUTIVE CIRCLE  
IRVINE, CA 92614

CALPINE CORP  
50 WEST SAN FERNANDO STREET  
SAN JOSE, CA 95113

CALPROP CORP  
SUITE 180  
13160 MINDANAO WAY  
MARINA DEL REY, CA 90292

CATHAY BANCORP INC  
777 NORTH BROADWAY  
LOS ANGELES, CA 90012

CBRE HOLDING INC  
355 S. GRAND AVENUE  
LOS ANGELES, CA 90071

DEL MONTE FOODS CO  
ONE MARKET THE LANDMARK  
SAN FRANCISCO, CA 94105

DIRECTV HOLDINGS LLC  
2230 E. IMPERIAL HIGHWAY  
EL SEGUNDO, CA 90245  
(Subsidiary of Hughes Electronics, a subsidiary of General Motors)

DOLE FOOD CO INC  
ONE DOLE DRIVE  
WESTLAKE VILLAGE, CA 91362

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\*Excluding REITS and international companies.

ENTROPIN, INC  
45926 OASIS STREET  
SUITE 810  
INDIO, CA 92211

FIDELITY NATIONAL FINANCIAL INC  
SUITE 300  
17911 VON KARMAN AVENUE  
IRVINE, CA 92614

FIRST COMMUNITY BANCORP  
6110 EL TORDO  
RANCHO SANTA FE, CA 92067

FIRST FINANCIAL BANCORP CALIFORNIA  
701 SOUTH HAM LANE  
LODI, CA 95242

FIRST NORTHERN COMMUNITY BANCORP  
195 NORTH FIRST STREET  
DIXON, CA 95620

FIRST REPUBLIC BANK  
111 PINE STREET  
SAN FRANCISCO, CA 94111

FNB BANCORP  
975 EL CAMINO REAL  
SOUTH SAN FRANCISCO, CA 94080

GBC BANCORP  
GENERAL BANK  
800 WEST 6<sup>TH</sup> STREET  
LOS ANGELES, CA 90017

GRANIT CONSTRUCTION INC  
585 WEST BEACH STREET  
WATSONVILLE, CA 95076

GUITAR CENTER INC.  
5795 LINDERO CANYON ROAD  
WESTLAKE VILLAGE, CA 91362

HUGHES ELECTRONICS CORP  
200 NORTH SEPULVEDA BOULEVARD  
EL SEGUNDO, CA 90245

HUMBOLDT BANCORP  
SUITE 330  
2998 DOUGLAS BOULEVARD  
ROSEVILLE, CA 95661

IOMEGA CORP  
3RD FLOOR  
4435 EASTGATE MALL  
SAN DIEGO, CA 92121

JAMES HARDIE BUILDING MATERIALS N.V.  
26300 LA ALAMEDA, SUITE 250  
MISSION VIEJO, CA 92691  
(Parent company is located in the Netherlands)

MICROSEMI CORP  
2381 MORSE AVENUE  
IRVINE, CA 92614

NETFLIX INC  
970 UNIVERSITY AVENUE  
LOS GATOS, CA 95032

PACIFICARE HEALTH SYSTEMS INC  
5995 PLAZA DRIVE  
CYPRESS, CA 90630-5028

PRICESMART INC  
4649 MORENA BOULEVARD  
SAN DIEGO, CA 92117

PROVIDE-COMMERCE, INC  
5005 WATERIDGE VISTA DRIVE  
SAN DIEGO, CA 92121

RAE SYSTEMS INC  
1339 MOFFETT PARK DRIVE  
SUNNYVALE, CA 94089

SIMPSON MANUFACTURING CO. INC  
SUITE 400  
4120 DUBLIN BOULEVARD  
DUBLIN, CA 94568



SONOMA VALLEY BANCORP  
202 WEST NAPA STREET  
SONOMA, CA 95476

SONOMAWEST HOLDINGS INC  
2064 HIGHWAY 116 NORTH  
SEBASTOPOL, CA 95472-2662

SOUTHWEST WATER CO  
SUITE 200  
225 NORTH BARRANCA AVENUE  
WEST COVINA, CA 91791-1605

TENET HEALTHCARE CORP  
3820 STATE STREET  
SANTA BARBARA, CA 93105

UNOCAL CORP  
SUITE 4000  
2141 ROSECRANS AVENUE  
EL SEGUNDO, CA 90245

VANTAGEMED CORP  
SUITE 180  
3017 KILGORE ROAD  
RANCHO CORDOVA, CA 95670

WFS FINANCIAL INC  
23 PASTEUR  
IRVINE, CA 92618-3816

ZENITH NATIONAL INSURANCE CORP  
21255 CALIFA STREET  
WOODLAND HILLS, CA 91367-5021

ZHONE TECHNOLOGIES, INC  
ZHONE WAY  
7001 OAKPORT STREET  
OAKLAND, CA 94621

**Companies\* That Currently Expense or Intend to Expense Stock Options  
Using the Fair Value Method  
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Based upon February 12, 2004 Report by  
Accounting and Taxation Research, Bear Stearns**

CSG SYSTEMS INTERNATIONAL  
7887 EAST BELLEVIEW AVENUE  
SUITE 1000  
ENGLEWOOD, CO 80111

e.COLLEGE.COM INC  
4900 SOUTH MONACO STREET  
DENVER, CO 80237

GREAT WEST LIFE & ANNUITY INSURANCE CO  
8515 EAST ORCHARD ROAD  
GREENWOOD VILLAGE, CO 80111

LEVEL 3 COMMUNICATIONS INC  
1025 ELDORADO BOULEVARD  
BROOMFIELD, CO 80021

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\*Excluding REITS and international companies.

**Companies\* That Currently Expense or Intend to Expense Stock Options  
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ANNUITY AND LIFE RE, LTD  
280 TRUMBULL STREET  
HARTFORD, CT 06103

ARISTOTLE CORP  
96 CUMMINGS POINT ROAD  
STAMFORD, CT 06902

GENERAL ELECTRIC CO  
3135 EASTON TURNPIKE  
FAIRFIELD, CT 06828-0001

HARTFORD FINANCIAL SERVICES GROUP, INC  
HARTFORD PLAZA  
HARTFORD, CT 06115

HARTFORD LIFE INSURANCE CO  
200 HOPMEADOW STREET  
SIMSBURY, CT 06089

MACDERMID INC  
245 FREIGHT STREET  
WATERBURY, CT 06702

OMI CORP  
1 STATION PLACE  
STAMFORD, CT 06902

PANAMSAT CORP  
20 WESTPORT ROAD  
WILTON, CT 06897

PARTNERRE LIMITED  
GREENWICH PLAZA  
GREENWICH, CT 06830

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\*Excluding REITS and international companies.

PHOENIX COS INC  
ONE AMERICAN ROW  
HARTFORD, CT 06102-5056

PREMCOR INC  
SUITE 500  
1700 EAST PUTNAM AVENUE  
OLD GREENWICH, CT 06870

STUDENT LOAN CORP  
750 WASHINGTON BOULEVARD  
STAMFORD CT 06901

TRAVELERS PROPERTY CASUALTY CORP  
ONE TOWER SQUARE  
HARTFORD, CT 06183

UIL HOLDINGS CORP  
157 CHURCH STREET  
NEW HAVEN, CT 06506

W R BERKLEY CORP  
475 STEAMBOAT ROAD  
GREENWICH, CT 06830

WEBSTER FINANCIAL CORP  
WEBSTER PLAZA  
WATERBURY, CT 06720

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FANNIE MAE  
3900 WISCONSIN AVENUE NORTH WEST  
WASHINGTON, DC 20016

HARMAN INTERNATIONAL INDUSTRIES INC  
1101 PENNSYLVANIA AVENUE NORTH WEST  
WASHINGTON, DC 20004-2504

INTERSTATE HOTELS & RESORTS INC  
1010 WISCONSIN AVENUE NORTH WEST  
WASHINGTON, DC 20007

WASHINGTON POST CO  
1150 15TH STREET NORTH WEST  
WASHINGTON, DC 20071

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**Companies\* That Currently Expense or Intend to Expense Stock Options  
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DELPHI FINANCIAL GROUP INC  
SUITE 1230  
1105 NORTH MARKET STREET  
P O BOX 8985  
WILMINGTON, DE 19899

E. I. DU PONT DE NEMOURS & CO  
1007 MARKET STREET  
WILMINGTON, DE 19898

HERCULES INC  
HERCULES PLAZA  
1313 NORTH MARKET STREET  
WILMINGTON, DE 19894-0001

STERLING CONSTRUCTION CO INC  
SUITE 3131  
2751 CENTERVILLE ROAD  
WILMINGTON, DE 19808

02 DIESEL, INC.  
CORPORATE OFFICES  
200 EXECUTIVE DRIVE  
NEWARK, DE 19702

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ANCHOR GLASS CONTAINER CORP  
1 ANCHOR PLAZA  
4343 ANCHOR PLAZA PKWY  
TAMPA, FL 33634

ATLAS RESOURCES INTERNATIONAL INC  
3135 SW MAPP ROAD  
PALM CITY, FL 34991

CAPITAL CITY BANK GROUP INC  
217 NORTH MONROE STREET  
TALLAHASSEE, FL 32301

CSX CORP  
15TH FLOOR  
500 WATER STREET  
JACKSONVILLE, FL 32202

GALAXY NUTRITIONAL FOODS  
2441 VISCOUNT ROW  
ORLANDO, FL 32809

MARITRANS INC  
SUITE 1200  
302 KNIGHTS RUN AVENUE  
TWO HARBOUR PLACE  
TAMPA, FL 33602

QUIPP INC  
4800 NORTH WEST 157TH STREET  
MIAMI, FL 33014

RAYMOND JAMES FINANCIAL INC  
880 CARILLON PARKWAY  
ST PETERSBURG, FL 33716

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\*Excluding REITS and international companies.

REPUBLIC BANCSHARES INC  
111 2<sup>ND</sup> AVENUE NE  
SUITE 300  
ST. PETERSBURG, FL 33701

TUPPERWARE CORP  
14901 SOUTH ORANGE BLOSSOM TRAIL  
ORLANDO, FL 32837

WINN DIXIE STORES INC  
5050 EDGEWOOD COURT  
JACKSONVILLE, FL 32254-3699

WORLD FUEL SERVICES CORP  
SUITE 800  
700 SOUTH ROYAL POINCIANA BOULEVARD  
MIAMI SPRINGS, FL 33166



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ACUITY BRANDS INC  
SUITE 2400  
1170 PEACHTREE STREET NORTH EAST  
ATLANTA, GA 30309

BELLSOUTH CORP  
ROOM 15G03  
1155 PEACHTREE STREET NORTH EAST  
ATLANTA, GA 30309-3610

COCA COLA CO  
ONE COCA COLA PLAZA  
ATLANTA, GA 30313

GENUINE PARTS COMPANY  
2999 CIRCLE 75 PKWY  
ATLANTA, GA 30339

GEORGIA-PACIFIC CORP  
133 PEACHTREE STREET NE  
ATLANTA, GA 30303

HOME DEPOT INC  
2455 PACES FERRY ROAD NORTH WEST  
ATLANTA, GA 30339-4024

KNOLOGY INC  
1241 O.G. SKINNER DRIVE  
WEST POINT, GA 31833

RUSSELL CORP  
SUITE 800  
3330 CUMBERLAND BOULEVARD  
ATLANTA, GA 30339

SECURITY BANK CORP  
4219 FORSYTH ROAD  
MACON, GA 31210

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\*Excluding REITS and international companies.

SED INTERNATIONAL HOLDINGS INC  
4916 NORTH ROYAL ATLANTA DRIVE  
ATLANTA, GA 30085

SUNTRUST BANKS INC  
303 PEACHTREE STREET NORTH EAST  
ATLANTA, GA 30308

UNITED PARCEL SERVICE INC  
55 GLENLAKE PARKWAY NORTH EAST  
ATLANTA, GA 30328

**Companies\* That Currently Expense or Intend to Expense Stock Options  
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HAWAIIAN ELECTRIC INDUSTRIES INC  
900 RICHARDS STREET  
HONOLULU, HI 96813-2956

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BANDAG INC  
2905 NORTH HIGHWAY 61  
MUSCATINE, IA 52761-5886

FBL FINANCIAL GROUP INC  
5400 UNIVERSITY AVENUE  
WEST DES MOINES IA 50266-5997

LEE ENTERPRISES INC  
215 NORTH MAIN STREET  
DAVENPORT, IA 52801

PRINCIPAL FINANCIAL GROUP INC  
711 HIGH STREET  
DES MOINES, IA 50392

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ALLSTATE CORP  
2775 SANDERS ROAD  
NORTHBROOK, IL 60062

ALPHA HOSPITALITY CORP  
SUITE 600  
707 SKOKIE BOULEVARD  
NORTHBROOK, IL 60062

AMCOL INTERNATIONAL CORP  
SUITE 500  
1500 WEST SHURE DR ONE NORTH ARLINGTON  
ARLINGTON HEIGHTS, IL 60004-7803

ARLINGTON HOSPITALITY, INC  
2355 SOUTH ARLINGTON HEIGHTS ROAD  
SUITE 400  
ARLINGTON HEIGHTS, IL 60005

ARTHUR J. GALLAGHER & CO  
2 PIERCE PLACE  
ITASCA, IL 60143

BANK ONE CORP  
1 BANK ONE PLAZA  
CHICAGO, IL 60670

BOEING CO  
100 NORTH RIVERSIDE  
CHICAGO, IL 60606-1596

BOSS HOLDINGS INC  
221 WEST FIRST STREET  
KEWANEE, IL 61443

CHICAGO MERCANTILE EXCHANGE HOLDINGS INC  
30 SOUTH WACKER DRIVE  
CHICAGO, IL 60606-7499

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\*Excluding REITS and international companies.

CORUS BANKSHARES, INC  
3959 NORTH LINCOLN AVENUE  
CHICAGO, IL 60613

DIAMONDCLUSTER INTERNATIONAL  
875 NORTH MICHIGAN AVENUE  
SUITE 3000  
CHICAGO, IL 60611

GENERAL EMPLOYMENT ENTERPRISES INC  
SUITE 2100  
ONE TOWER LANE  
OAKBROOK TERRACE, IL 60181-4664

HOUSEHOLD INTERNATIONAL INC  
2700 SANDERS ROAD  
PROSPECT HEIGHTS, IL 60070-2799

OLD REPUBLIC INTERNATIONAL CORP  
307 NORTH MICHIGAN AVENUE  
CHICAGO, IL 60601-5382

SAUER DANFOSS INC  
SUITE 270  
250 PARKWAY DRIVE  
LINCOLNSHIRE, IL 60069

SERVICEMASTER CO  
2300 WARRENVILLE ROAD  
DOWNERS GROVE, IL 60515-1700

SMURFIT-STONE CONTAINER CORP  
150 NORTH MICHIGAN AVENUE  
CHICAGO, IL 60601

UNITRIN INC  
ONE EAST WACKER DRIVE  
CHICAGO, IL 60601

**Companies\* That Currently Expense or Intend to Expense Stock Options  
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COHESANT TECHNOLOGIES INC  
SUITE 102  
5845 WEST 82ND STREET  
INDIANAPOLIS, IN 46278

CUMMINS INC  
500 JACKSON STREET  
P O BOX 3005  
COLUMBUS, IN 47202-3005

HILLENBRAND INDUSTRIES INC  
700 STATE ROUTE 46 EAST  
BATESVILLE, IN 47006-8835

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LONE STAR STEAKHOUSE & SALOON INC  
SUITE 700  
224 EAST DOUGLAS  
WICHITA, KS 67202

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ASHLAND INC  
50 EAST RIVERCENTER BOULEVARD  
P O BOX 391  
COVINGTON, KY 41012-0391

NATIONAL PROCESSING INC  
1231 DURRETT LANE  
LOUISVILLE, KY 40213

PAPA JOHN'S INTERNATIONAL INC  
2002 PAPA JOHN S BOULEVARD  
LOUISVILLE, KY 40299-2334

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ENTERGY CORP  
639 LOYOLA AVENUE  
NEW ORLEANS, LA 70113

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ARCH WIRELESS INC  
SUITE 250  
1800 WEST PARK DRIVE  
WESTBOROUGH, MA 01581

DATAMEG CORP  
SUITE 463  
20 PARK PLAZA  
BOSTON, MA 02116

FLEETBOSTON FINANCIAL CORP  
100 FEDERAL STREET  
BOSTON, MA 02110

JOHN HANCOCK FINANCIAL SERVICES INC  
JOHN HANCOCK PLACE  
P O BOX 111  
BOSTON, MA 02117

IRON MOUNTAIN INC  
745 ATLANTIC AVENUE  
BOSTON, MA 02111

MESTEK INC  
260 NORTH ELM STREET  
WESTFIELD, MA 01085

NATIONAL GRID USA  
25 RESEARCH DRIVE  
WESTBOROUGH, MA 01582  
(Parent company is located in the UK)

STATE STREET CORP  
225 FRANKLIN STREET  
BOSTON, MA 02110-2804

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\*Excluding REITS and international companies.

YANKEE CANDLE CO INC  
16 YANKEE CANDLE WAY  
SOUTH DEERFIELD, MA 01373

**Companies\* That Currently Expense or Intend to Expense Stock Options  
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AMERICAN CAPITAL STRATEGIES, LTD  
2 BETHESDA METRO CENTER, 14<sup>TH</sup> FLOOR  
BETHESDA, MD 20814

CHOICE HOTELS INTERNATIONAL INC  
10750 COLUMBIA PIKE  
SILVER SPRING, MD 20901

LEGG MASON INC  
100 LIGHT STREET  
BALTIMORE, MD 21202

MERCANTILE BANKSHARES CORP  
TWO HOPKINS PLAZA  
P O BOX 1477  
BALTIMORE, MD 21203

SONEX RESEARCH INC  
23 HUDSON STREET  
ANNAPOLIS, MD 21401-3100

STRATOS GLOBAL CORP  
6901 ROCKLEDGE DRIVE  
SUITE 900  
BETHESDA, MD 20817

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CAMDEN NATIONAL CORP  
2 ELM STREET  
CAMDEN, ME 04843

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ARVINMERITOR INC  
2135 WEST MAPLE ROAD  
TROY, MI 48084-7186

CAPITAL DIRECTIONS, INC  
322 SOUTH JEFFERSON STREET  
MASON, MI 48854

CMS ENERGY CORP  
FAIRLANE PLAZA SOUTH SUITE 1100  
330 TOWN CENTER DRIVE  
DEARBORN, MI 48126

COMERICA INC  
COMERICA TOWER AT DETROIT CENTER  
500 WOODWARD AVENUE  
DETROIT, MI 48226-1101

CREDIT ACCEPTANCE CORP  
25505 WEST 12 MILE ROAD  
SUITE 3000  
SOUTHFIELD, MI 48034

DAIMLERCHRYSLER CORPORATION  
AUBURN HILLS, MI 48326-2766

DOW CHEMICAL CO  
2030 DOW CENTER  
MIDLAND, MI 48674

FORD MOTOR CO  
ONE AMERICAN ROAD  
DEARBORN, MI 48126

GENERAL MOTORS CORP  
300 RENAISSANCE CENTER  
DETROIT, MI 48265-3000

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\*Excluding REITS and international companies.

HANDLEMAN CO  
500 KIRTS BOULEVARD  
TROY, MI 48084-4142

KMART HOLDING CORP  
3100 WEST BIG BEAVER ROAD  
TROY, MI 48084

LEAR CORP  
21557 TELEGRAPH ROAD  
SOUTHFIELD, MI 48034

MASO CORP.  
21001 VAN BORN ROAD  
TAYLOR, MI 48180

MEADOWBROOK INSURANCE GROUP INC  
26600 TELEGRAPH ROAD  
SOUTHFIELD, MI 48034

PERRIGO CO  
515 EASTERN AVENUE  
ALLEGAN, MI 49010

PULTE HOMES INC  
SUITE 300  
100 BLOOMFIELD HILLS PARKWAY  
BLOOMFIELD HILLS, MI 48304

REPUBLIC BANCORP INC  
1070 EAST MAIN STREET  
OWOSSO, MI 48867

STEELCASE INC  
901 44TH STREET  
GRAND RAPIDS, MI 49508

VISTEON CORP  
17000 ROTUNDA  
DEARBORN, MI 48120



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HORMEL FOODS CORP  
1 HORMEL PLACE  
AUSTIN, MN 55912-3680

NORTHWEST AIRLINES CORP  
2700 LONE OAK PARKWAY  
EAGAN, MN 55121

PIPER JAFFRAY COMPANIES  
800 NICOLLET MALL, SUITE 800  
MINNEAPOLIS, MN 55402

TARGET CORP  
1000 NICOLLET MALL  
MINNEAPOLIS, MN 55403

TCF FINANCIAL CORP  
200 LAKE STREET EAST  
MAIL CODE EX0 03 A  
WAYZATA, MN 55391-1693

U.S. BANCORP  
800 NICOLLET MALL  
MINNEAPOLIS, MN 55402

WINMARK CORP  
SUITE 100  
4200 DAHLBERG DRIVE  
GOLDEN VALLEY, MN 55422-4837

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MISSISSIPPI CHEMICAL CORP  
3622 HWY 49 EAST  
YAZOO CITY, MS 39194

PEOPLES HOLDING CO  
209 TROY STREET  
P O BOX 709  
TUPELO, MS 38802-0709

TRUSTMARK CORP  
248 EAST CAPITOL STREET  
JACKSON, MS 39201

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\*Excluding REITS and international companies.

**Companies\* That Currently Expense or Intend to Expense Stock Options  
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AMEREN CORP  
1901 CHOUTEAU AVENUE  
ST LOUIS, MO 63103

CHARTER COMMUNICATIONS INC  
12405 POWERSCOURT DRIVE  
ST LOUIS, MO 63131

COMMERCE BANCSHARES INC  
1000 WALNUT  
P O BOX 13686  
KANSAS CITY, MO 64106

EMERSON ELECTRIC CO  
8000 WEST FLORISSANT AVENUE  
P O BOX 4100  
ST LOUIS, MO 63136

GREAT PLAINS ENERGY INC  
1201 WALNUT STREET  
KANSAS CITY, MO 64106

H & R BLOCK INC  
4400 MAIN STREET  
KANSAS CITY, MO 64111-1812

KELLWOOD CO  
600 KELLWOOD PARKWAY  
P O BOX 14374  
ST LOUIS, MO 63178

LEGGETT & PLATT INC  
NUMBER 1 LEGGETT ROAD  
CARTHAGE, MO 64836

MAY DEPARTMENT STORES CO  
611 OLIVE STREET  
ST LOUIS, MO 63101

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\*Excluding REITS and international companies.

REINSURANCE GROUP OF AMERICA INC  
1370 TIMBERLAKE MANOR PARKWAY  
CHESTERFIELD, MO 63017

SCS TRANSPORTATION, INC  
4435 MAIN STREET  
SUITE 930  
KANSAS CITY, MO 64111

SPRINT FON GROUP  
P.O. BOX 11315  
KANSAS CITY, MO 64112

**Companies\* That Currently Expense or Intend to Expense Stock Options  
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AMERITRADE HOLDING CORP  
4211 SOUTH 102<sup>ND</sup> STREET  
OMAHA, NE 68127

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VENDINGDATA CORP  
6830 SPENCER STREET  
LAS VEGAS, NV 89119

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BAYCORP HOLDINGS LTD  
SUITE 301  
20 INTERNATIONAL DRIVE  
PORTSMOUTH, NH 03801-6809

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AT&T CORP  
900 ROUTE 202 206 NORTH  
BEDMINSTER, NJ 07921

AVIS GROUP HLDGS, INC  
6 SYLVAN WAY  
PARSIPPANY, NJ 07054

CHUBB CORP  
15 MOUNTAIN VIEW ROAD  
P O BOX 1615  
WARREN, NJ 07061-1615

DIVERSIFIED SECURITY SOLUTIONS INC  
280 MIDLAND AVENUE  
SADDLE BROOK, NJ 07663

ELITE PHARMACEUTICALS INC  
165 LUDLOW AVENUE  
NORTHVALE, NJ 07647

HERTZ CORPORATION  
225 BRAE BLVD  
PARK RIDGE, NJ 07656

HUDSON UNITED BANCORP  
1000 MACARTHUR BOULEVARD  
MAHWAH, NJ 07430

INTERNATIONAL THOROUGHBRED BREEDERS  
211 BENIGNO BLVD  
SUITE 210  
BELLMAWR, NJ 08031

MONMOUTH CAPITAL CORP  
JUNIPER BUSINESS PLAZA  
3499 ROUTE 9 NORTH  
FREEHOLD, NJ 07728

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\*Excluding REITS and international companies.



NEW JERSEY RESOURCES CORP  
1415 WYCKOFF ROAD  
WALL, NJ 07719-1468

PRUDENTIAL FINANCIAL INC  
751 BROAD STREET  
NEWARK, NJ 07102

RCN CORP  
105 CARNEGIE CENTER  
PRINCETON, NJ 08540

RONSON CORP  
CAMPUS DRIVE  
P O BOX 6707  
SOMERSET, NJ 08875

SOUTH JERSEY INDUSTRIES INC  
1 SOUTH JERSEY PLAZA  
FOLSOM, NJ 08037

TELLIUM INC  
2 CRESCENT PLACE  
OCEANPORT, NJ 07757-0901

UNITED NATIONAL BANCORP  
1130 ROUTE 22 EAST  
BRIDGEWATER, NJ 08807-0010

VALLEY NATIONAL BANCORP  
1455 VALLEY ROAD  
WAYNE, NJ 07470

VILLAGE SUPERMARKET, INC  
733 MOUNTAIN AVENUE  
SPRINGFIELD, NJ 07081

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ALBANY INTERNATIONAL CORP  
1373 BROADWAY  
ALBANY, NY 12204

ALLEGHANY CORP  
375 PARK AVENUE  
NEW YORK, NY 10152

ALLIANCE CAPITAL MANAGEMENT HOLDING LP  
1345 AVENUE OF THE AMERICAS  
NEW YORK, NY 10105

AMBAC FINANCIAL GROUP INC  
ONE STATE STREET PLAZA  
NEW YORK, NY 10004

AMERICAN EXPRESS CO  
WORLD FINANCIAL CENTER  
200 VESEY STREET  
NEW YORK, NY 10285

AMERICAN INDEPENDENCE CORP  
485 MADISON AVENUE  
NEW YORK, NY 10022

AMERICAN INTERNATIONAL GROUP INC  
70 PINE STREET  
NEW YORK, NY 10270

AMERICAN TECHNICAL CERAMICS  
17 STEPAN PLACE  
HUNTINGTON STATION, NY 11746

BANK OF NEW YORK CO INC  
ONE WALL STREET  
NEW YORK, NY 10286

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\*Excluding REITS and international companies.

BEAR STEARNS COS INC  
383 MADISON AVENUE  
NEW YORK, NY 10179

CENDANT CORP  
9 WEST 57TH STREET  
NEW YORK, NY 10019

CH ENERGY GROUP INC  
284 SOUTH AVENUE  
POUGHKEEPSIE, NY 12601-4879

CHOICE ONE COMMUNICATIONS INC  
SUITE 600  
100 CHESTNUT STREET  
ROCHESTER, NY 14604-2417

CITIGROUP INC  
399 PARK AVENUE  
NEW YORK, NY 10043

COMMAND SECURITY CORP  
ROUTE 55  
LEXINGTON PARK  
LAGRANGEVILLE, NY 12540

COMPUTER ASSOCIATES INTERNATIONAL INC  
ONE COMPUTER ASSOCIATES PLAZA  
ISLANDIA, NY 11749

DOCUMENT SECURITY SYSTEMS INC  
SUITE 710  
36 WEST MAIN STREET  
ROCHESTER, NY 14614

DREW INDUSTRIES INC  
200 MAMARONECK AVENUE  
WHITE PLAINS, NY 10601

GABELLI ASSET MANAGEMENT INC  
ONE CORPORATE CENTER  
RYE, NY 10580

GILMANT + CIOCIA, INC  
11 RAYMOND AVENUE  
POUGHKEEPSIE, NY 12603

GOLDMAN SACHS GROUP INC  
85 BROAD STREET  
NEW YORK, NY 10004

GREY GLOBAL GROUP INC  
777 THIRD AVENUE  
NEW YORK, NY 10017-1379

HAIGHTS CROSS COMMUNICATIONS  
10 NEW KING STREET  
WHITE PLAINS, NY 10604

HUDSON VALLEY HOLDING CORP  
21 SCARSDALE ROAD  
YONKERS, NY 10707

INSIGNIA FINANCIAL GROUP INC  
200 PARK AVENUE  
NEW YORK, NY 10166

INTEGRAMED AMERICA, INC  
2 MANHATTANVILLE ROAD  
PURCHASE, NY 10577

JEFFERIES GROUP INC  
12TH FLOOR  
520 MADISON AVENUE  
NEW YORK, NY 10022

J P MORGAN CHASE & CO  
FLOOR 35  
270 PARK AVENUE  
NEW YORK NY 10017-2070

KEYSPAN CORP  
ONE METROTECH CENTER  
BROOKLYN, NY 11201

LABRANCHE & CO INC  
ONE EXCHANGE PLAZA  
NEW YORK, NY 10006

M&T BANK CORP  
ONE M&T PLAZA  
BUFFALO, NY 14203

MBIA INC  
113 KING STREET  
ARMONK, NY 10504

MERRILL LYNCH & CO INC  
4 WORLD FINANCIAL CENTER  
NEW YORK, NY 10080

METLIFE INC  
ONE MADISON AVENUE  
NEW YORK, NY 10010-3690

MOODY'S CORP  
99 CHURCH STREET  
NEW YORK, NY 10007

MORGAN STANLEY  
1585 BROADWAY  
NEW YORK, NY 10036

NATIONAL FINANCIAL PARTNERS  
787 SEVENTH AVENUE  
49<sup>TH</sup> FLOOR  
NEW YORK, NY 10019

NEUBERGER BERMAN INC  
605 THIRD AVENUE  
NEW YORK, NY 10158

ODYSSEY RE HOLDINGS CORP  
30<sup>TH</sup> FLOOR  
140 BROADWAY  
NEW YORK, NY 10005

PEPSICO, INC  
700 ANDERSON HILL ROAD  
PURCHASE, NY 10577

PREDICTIVE SYSTEMS INC  
19 WEST 44TH STREET  
NEW YORK, NY 10036

PRIMEDIA INC  
745 5<sup>TH</sup> AVENUE  
NEW YORK, NY 10151

SCHLUMBERGER LTD  
57<sup>TH</sup> FLOOR  
153 EAST 53 STREET  
NEW YORK, NY 10022-4624

TRANSATLANTIC HOLDINGS INC  
80 PINE STREET  
NEW YORK, NY 10005

USA INTERACTIVE  
152 WEST 57TH STREET  
NEW YORK, NY 10019

VERIZON COMMUNICATIONS INC  
1095 AVENUE OF THE AMERICAS  
NEW YORK, NY 10036

VORNADO OPERATING COMPANY  
888 7<sup>TH</sup> AVENUE  
NEW YORK, NY 10019

WARNACO GROUP INC  
90 PARK AVENUE  
NEW YORK, NY 10016

**Companies\* That Currently Expense or Intend to Expense Stock Options  
Using the Fair Value Method  
Arranged by State, Compiled by the FAF Library  
Based upon February 12, 2004 Report by  
Accounting and Taxation Research, Bear Stearns**

BANK OF AMERICA CORP  
BANK OF AMERICA CORPORATE CENTER  
CHARLOTTE, NC 28255

INGLES MARKETS, INC  
2913 US HWY 70 WEST  
BLACK MOUNTAIN, NC 28711

LOWE'S COS INC  
1605 CURTIS BRIDGE ROAD  
WILKESBORO, NC 28697

R J REYNOLDS TOBACCO HOLDINGS INC  
401 NORTH MAIN STREET  
WINSTON SALEM, NC 27102-2866

WACHOVIA CORP  
ONE WACHOVIA CENTER  
C O WACHOVIA CORP  
CHARLOTTE, NC 28288-0013

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\*Excluding REITS and international companies.

**Companies\* That Currently Expense or Intend to Expense Stock Options  
Using the Fair Value Method  
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Accounting and Taxation Research, Bear Stearns**

APPLIED INDUSTRIAL TECHNOLOGIES INC  
ONE APPLIED PLAZA  
CLEVELAND, OH 44115

CEDAR FAIR LP  
ONE CEDAR POINT DRIVE  
SANDUSKY, OH 44870-5259

CINERGY CORP  
139 EAST FOURTH STREET  
CINCINNATI, OH 45202

CLEVELAND CLIFFS INC  
1100 SUPERIOR AVENUE  
CLEVELAND, OH 44114-2589

DPL INC  
1065 WOODMAN DRIVE  
DAYTON, OH 45432

JO ANN STORES INC  
5555 DARROW ROAD  
HUDSON, OH 44236

KEYCORP OHIO  
127 PUBLIC SQUARE  
CLEVELAND, OH 44114-1306

LINCOLN ELECTRIC HOLDINGS INC  
22801 ST CLAIR AVENUE  
CLEVELAND, OH 44117

NATIONAL CITY CORP  
1900 EAST NINTH STREET  
CLEVELAND, OH 44114-3484

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\*Excluding REITS and international companies.



OM GROUP, INC  
50 PUBLIC SQUARE  
3500 TERMINAL TOWER  
CLEVELAND, OH 44113

PROCTER & GAMBLE CO  
ONE PROCTER & GAMBLE PLAZA  
CINCINNATI, OH 45202

PROGRESSIVE CORP  
6300 WILSON MILLS ROAD  
MAYFIELD VILLAGE, OH 44143

PROVIDENT FINANCIAL GROUP INC  
ONE EAST FOURTH STREET  
CINCINNATI, OH 45202

REYNOLDS & REYNOLDS CO.  
1 REYNOLDS WAY  
DAYTON, OH 45430

SCOTTS CO  
14111 SCOTTSLAWN ROAD  
MARYSVILLE, OH 43041

**Companies\* That Currently Expense or Intend to Expense Stock Options  
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Accounting and Taxation Research, Bear Stearns**

BETA OIL & GAS INC  
SUITE 813  
6120 SOUTH YALE  
TULSA, OK 74136

BOK FINANCIAL CORP  
BANK OF OKLAHOMA TOWER  
TULSA, OK 74192

DOLLAR THRIFTY AUTOMOTIVE GROUP INC  
5330 EAST 31<sup>ST</sup> STREET  
TULSA, OK 74135

HERITAGE PROPANE PARTNERS, L.P.  
8801 SOUTH YALE AVENUE  
SUITE 310  
TULSA, OK 74137

NATIONAL DIVERSIFIED SERVICES INC  
9505 NAWASSA DRIVE  
OKLAHOMA CITY, OK 73117

ONEOK INC  
100 WEST FIFTH STREET  
TULSA, OK 74103

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\*Excluding REITS and international companies.

**Companies\* That Currently Expense or Intend to Expense Stock Options  
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ASSISTED LIVING CONCEPTS INC  
BUILDING E  
11835 NORTH EAST GLENN WIDING DRIVE  
PORTLAND, OR 97220-9057

STANCORP FINANCIAL GROUP INC  
1100 SOUTH WEST SIXTH AVENUE  
PORTLAND, OR 97204

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\*Excluding REITS and international companies.

**Companies\* That Currently Expense or Intend to Expense Stock Options  
Using the Fair Value Method  
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Accounting and Taxation Research, Bear Stearns**

EGAMES INC  
SUITE 110  
2000 CABOT BOULEVARD WEST  
LANGHORNE, PA 19047-1811

FIRST KEYSTONE CORP  
111 WEST FRONT STREET  
BERWICK, PA 18603

FIRST NATIONAL COMMUNITY BANCORP INC  
102 EAST DRINKER STREET  
DUNMORE, PA 18512

HERSHEY FOODS CORP  
100 CRYSTAL A DRIVE  
HERSHEY, PA 17033-9789

JONES APPAREL GROUP INC  
250 RITTENHOUSE CIRCLE  
BRISTOL, PA 19007

LINCOLN NATIONAL CORP  
SUITE 3900  
1500 MARKET STREET  
PHILADELPHIA, PA 19102-2112

MELLON FINANCIAL CORP  
ONE MELLON CENTER  
PITTSBURGH, PA 15258-0001

MICHAEL BAKER CORP  
AIRSIDE DRIVE  
AIRSIDE BUSINESS PARK  
CORAOPOLIS, PA 15108

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\*Excluding REITS and international companies.

ORLEANS HOMEBUILDERS INC  
ONE GREENWOOD SQUARE  
SUITE 101  
3333 STREET ROAD  
BENSALEM, PA 19020

PENN AMERICA GROUP INC  
420 SOUTH YORK ROAD  
HATBORO, PA 19040

PNC FINANCIAL SERVICES GROUP INC  
ONE PNC PLAZA  
249 FIFTH AVENUE  
PITTSBURGH, PA 15222-2707

PPL CORP  
TWO NORTH NINTH STREET  
ALLENTOWN, PA 18101-1179

RITE AID CORP  
30 HUNTER LANE  
CAMP HILL, PA 17011

ROHM & HAAS CO  
100 INDEPENDENCE MALL WEST  
PHILADELPHIA, PA 19106

SOUTHERN UNION COMPANY  
ONE PEI CENTER  
WILKES-BARRE, PA 18711

SOVEREIGN BANCORP INC  
1500 MARKET STREET  
PHILADELPHIA, PA 19103

STEEL CITY PRODUCTS INC  
200 CENTER STREET  
MCKEESPORT, PA 15132

SUNOCO INC  
TEN PENN CENTER  
1801 MARKET STREET  
PHILADELPHIA, PA 19103-1699

TB WOODS CORP  
440 NORTH 5<sup>TH</sup> AVENUE  
CHAMBERSBURG, PA 17201

TECHNITROL INC  
SUITE 385  
1210 NORTHBROOK DRIVE  
TREVISO, PA 19053-8406

**Companies\* That Currently Expense or Intend to Expense Stock Options  
Using the Fair Value Method  
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Based upon February 12, 2004 Report by  
Accounting and Taxation Research, Bear Stearns**

DORAL FINANCIAL CORP  
1451 F D ROOSEVELT AVENUE  
SAN JUAN, PR 00920-2717

POPULAR INC  
POPULAR CENTER BUILDING  
209 MUNOZ RIVERA AVENUE  
HATO REY  
SAN JUAN, PR 00918

W HOLDING CO INC  
19 WEST MCKINLEY STREET  
MAYAGUEZ, PR 00680

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\*Excluding REITS and international companies.

**Companies\* That Currently Expense or Intend to Expense Stock Options  
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Accounting and Taxation Research, Bear Stearns**

RAVEN INDUSTRIES INC  
205 EAST 6TH STREET  
P O BOX 5107  
SIOUX FALLS, SD 57117-5107

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\*Excluding REITS and international companies.



**Companies\* That Currently Expense or Intend to Expense Stock Options  
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UNUMPROVIDENT CORP  
1 FOUNTAIN SQUARE  
CHATTANOOGA, TN 37402

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\*Excluding REITS and international companies.

**Companies\* That Currently Expense or Intend to Expense Stock Options  
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AMERICREDIT CORP  
801 CHERRY STREET, SUITE 3900  
FORT WORTH, TX 76102

ANADARKO PETROLEUM CORP  
1201 LAKE ROBBINS DRIVE  
THE WOODLANDS, TX 77380-1046

CAPITAL SOUTHWEST CORP  
SUITE 700  
12900 PRESTON ROAD  
DALLAS, TX 75230

CENTEX CORP  
2728 NORTH HARWOOD  
DALLAS, TX 75201

CONOCOPHILLIPS  
600 NORTH DAIRY ASHFORD ROAD  
HOUSTON, TX 77079

CONTANGO OIL & GAS CO  
SUITE 960  
3700 BUFFALO SPEEDWAY  
HOUSTON, TX 77098

COOPER INDUSTRIES LTD  
SUITE 5800  
600 TRAVIS  
HOUSTON, TX 77002-1001

CROWN CASTLE INTERNATIONAL CORP  
510 BERING DRIVE, SUITE 500  
HOUSTON, TX 77057

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\*Excluding REITS and international companies.

DYNACQ INTERNATIONAL INC  
SUITE 369  
10304 INTERSTATE 10 EAST  
HOUSTON, TX 77029

DYNAMEX INC  
1870 CROWN DRIVE  
DALLAS, TX 75234

DYNEGY INC  
SUITE 5800  
1000 LOUISIANA STREET  
HOUSTON, TX 77002

ENNIS BUSINESS FORMS INC  
SUITE 300  
1510 NORTH HAMPTON  
DESOTO, TX 75115

EXXON MOBIL CORP  
5959 LAS COLINAS BOULEVARD  
IRVING, TX 75039-2298

FLEMING COS INC  
1945 LAKEPOINT DRIVE  
LEWISVILLE, TX 75029

GUARANTY BANCSHARES INC  
100 WEST ARKANSAS  
MOUNT PLEASANT, TX 75455

HALLMARK FINANCIAL SERVICES INC  
SUITE 900  
14651 DALLAS PARKWAY  
DALLAS, TX 75254

HARVEST NATURAL RESOURCES INC  
SUITE 115  
15835 PARK TEN PLACE DRIVE  
HOUSTON, TX 77084

HOUSTON EXPLORATION CO  
SUITE 2000  
1100 LOUISIANA  
HOUSTON, TX 77002-5215

ICO INC  
SUITE 600  
5333 WESTHEIMER  
HOUSTON, TX 77056

INVESTTOOLS INC  
SUITE LL250  
5959 CORPORATE DRIVE  
HOUSTON, TX 77036

LIBERTE INVESTMENTS INC  
200 CRESCENT COURT  
SUITE 1365  
DALLAS, TX 75201

LYONDELL CHEMICAL CO  
SUITE 700  
1221 MCKINNEY STREET  
P O BOX 3646  
HOUSTON, TX 77010-2006

MAGNUM HUNTER RESOURCES INC  
SUITE 1100  
600 EAST LAS COLINAS BOULEVARD  
IRVING, TX 75039

MARATHON OIL CORP  
5555 SAN FELIPE ROAD  
P O BOX 3128  
HOUSTON, TX 77056-2723

NATIONAL WESTERN LIFE INSURANCE CO  
850 EAST ANDERSON LANE  
AUSTIN, TX 78752-1602

PARALLEL PETROLEUM CORP  
SUITE 400  
1004 NORTH BIG SPRING  
MIDLAND, TX 79701

PMC CAPITAL INC  
18111 PRESTON ROAD  
SUITE 600  
DALLAS, TX 75252

POGO PRODUCING CO  
5 GREENWAY PLAZA SUITE 2700  
HOUSTON, TX 77046-0504

RETRACTABLE TECHNOLOGIES INC  
511 LOBO LANE  
LITTLE ELM, TX 75068-0009

SBC COMMUNICATIONS INC  
175 EAST HOUSTON  
SAN ANTONIO, TX 78205-2233

SCHLOTZSKY'S INC  
203 COLORADO STREET  
AUSTIN, TX 78701

TEMPLE INLAND INC  
1300 SOUTH MOPAC EXPRESSWAY  
AUSTIN, TX 78746

TOR MINERALS INTERNATIONAL INC  
722 BURLESON STREET  
CORPUS CHRISTI, TX 78402

TRANSOCEAN INC  
4 GREENWAY PLAZA  
HOUSTON, TX 77046

UICI  
4001 McEWEN DRIVE  
SUITE 200  
DALLAS, TX 75244

WEATHERFORD INTERNATIONAL LTD  
515 POST OAK BLVD  
SUITE 600  
HOUSTON, TX 77027

**Companies\* That Currently Expense or Intend to Expense Stock Options  
Using the Fair Value Method  
Arranged by State, Compiled by the FAF Library  
Based upon February 12, 2004 Report by  
Accounting and Taxation Research, Bear Stearns**

AES CORP  
20TH FLOOR  
1001 NORTH 19TH STREET  
ARLINGTON, VA 22209

CAPITAL ONE FINANCIAL CORP  
1680 CAPITAL ONE DRIVE  
MCLEAN, VA 22102

FEDERAL HOME LOAN MORTGAGE CORP  
8200 JONES BRANCH DRIVE  
MCLEAN, VA 22102

PORTFOLIO RECOVERY ASSOCIATES INC  
120 CORPORATE BOULEVARD  
NORFOLK, VA 23502

SMITHFIELD FOODS INC  
200 COMMERCE STREET  
SMITHFIELD, VA 23430

STAR SCIENTIFIC INC  
801 LIBERTY WAY  
CHESTER, VA 23836

US AIRWAYS GROUP INC  
2345 CRYSTAL DRIVE  
ARLINGTON, VA 22227

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\*Excluding REITS and international companies.

**Companies\* That Currently Expense or Intend to Expense Stock Options  
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Accounting and Taxation Research, Bear Stearns**

AMAZON COM INC  
SUITE 1200  
1200 12TH AVENUE SOUTH  
SEATTLE, WA 98144-2734

COSTCO WHOLESALE CORP DE  
999 LAKE DRIVE  
ISSAQUAH, WA 98027

eACCELERATION CORP  
1050 NE HOSTMARK STREET  
SUITE 1003  
POULSBO, WA 98370

EXPEDIA INC  
SUITE 400  
13810 SOUTH EAST EASTGATE WAY  
BELLEVUE, WA 98005

LION, INC  
4700 42<sup>ND</sup> AVENUE SW  
SUITE 430  
SEATTLE, WA 98116

MICROSOFT CORP  
ONE MICROSOFT WAY  
REDMOND, WA 98052-6399

PACCAR INC  
777 106TH AVENUE NORTH EAST  
BELLEVUE, WA 98004

SAFECO CORP  
SAFECO PLAZA  
SEATTLE, WA 98185-0001

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\*Excluding REITS and international companies.

TODD SHIPYARDS CORP  
1801 16<sup>TH</sup> AVENUE SOUTH WEST  
SEATTLE, WA 98134-1089

WASHINGTON MUTUAL INC  
1201 THIRD AVENUE  
SEATTLE, WA 98101



**Companies\* That Currently Expense or Intend to Expense Stock Options  
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Based upon February 12, 2004 Report by  
Accounting and Taxation Research, Bear Stearns**

JOHNSON CONTROLS INC  
5757 NORTH GREEN BAY AVENUE  
P O BOX 591  
MILWAUKEE, WI 53201

MGIC INVESTMENT CORP  
MGIC PLAZA  
250 EAST KILBOURN AVENUE  
MILWAUKEE, WI 53202

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\*Excluding REITS and international companies.

**Testimony of  
Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
Before the  
Subcommittee on Financial Management, the Budget, and International  
Security of the Committee on Governmental Affairs  
April 20, 2004**

**Attachment 4**

**Notice for Recipients and Summary of the Proposed Statement of  
Financial Accounting Standards, *Share-Based Payment* (“Proposal”)**

# Financial Accounting Series

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EXPOSURE DRAFT

## Proposed Statement of Financial Accounting Standards

**Share-Based Payment**

**an amendment of FASB Statements No. 123 and 95**

This Exposure Draft of a proposed Statement of Financial Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Major Projects  
File Reference No. 1102-100

Comment Deadline: June 30, 2004



Financial Accounting Standards Board  
of the Financial Accounting Foundation

Responses from interested parties wishing to comment on the Exposure Draft must be *received* in writing by June 30, 2004. Interested parties should submit their comments by email to [director@fasb.org](mailto:director@fasb.org), File Reference No. 1102-100. Those without email may send their comments to the “Director of Major Projects—File Reference No. 1102-100” at the address at the bottom of this page. Responses should *not* be sent by fax.

Any individual or organization may obtain one copy of this Exposure Draft without charge until June 30, 2004, by written request only. Please ask for our Product Code No. E177. For information on applicable prices for additional copies and copies requested after June 30, 2004, contact:

Order Department  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

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**Financial Accounting Standards Board**  
of the Financial Accounting Foundation  
401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116

**Notice for Recipients  
of This Exposure Draft**

This proposed Statement addresses the accounting for transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. This proposed Statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and generally would require instead that such transactions be accounted for using a fair-value-based method.

This proposed Statement would neither change the accounting in FASB Statement No. 123, *Accounting for Stock-Based Compensation*, for transactions in which an enterprise exchanges its equity instruments for services of parties other than employees nor change the accounting for employee stock ownership plans, which are subject to AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*. The Board intends to reconsider the accounting for those transactions and plans in a later phase of its project on equity-based compensation.

The Board invites comments on all matters in this proposed Statement, particularly on the specific issues discussed below. Respondents need not comment on all of the issues presented and are encouraged to comment on additional issues as well. It would be helpful if respondents comment on the issues as stated, include any alternatives the Board should consider, and explain the reasons for the positions taken. Where appropriate, it would be useful if respondents identified the specific paragraph or group of paragraphs to which their comments relate.

## **Recognition of Compensation Cost**

*Issue 1:* The Board has reaffirmed the conclusion in Statement 123 that employee services received in exchange for equity instruments give rise to recognizable compensation cost as the services are used in the issuing entity's operations (refer to paragraphs C13–C15). Based on that conclusion, this proposed Statement requires that such compensation cost be recognized in the financial statements. Do you agree with the Board's conclusions? If not, please provide your alternative view and the basis for it.

*Issue 2:* Statement 123 permitted enterprises the option of continuing to use Opinion 25's intrinsic value method of accounting for share-based payments to employees provided those enterprises supplementally disclosed pro forma net income and related pro forma earnings per share information (if earnings per share is presented) as if the fair-value-based method of accounting had been used. For the reasons described in paragraphs C26–C30, the Board concluded that such pro forma disclosures are not an appropriate substitute for recognition of compensation cost in the financial statements. Do you agree with that conclusion? If not, why not?

## **Measurement Attribute and Measurement Date**

*Issue 3:* This proposed Statement would require that public companies measure the compensation cost related to employee services received in exchange for equity instruments issued based on the grant-date fair value of those instruments. Paragraphs C16–C19 and C53 explain why the Board believes fair value is the relevant measurement attribute and grant date is the relevant measurement date. Do you agree with that view? If not, what alternative measurement attribute and measurement date would you suggest and why?

## **Fair Value Measurement**

*Issue 4(a):* This proposed Statement indicates that observable market prices of identical or similar equity or liability instruments in active markets are the best evidence of fair value and, if available, should be used to measure the fair value of equity and liability instruments awarded in share-based payment arrangements with employees. In the absence of an observable market price, this proposed Statement requires that the fair value of equity share options awarded to employees be estimated using an appropriate valuation technique that takes into consideration various factors, including (at a minimum) the exercise price of the option, the expected term of the option, the current price of the underlying share, the expected volatility of the underlying share price, the expected dividends on the underlying share, and the risk-free interest rate (paragraph 19 of Appendix A). Due to the absence of observable market prices, the fair value of most, if not all, share options issued to employees would be measured using an option-pricing model. Some constituents have expressed concern about the consistency and comparability of fair value estimates developed from such models. This proposed Statement elaborates on and expands the guidance in Statement 123 for developing the assumptions to be used in an option-pricing model (paragraphs B13–B30). Do you believe that this proposed Statement provides sufficient guidance to ensure that the fair value measurement objective is applied with reasonable consistency? If not, what additional guidance is needed and why?

*Issue 4(b):* Some constituents assert that the fair value of employee share options cannot be measured with sufficient reliability for recognition in the financial statements.

In making that assertion, they note that the Black-Scholes-Merton formula and similar closed-form models do not produce reasonable estimates of the fair value because they do not adequately take into account the unique characteristics of employee share options. For the reasons described in paragraphs C21–C25, the Board concluded that fair value can be measured with an option-pricing model with sufficient reliability. Board members agree, however, that closed-form models may not necessarily be the best available technique for estimating the fair value of employee share options—they believe that a lattice model (as defined in paragraph E1) is preferable because it offers the greater flexibility needed to reflect the unique characteristics of employee share options and similar instruments. However, for the reasons noted in paragraph C24, the Board decided not to require the use of a lattice model at this time. Do you agree with the Board’s conclusion that the fair value of employee share options can be measured with sufficient reliability? If not, why not? Do you agree with the Board’s conclusion that a lattice model is preferable because it offers greater flexibility needed to reflect the unique characteristics of employee share options. If not, why not?

*Issue 4(c):* Some respondents to the Invitation to Comment suggested that the FASB prescribe a single method of estimating expected volatility or even a uniform volatility assumption that would be used for all companies. Other respondents to the Invitation to Comment disagreed with such an approach. Additionally, some parties believe that historical volatility, which has been commonly used as the estimate of expected volatility under Statement 123 as originally issued, is often not an appropriate measure to use. The proposed Statement would require enterprises to make their best



estimate of expected volatility (as well as other assumptions) by applying the guidance provided in paragraphs B24–B26 to their specific facts and circumstances. In that regard, the proposed Statement provides guidance on information other than historical volatility that should be used in estimating expected volatility, and explicitly notes that defaulting to historical volatility as the estimate of expected volatility without taking into consideration other available information is not appropriate. If you believe the Board should require a specific method of estimating expected volatility, please explain the method you prefer.

*Issue 4(d):* This proposed Statement provides guidance on how the unique characteristics of employee share options would be considered in estimating their grant-date fair value. For example, to take into account the nontransferability of employee share options, this proposed Statement would require that fair value be estimated using the expected term (which is determined by adjusting the option’s contractual term for expected early exercise and post-vesting employment termination behaviors) rather than its contractual term. Moreover, the Board decided that compensation cost should be recognized only for those equity instruments that vest to take into account the risk of forfeiture due to vesting conditions. Do you agree that those methods give appropriate recognition to the unique characteristics of employee share options? If not, what alternative method would more accurately reflect the impact of those factors in estimating the option’s fair value? Please provide the basis for your position.

*Issue 5:* In developing this proposed Statement, the Board acknowledged that there may be circumstances in which it is not possible to reasonably estimate the fair value of

an equity instrument. In those cases, the Board decided to require that compensation cost be measured using an intrinsic value method with remeasurement through the settlement date (paragraphs 21 and 22 of Appendix A). Do you agree that the intrinsic value method with remeasurement through the settlement date is the appropriate alternative accounting treatment when it is not possible to reasonably estimate the fair value? (Refer to paragraphs C66 and C67 for the Board's reasons for selecting that method.) If not, what other alternative do you prefer, and why?

### **Employee Stock Purchase Plans**

*Issue 6:* For the reasons described in paragraph C75, this proposed Statement establishes the principle that an employee stock purchase plan transaction is not compensatory if the employee is entitled to purchase shares on terms that are no more favorable than those available to all holders of the same class of the shares. Do you agree with that principle? If not, why not?

### **Attribution of Compensation Cost**

*Issue 7:* This proposed Statement would require that compensation cost be recognized in the financial statements over the requisite service period, which is the period over which employee services are provided in exchange for the employer's equity instruments. Do you believe that the requisite service period is the appropriate basis for attribution? If not, what basis should be used?

*Issue 8:* Determining the requisite service period would require analysis of the terms and conditions of an award, particularly when the award contains more than one service, performance, or market condition. Paragraphs B37–B49 provide guidance on

estimating the requisite service period. Do you believe that guidance to be sufficient? If not, how should it be expanded or clarified?

*Issue 9:* For the reasons described in paragraphs C89–C91, the Board concluded that this proposed Statement would require a single method of accruing compensation cost for awards with a graded vesting schedule. This proposed Statement considers an award with a graded vesting schedule to be in substance separate awards, each with a different fair value measurement and requisite service period, and would require that they be accounted for separately. That treatment results in a recognition pattern that attributes more compensation cost to early portions of the combined vesting period of an award and less compensation cost to later portions. Do you agree with that accounting treatment? If not, why not?

### **Modifications and Settlements**

*Issue 10:* This proposed Statement establishes several principles that guide the accounting for modifications and settlements, including cancellations of awards of equity instruments (paragraph 35 of Appendix A). Paragraphs C96–C115 explain the factors considered by the Board in developing those principles and the related implementation guidance provided in Appendix B. Do you believe those principles are appropriate? If you believe that additional or different principles should apply to modification and settlement transactions, please describe those principles and how they would change the guidance provided in Appendix B.

## **Income Taxes**

*Issue 11:* This proposed Statement changes the method of accounting for income tax effects established in Statement 123 as originally issued. Paragraphs 41–44 of Appendix A describe the proposed method of accounting for income tax effects and paragraphs C128–C138 describe the Board’s rationale. That method also differs from the one required in International Financial Reporting Standard (IFRS) 2, *Share-based Payment*. Do you agree with the method of accounting for income taxes established by this proposed Statement? If not, what method (including the method established in IFRS 2) do you prefer, and why?

## **Disclosures**

*Issue 12:* Because compensation cost would be recognized for share-based compensation transactions, the Board concluded that it was appropriate to reconsider and modify the information required to be disclosed for such transactions. The Board also decided to frame the disclosure requirements of this proposed Statement in terms of disclosure objectives (paragraph 46 of Appendix A). Those objectives are supplemented by related implementation guidance describing the minimum disclosures required to meet those objectives (paragraphs B191–B193). Do you believe that the disclosure objectives set forth in this proposed Statement are appropriate and complete? If not, what would you change and why? Do you believe that the minimum required disclosures are sufficient to meet those disclosure objectives? If not, what additional disclosures should be required? Please provide an example of any additional disclosure you would suggest.

## **Transition**

*Issue 13:* This proposed Statement would require the modified prospective method of transition for public companies and would not permit retrospective application (paragraphs 20 and 21). The Board's rationale for that decision is discussed in paragraphs C157–C162. Do you agree with the transition provisions of this proposed Statement? If not, why not? Do you believe that entities should be permitted to elect retrospective application upon adoption of this proposed Statement? If so, why?

## **Nonpublic Entities**

*Issue 14(a):* This proposed Statement would permit nonpublic entities to elect to use an intrinsic value method of accounting (with final measurement of compensation cost at the settlement date) rather than the fair-value-based method, which is preferable. Do you agree with the Board's conclusion to allow an intrinsic value method for nonpublic entities? If not, why not?

*Issue 14(b):* Consistent with its mission, when the Board developed this proposed Statement it evaluated whether it would fill a significant need and whether the costs imposed to apply this proposed Statement, as compared to other alternatives, would be justified in relation to the overall benefits of the resulting information. As part of that evaluation, the Board carefully considered the impact of this proposed Statement on nonpublic entities and made several decisions to mitigate the incremental costs those entities would incur in complying with its provisions. For example, the Board decided to permit those entities to elect to use either the fair-value-based method or the intrinsic value method (with final measurement of compensation cost at settlement date) of

accounting for share-based compensation arrangements. Additionally, the Board selected transition provisions that it believes will minimize costs of transition (most nonpublic entities would use a prospective method of transition rather than the modified prospective method required for public entities). Moreover, the Board decided to extend the effective date of this proposed Statement for nonpublic entities to provide them additional time to study its requirements and plan for transition. Do you believe those decisions are appropriate? If not, why not? Should other modifications of this proposed Statement's provisions be made for those entities?

### **Small Business Issuers**

*Issue 15:* Some argue that the cost-benefit considerations that led the Board to propose certain accounting alternatives for nonpublic entities should apply equally to small business issuers, as defined by the Securities Act of 1933 and the Securities Exchange Act of 1934. Do you believe that some or all of those alternatives should be extended to those public entities?

### **Cash Flows**

*Issue 16:* For the reasons discussed in paragraphs C139–C143, the Board decided that this proposed Statement would amend FASB Statement No. 95, *Statement of Cash Flows*, to require that excess tax benefits, as defined by this proposed Statement, be reported as a financing cash inflow rather than as a reduction of taxes paid (paragraphs 17–19). Do you agree with reflecting those excess tax benefits as financing cash inflows? If not, why not?

## **Differences between This Proposed Statement and IFRS 2**

*Issue 17:* Certain accounting treatments for share-based payment transactions with employees in this proposed Statement differ from those in IFRS 2, including the accounting for nonpublic enterprises, income tax effects, and certain modifications. Those differences are described more fully in Appendix C. If you prefer the accounting treatment accorded by IFRS 2, please identify the difference and provide the basis for your preference. If you prefer the accounting treatment in the proposed Statement, do you believe the Board nonetheless should consider adopting the accounting treatment prescribed in IFRS 2 in the interest of achieving convergence?

## **Understandability of This Proposed Statement**

*Issue 18:* The Board's objective is to issue financial accounting standards that can be read and understood by those possessing a reasonable level of accounting knowledge, a reasonable understanding of the business and economic activities covered by the accounting standard, and a willingness to study the standard with reasonable diligence. Do you believe that this proposed Statement, taken as a whole, achieves that objective?

## **Public Roundtable Meetings and Small Business Advisory Committee Meeting**

The Board plans to hold several public roundtable meetings with constituents to discuss issues related to this proposed Statement. Those roundtable meetings tentatively are scheduled to take place around the end of the comment period in the San Francisco Bay area of California, and in Norwalk, Connecticut. The specific dates of the public roundtable meetings and instructions for constituents interested in participating in them

will be announced in a future issue of FASB *Action Alert*. Each roundtable meeting can accommodate a limited number of participants. The Board plans to seek participants for each meeting that represent a wide variety of constituents including investors, preparers of financial statements, auditors, valuation experts, and others to ensure that it will receive input from diverse views. The Board also plans to discuss the views of constituents representing small and medium-sized businesses regarding this proposed Statement at the inaugural meeting of the Small Business Advisory Committee on May 11, 2004, in Norwalk, Connecticut.



## Summary

This proposed Statement addresses the accounting for transactions in which an enterprise exchanges its valuable equity instruments for employee services. It also addresses transactions in which an enterprise incurs liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of those equity instruments in exchange for employee services. This proposed Statement does not change the accounting for similar transactions involving parties other than employees or the accounting for employee stock ownership plans, which are subject to AICPA Statement of Position 93-6, *Employers' Accounting for Employee Stock Ownership Plans*; the Board intends to reconsider the accounting for those transactions and plans in a later phase of its project on equity-based compensation.

The objective of the accounting required by FASB Statement No. 123, *Accounting for Stock-Based Compensation*,\* as it would be amended by this proposed Statement, is to recognize in an entity's financial statements the cost of employee services received in exchange for valuable equity instruments issued, and liabilities incurred, to employees in share-based payment transactions. Key provisions of this proposed Statement are as follows:

- a. For public entities, the cost of employee services received in exchange for equity instruments would be measured based on the grant-date fair value of those instruments (with limited exceptions). That cost would be recognized over the requisite service period (often the vesting period). Generally, no compensation cost would be recognized for equity instruments that do not vest.

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\*Unless the text indicates otherwise, all references to Statement 123 in this summary are to that Statement as originally issued—that is, before the effects of this amendment.

- b. For public entities, the cost of employee services received in exchange for liabilities would be measured initially at the fair value of liabilities and would be remeasured subsequently at each reporting date through settlement date. The pro rata change in fair value during the requisite service period would be recognized over that period, and the change in fair value after the requisite service period is complete would be recognized in the financial statements in the period of change.
- c. The grant-date fair value of employee share options and similar instruments would be estimated using option-pricing models adjusted for the unique characteristics of those options and instruments (unless observable market prices for the same or similar options are available).
- d. If an equity award is modified subsequent to the grant date, incremental compensation cost would be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately prior to the modification.
- e. Employee share purchase plans would not be considered compensatory if the terms of those plans were no more favorable than those available to all holders of the same class of shares and substantially all eligible employees could participate on an equitable basis.
- f. Excess tax benefits, as defined by this proposed Statement, would be recognized as an addition to paid-in capital. Cash retained as a result of those excess tax benefits would be presented in the statement of cash flows as financing cash inflows. The write-off of deferred tax assets relating to unrealized tax benefits associated with recognized compensation cost would be reported as income tax expense.
- g. This proposed Statement allows nonpublic entities to elect to measure compensation cost of awards of equity share options and similar instruments at intrinsic value through the date of settlement. That election also would apply to awards of liability instruments. This proposed Statement also requires that public entities measure compensation cost of awards of equity share options and similar instruments at intrinsic value through the date of settlement if it is not reasonably possible to estimate their grant-date fair value.
- h. The notes to financial statements of both public and nonpublic entities would disclose the information that users of financial information need to understand the nature of share-based payment transactions and the effects of those transactions on the financial statements.

## Background

APB Opinion No. 25, *Accounting for Stock Issued to Employees*, was issued in 1972. Opinion 25 required that compensation cost for awards of share options be measured at their intrinsic value, which is the amount by which the fair value of an equity share exceeds the exercise price. Opinion 25 also established criteria for determining the date at which an award's intrinsic value should be measured; that criteria distinguished between awards whose terms are known (or fixed) at the date of grant and awards whose terms are not known (or variable) at the date of grant. Measuring fixed awards' intrinsic values at the date of grant generally resulted in little or no compensation cost being recognized for valuable equity instruments given to employees in exchange for their services. Additionally, distinguishing between fixed and variable awards was difficult in practice, which resulted in a large amount of specialized and complex accounting guidance.<sup>†</sup>

Statement 123 was issued in 1995 and was effective for share-based compensation transactions occurring in fiscal periods beginning after December 15, 1995. As originally issued, Statement 123 established a fair-value-based method of accounting for share-based compensation awarded to employees. The fair-value-based method of accounting requires that compensation cost for awards of share options be measured at their fair value on the date of grant. As opposed to the accounting under Opinion 25, the

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<sup>†</sup>That guidance was identified by the United States Securities and Exchange Commission (SEC) as an example of rules-based accounting standards (SEC, *Study Pursuant to Section 108(d) of the Sarbanes-Oxley Act of 2002 on the Adoption by the United States Financial Reporting System of a Principles-Based Accounting System*, March 25, 2003 [www.sec.gov]).

application of the fair-value-based method to fixed awards results in compensation cost being recognized when services are received in exchange for valuable equity instruments of the employer. Statement 123 established as preferable the fair-value-based method and encouraged, but did not require, entities to adopt it. The Board's decision at that time to permit entities to continue accounting for share-based compensation transactions using Opinion 25 was based on practical rather than conceptual considerations.

### **Reasons for Issuing This Proposed Statement**

There are four principal reasons for issuing this proposed Statement:

- a. **Addressing concerns of users and others.** Users of financial statements, including institutional and individual investors, as well as many other parties expressed to the FASB their concerns that using Opinion 25's intrinsic value method results in financial statements that do not faithfully represent the economic transactions affecting the issuer, namely, the receipt and consumption of employee services in exchange for valuable equity instruments. Financial statements that do not faithfully represent the economic transactions affecting an issuer can distort the reported financial condition and operations of that issuer and can lead to the inappropriate allocation of resources. Part of the FASB's mission is to improve standards of financial accounting for the benefit of users of financial information.
- b. **Improving the comparability of reported financial information through the elimination of alternative accounting methods.** During the summer of 2002, a number of public companies announced their intention of voluntarily adopting Statement 123's fair-value-based method of accounting for share-based compensation transactions with employees. Since then, approximately 500 public companies have voluntarily adopted or announced their intention to adopt the fair-value-based method. Despite the many public companies that have voluntarily adopted the fair-value-based method of accounting, there remains a large number of companies that continue to use Opinion 25's intrinsic value method. The Board believes that similar economic transactions should be accounted for similarly (that is, share-based compensation transactions with employees should be accounted for using one method). Consistent with the conclusion in Statement 123, the Board believes such transactions should be accounted for using the fair-value-based method.

- c. **Simplifying U.S. GAAP.** This proposed Statement would simplify the accounting for share-based payments. The Board believes that U.S. GAAP should be simplified whenever possible. Requiring the use of a single method of accounting for share-based payment would result in the elimination of Opinion 25's intrinsic value method and the many related detailed and form-driven rules.
- d. **International convergence.** This proposed Statement would result in greater international comparability in the accounting for share-based payment. In February 2004, the International Accounting Standards Board (IASB), whose standards are followed by enterprises in many countries throughout the world, issued International Financial Reporting Standard (IFRS) 2, *Share-based Payment*. IFRS 2 requires that all enterprises recognize an expense for all employee services received (and consumed) in exchange for the enterprise's equity instruments. The IASB concluded that share-based compensation transactions should be accounted for using a fair-value-based method that is similar in most respects to the fair-value-based method established in this proposed Statement. Converging to a common set of high-quality financial accounting standards on an international basis for share-based payment transactions with employees improves the comparability of financial information around the world and simplifies the accounting for enterprises that report financial statements under both U.S. GAAP and international accounting standards.

The Board believes that this proposed Statement addresses users' and other parties' concerns by requiring enterprises to recognize an expense in the income statement for employee services received (and consumed) in exchange for the enterprises' equity instruments, thereby reflecting the consequences of the economic transaction in the financial statements. By requiring the fair-value-based method for all public companies, this proposed Statement would eliminate an alternative accounting method and the accounting guidance associated with that method; consequently, similar economic transactions would be accounted for similarly. Finally, requiring the use of Statement 123's fair-value-based method is convergent with IFRS 2.

## **Differences between This Proposed Statement and Current Practice**

This proposed Statement would affect current practice in a number of ways, but chief among them is that it would eliminate the alternative to use Opinion 25's intrinsic value method of accounting that was provided in Statement 123 as originally issued. Under Opinion 25, issuing stock options to employees generally resulted in recognition of no compensation cost. This proposed Statement would require public companies to recognize the cost of employee services received in exchange for equity instruments, based on the grant-date fair value of those instruments (with limited exceptions).

This proposed Statement would affect current practice in other ways, including the measurement attribute for nonpublic entities, the pattern in which compensation cost would be recognized, the accounting for employee share purchase plans, and the accounting for income tax effects of share-based payment transactions. Paragraphs 6–15 of this proposed Statement summarize those as well as other differences.

## **How This Proposed Statement Would Improve Financial Reporting**

This proposed Statement would require the recognition of compensation cost incurred as a result of receiving employee services in exchange for valuable equity instruments issued by the employer. Recognizing compensation cost in the financial statements improves the relevance and reliability of that financial information, helping users of financial information to understand better the economic transactions affecting an enterprise and to make better resource allocation decisions. Such information specifically will help users of financial statements understand the impact that share-based compensation arrangements have on an enterprise's financial condition and operations.

This proposed Statement also would improve comparability by eliminating one of two different methods of accounting for share-based compensation transactions and would also thereby simplify existing U.S. GAAP. Eliminating different methods of accounting for the same transactions leads to improved comparability of financial statements because similar economic transactions are accounted for similarly.

### **How the Conclusions in This Proposed Statement Relate to the FASB’s Conceptual Framework**

FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, states that financial reporting should provide information that is useful in making business and economic decisions. Recognizing compensation cost incurred as a result of receiving employee services in exchange for valuable equity instruments issued by the employer will help achieve that objective by providing information about the costs incurred by the employer to obtain employee services in the marketplace.

With respect to the notion of *comparability*, FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, states that information about an enterprise gains greatly in usefulness if it can be compared with similar information about other enterprises. Establishing the fair-value-based method of accounting as the required method will increase comparability because similar economic transactions will be accounted for similarly. That will improve the usefulness of financial information. Neutrality is another important characteristic of accounting information. Establishing that method also eliminates the accounting bias toward using employee share options for compensation, which results in accounting that is neutral for different forms of compensation.

Completeness is identified in Concepts Statement 2 as an essential element of representational faithfulness and relevance. Thus, to faithfully represent the total cost of employee services to the enterprise, compensation cost relating to valuable equity instruments issued by the employer to its employees in exchange for their services should be recognized in the employer's financial statements.

Concepts Statement 6 defines *assets* as probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. Employee services cannot be stored and are received and used simultaneously. Those employee services are assets of an enterprise only momentarily—as the entity receives and uses them—although their use may create or add value to other assets of the enterprise. When an employer exchanges its valuable equity instruments for employee services, the receipt of those employee services creates an asset that should be either capitalized as part of another asset of the enterprise (as permitted by U.S. GAAP) or expensed when consumed.

### **Costs and Benefits**

The mission of the FASB is to establish and improve standards of financial accounting and reporting for the guidance and education of the public, including preparers, auditors, and users of financial information. In fulfilling that mission, the Board endeavors to determine that a proposed standard will fill a significant need and that the costs imposed to meet that standard, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information. The Board's consideration of each issue in a project includes the subjective weighing of the incremental



improvement in financial reporting against the incremental cost of implementing the identified alternatives. At the end of that process, the Board considers the accounting provisions in the aggregate and assesses the related perceived costs on a qualitative basis.

Several procedures were conducted before the issuance of this proposed Statement to aid the Board in its assessment of the expected costs associated with implementing the required use of the fair-value-based accounting method. Those procedures included a field visit program, a survey of commercial software providers, and discussions with Option Valuation Group members, valuation experts, compensation consultants, and numerous other constituents. Based on the findings of those cost-benefit procedures, the Board concluded that this proposed Statement will sufficiently improve financial reporting to justify the costs it will impose. Paragraphs C40–C47 provide a discussion of the Board’s cost-benefit assessment with respect to this proposed Statement.

### **The Effective Dates of This Proposed Statement**

This proposed Statement would be applied to public entities prospectively for fiscal years beginning after December 15, 2004, as if all share-based compensation awards granted, modified, or settled after December 15, 1994, had been accounted for using the fair-value-based method of accounting. Nonpublic entities that had adopted the fair-value-based method of accounting for recognition or pro forma disclosures would use the same transition and effective date as public entities. All other nonpublic entities would apply this proposed Statement prospectively for fiscal years beginning after December 15, 2005.

**Testimony of  
Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
Before the  
Subcommittee on Financial Management, the Budget, and International  
Security of the Committee on Governmental Affairs  
April 20, 2004**

**Attachment 5**

**Excerpts from Recent Materials about the Proposal**

## Excerpts from Recent Materials about the Proposal

Fairness, openness and honesty are the goals behind the new rule. I cannot even begin to understand the opposition to those goals.

*Rick Ashburn, La Jolla Light, April 8, 2004*

We commend those U.S. companies that already are expensing stock options voluntarily. And beginning January 1, 2005, companies outside the U.S. that use International Accounting Standards will be required to expense stock options. But thousands of U.S. companies have not, and apparently never will, unless compelled. We fully support the FASB in doing just that.

**Because telling investors the truth – the whole truth – should never be optional.**

*Association for Investment Management and Research (a worldwide, non-profit professional association of 70,000 securities analysts, fund managers and investment advisors), April 9, 2004*

In our view, this long past due change is bitter, but much needed, medicine for the long-term health of companies and investors. It will shed light on the true profitability of many companies, helping to separate those that deserve investor capital from those that do not.

*David Bianco, Zhen Deng, and Austin H. Burkett, Global Equity Research, UBS, April 7, 2004*

The basic issue is that when you have employees you should pay them, and you should tell your shareholders how much you pay them.

*David M. Blitzler, Managing Director, Standard & Poor's, April 1, 2004*

A survey of institutional investors indicates that a vast majority back the proposal issued recently by the Financial Accounting Standards Board (FASB) that would require all public companies to list stock options as an expense in the income statement.

By a four to one margin, the 302 buy side portfolio managers and research professionals surveyed . . . said they believe the FASB proposal will improve transparency in financial reporting . . . .

More than three quarters (77%) of respondents said the FASB proposal should not be modified. . . .

An overwhelming majority -- 90% -- of respondents said they are opposed to any exemptions from the options expensing rule for “start-ups” or technology companies.

*Broadgate Consultants, Inc., April 7, 2004*

More than two years after the spate of corporate scandals placed the issue of excessive executive pay before the public, the body that writes corporate accounting rules last week proposed a long-overdue improvement in tallying the cost of stock options granted to executives and other employees.

Hopefully, enemies of accurate accounting won't derail the proposal, as they did a similar one 10 years ago.

*Jeff Brown, The Philadelphia Inquirer, April 4, 2004*

We believe expensing ESOs is a good idea because it attempts to reflect the underlying economics of the firm and is more accurate than not expensing them at all.

*Michael B. Clement, Global Equity Research, Goldman Sachs, April 7, 2004*

Common sense has triumphed. The Financial Accounting Standards Board, the US rule-setting body, has decided that US companies should be forced to account for the cost of executive options.

*Philip Coggin, The Financial Times, April 3, 2004*

The Congressional Budget Office's (CBO's) analysis of this accounting issue comes to the following conclusions:

- If firms do not recognize as an expense the fair value of employee stock options, measured when the options are granted, the firms' reported net income will be overstated.
- Changes in the value of employee stock options after they have been granted as well as the exercising of those options are irrelevant to a firm's income statement because they affect shareholders directly, not the firm itself. Specifically, they transfer wealth from existing shareholders to holders of employee stock options.
- Although complicated to calculate, the fair value of employee stock options may be estimated as reliably as many other expenses.
- Recognizing the fair value of employee stock options is unlikely to have a significant effect on the economy (because the information has already been disclosed); however, it could make fair value information more transparent to less-sophisticated investors.

*The Congressional Budget Office, April 2004*

The two models used to measure the cost of employees' stock options are complicated, and they require a lot of data that can be manipulated. But this is also true of many entries in companies' accounts, such as the cost of pensions or the value of derivatives. And many options are traded, so that markets provide guides to their value. It would be a shame if the lobbyists again stop this reform. On rational grounds, the FASB should win this argument.

*The Economist, April 10, 2004*

Many companies expense share options. Those that do not estimate the effect in their footnotes. Share options are part of overall compensation. If they did not get share options, employees would ask for more money. They have a value, represent a cost and it is right the FASB has recommended that companies account for them accordingly.

*The Lex Column, The Financial Times, April 1, 2004*

Companies that do not expense stock option compensation in their earnings reports are understating their expenses and overstating their earnings and thereby misleading investors . . . . Unfortunately, current accounting rules permit this earnings inflation. FASB is doing the right thing by acting to tighten accounting rules and to put an end to such deception.

*The Honorable Peter G. Fitzgerald, United States Senate, April 1, 2004*

This draft rule seeks to ensure that American investors and pension plan managers receive accurate financial information, and are able to make informed investment decisions about their retirement security.

*The Honorable Paul E. Gillmor, The Honorable Michael Castle, and the Honorable Pete Stark, The United States House of Representatives, April 1, 2004*

We strongly support the FASB Expensing Stock Options Exposure Draft and urge you to act in the best interests of the capital markets, investors, the existing accounting standards setting process, and the public interest.

*Laurie Hacking, Executive Director, The Ohio Public Employees Retirement System (a \$58.7 billion fund serving three quarters of a million Ohioans, making the system the 10<sup>th</sup> largest state pension fund in the U.S.), April 5, 2004*

The merits are clearly on the side of Warren Buffett, Alan Greenspan and the SEC. Think what would happen if stock options given to a supplier were not expensed: Many companies would pay their suppliers in stock options, thereby greatly inflating their profits. When a company pays employees in stock options and does not expense them, profits are similarly inflated.

*Reed Hastings, CEO, Netflix Inc., April 5, 2004*

This would be more honest accounting. We're all for it.

*John Kornitzer, Kornitzer Capital Management, March 31, 2004*

In the ten years since the last FASB proposal, Enron and other corporate scandals have exposed how flawed stock option accounting rules fueled deceptive accounting and nonpayment of taxes by profitable corporations. . . . About 500 U.S. companies, including Coca-Cola, General Motors, General Electric, Dow Chemical, Amazon, EDS, Home Depot, and Wal-Mart, now expense stock options, without suffering the dire consequences predicted by opponents. Honest accounting is good for business.

*The Honorable Carl Levin, United States Senate, March 31, 2004*

The new accounting rules provide a singular opportunity for companies to weigh the costs and benefits of options and other incentives against the ‘perceived’ value that managers place on the incentives they get . . . By reducing or holding steady the cost of incentives, while increasing the value that management places on them, many companies can achieve a significant ‘win-win’ situation.

*Gary Locke, Principal, Towers Perrin, March 31, 2004*

Intel, just as it did in 1993, is leading the charge, along with companies like Cisco (Nasdaq: CSCO) and Siebel (Nasdaq: SEBL) to fight the FASB’s determination to have stock option compensation for employees reflected on the balance sheet. We’re going through a comment period, and there can be reasonable disagreement as to the correct approach on treating the compensation that takes the form of stock options. But really, the rhetoric here is just *torturing*.

Let’s start with this: “Even China is getting into the act, officially encouraging the use of stock options as part of its five-year economic plan just as FASB is preparing to *impede* their use in the U.S.” It’s time to take off the tinfoil hat and recognize that *no one* at FASB has said “don’t use options.” This is moronic. Here’s something else – we’re talking about *accounting*. Not “jobs,” not “competitiveness.” Accounting. Would Barrett like to hold up Chinese accounting standards as the paragon of transparency? No? If options make economic sense when they’re poorly measure[d], they’ll make economic sense when they’re measured more robustly. End of story.

*Bill Mann, The Motley Fool, April 2, 2004*

This is a necessary reform that will bring much-needed corporate transparency to stock holders and investors while helping to restore consumers’ faith in the markets. FASB has the expertise and independence to resolve stock option accounting, and Congress should not be legislating accounting rules or threatening FASB’s independence. . . . We commend FASB for having the professional judgment and determination to issue this proposal for honest stock option accounting. . . . FASB did so despite pressure to cave in from corporate executives who now benefit from the current double standard that allows corporations to declare a deduction on their corporate income tax returns for the cost of executive stock options, while not showing them as an expense on the company’s financial statements, thereby making the company look more profitable.

*The Honorable John McCain, United States Senate, March 31, 2004*

I believe the rule is a good rule and the methodology results in a fair measure of the employee’s compensation.

*Pat McConnell, Accounting Analyst, Bear Stearns, April 1, 2004*

As the Financial Accounting Standards Board calls for stock options to be treated as an expense in the profit and loss account, the big wheels of the US information technology sector are already on the attack. One of their more politically astute lines is that the FASB move will kill off benefits enjoyed by the whole workforce. Intel, for example, boasts that 90 per cent of employees receive stock options, while 95 per cent of the options go to employees, not executives. This is high technology's answer to Karl Marx and it makes about as much sense.

*John Plender, The Financial Times, April 5, 2004*

We support measuring stock options at their fair value on the grant date and recognizing compensation charges for those amounts in a company's income statement.

*PricewaterhouseCoopers LLP, March 31, 2004*

Losing badly on the merits of the debate, these greedy, self-serving CEOs are, to their everlasting shame, resorting to bullying and fear-mongering in a desperate attempt to keep the stock option gravy train chugging merrily along. Fortunately, unlike 10 years ago, FASB and Congress appear to be standing firm.

Nearly 500 U.S. companies have voluntarily begun to report option pay as an expense, and none of the Coalition of the Greedy's predictions are coming true. Let's make this sensible change and move on to more important matters.

*Whitney Tilson, Guest Columnist, The Motley Fool, April 2, 2004*

The AFL-CIO strongly supports today's proposal by the Financial Accounting Standards Board (FASB) to require the expensing of stock options. Companies that do not expense stock options are hiding their true cost from investors – including the retirement savings of America's working families.

Not expensing stock options has widened the pay gap between CEOs and workers. Executives disproportionately benefit from stock options and this cost has been kept off the books. Moreover, not expensing stock options has artificially boosted profit reports, thereby generating further increases in CEO pay.

*Richard Trumka, Secretary-Treasurer, American Federation of Labor and Congress of Industrial Organizations, March 31, 2004*



We accept the FASB's conclusion that employee stock options should be expensed and we strongly believe that it is time to get this issue behind us. While we have a number of concerns about certain aspects of the proposed rules, we know that our views will be heard and carefully considered by the FASB as it redeliberates the issues. While we may not prevail on each and every issue, our ability to participate fully and directly in the process is critically important to the IMA and the members we represent. As a result of that participation, we are willing to accept the results of that process.

*Kim R. Wallin, CMA, CFM, CPA, Chair, Institute of Management Accountants (the largest organization in this country devoted exclusively to management accounting and financial management professionals inside the corporation, with approximately 65,000 members), March 31, 2004*

We hope that the FASB fully institutes its recommendations on the expensing of stock options, as we support it. We believe telling investors the truth – the whole truth – should never be optional.

*Patricia Walters, Senior Vice President, Association for Investment Management and Research (a worldwide, non-profit professional association of 70,000 securities analysts, fund managers and investment advisors), April 9, 2004*

Those fighting the new rule dismiss the CBO report, saying the nonpartisan budget office isn't known for its accounting expertise. But the accounting experts – at the FASB and at its international counterpart, as well as the leading accounting firms – support expensing. . . . The anti-expensing forces are running out of arguments.

*The Washington Post, April 7, 2004*

Placing an accurate value on stock options is complicated, but ignoring their cost in calculating profits – as is currently permitted – is the least sensible approach. Treating options as costless contributed to the corporate abuses of recent years. Executives' huge options holdings – and why not hand them out freely if you don't need to show the effect on your bottom line? – gave them every incentive to generate the highest stock prices possible. At the same time, keeping the cost of those options off the books helped artificially boost earnings.

*The Washington Post, April 2, 2004*

**Testimony of  
Robert H. Herz  
Chairman  
Financial Accounting Standards Board  
Before the  
Subcommittee on Financial Management, the Budget, and International  
Security of the Committee on Governmental Affairs  
April 20, 2004**

**Attachment 6**

**Materials Excerpted in Attachments 2 and 5**

## Materials Excerpted in Attachments 2 and 5

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