Testimony of

Robert H. Herz

Chairman

and

George J. Batavick

Board Member

Financial Accounting Standards Board

before the

Capital Markets, Insurance and Government Sponsored Enterprises

Subcommittee of the Committee on Financial Services

May 4, 2004

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Prepared Statement

Robert H. Herz
Chairman
and
George J. Batavick
Board Member
Financial Accounting Standards Board

Chairman Baker, Ranking Member Kanjorski, and Members of the Subcommittee:

Good afternoon. I am Robert Herz, chairman of the Financial Accounting Standards Board ("FASB" or "Board"). With me is one of my fellow Board members, George Batavick. George is heading up the FASB's recently established Small Business Advisory Committee.

We are pleased to appear before you today on behalf of the FASB. We want to thank you for inviting us to participate in this very important and timely hearing, particularly since H.R. 3574, or any similar legislation, if enacted, would preempt and override our thorough, objective, and public due process to improve the accounting and financial reporting for equity-based compensation.

George and I have brief prepared remarks, and we would respectfully request that the full text of our testimony and all supporting materials be entered into the public record.

The FASB is an independent private-sector organization. Our ability to conduct our work in a systematic, thorough, and unbiased manner is fundamental to achieving our mission—to establish and improve general-purpose standards of financial accounting and reporting for both public and private enterprises. Those standards are essential to the growth and stability of the United States ("US") economy because creditors, investors, and other consumers of financial reports rely heavily on credible, transparent, comparable, and unbiased financial information to make rational resource allocation decisions.

Because the actions of the FASB affect so many organizations, our decision-making process must be open, thorough, and as objective as possible. Our Rules of Procedure require an extensive and public due process. That process involves public meetings, public hearings or roundtables, field visits or field tests, liaison meetings with interested parties, consultation with our advisory councils, and exposure of our proposed standards to external scrutiny and public comment.

Following the comment period, the Board actively redeliberates the issues. Those redeliberations often result in significant changes and improvements to the proposals we issue. Throughout the life of a project, the FASB members and staff also regularly meet informally with a wide range of interested parties to obtain their input and to better our understanding of their views.

The Board makes final decisions only after carefully considering and analyzing the input of interested parties. We do our best to balance the often conflicting perspectives of various parties and make independent, objective decisions guided by the fundamental concepts and key qualitative characteristics of sound, fair, and transparent financial reporting, including relevance, reliability, comparability, operationality, and cost effectiveness.

In March 2003, at a public meeting, the Board decided by unanimous vote to add a project to our agenda to address issues relating to improving the accounting for equity-based compensation. The project was in response to the high level of public concern expressed by many individual and institutional investors, financial analysts, creditors, the major accounting firms, study groups such as the Conference Board Commission on Public Trust and Private Enterprise, and many other parties, including a number of Members of Congress, about the need to improve the accounting for equity-based compensation. More specifically, many expressed support for eliminating the exception from expense recognition that presently exists only for so-called fixed plan employee stock options.

Many believe that the existing reporting for equity-based compensation results in significant distortions in the reporting of earnings, operating results, and operating cash flows of an enterprise—distortions that cannot be remedied solely by improvements in disclosures. The ultimate goal of the project is to develop a standard that results in reporting that more faithfully reflects the underlying economic effects of equity-based compensation arrangements and that brings about greater comparability of reporting in this important area. The project also provides an opportunity to achieve greater international convergence of accounting standards, an objective we have been encouraged to pursue by the Sarbanes-Oxley Act, the US Securities and Exchange Commission, and many other parties.

On March 31st of this year, the Board issued, by unanimous vote, a proposal for public comment to improve the accounting for a wide range of equity-based compensation arrangements. That proposal is the result of an extensive public due process that began in November 2002 before the project was added to the Board's agenda. That process included the issuance of a preliminary document for public comment, the review of over 300 comment letters and over 130 unsolicited letters, the review of relevant research studies, consultation with our advisory councils and valuation and compensation experts, field visits, public and private discussions with hundreds of individuals, including users, auditors, and preparers of the financial reports of small businesses, and active deliberations at 38 public Board meetings at which the provisions of the proposal were carefully developed with consideration given to the ongoing input received from interested parties.

Based on our extensive public due process to-date, the Board believes that the proposal would significantly improve the financial reporting for equity-based compensation arrangements. We believe that by creating greater transparency, completeness, and a more level playing field in the accounting for different forms of equity-based compensation, the proposal would enhance the comparability of reported results between enterprises that choose to compensate their employees in different ways. The proposal would achieve that through a number of provisions, including by eliminating the existing exception for fixed plan employee stock options, which, as indicated earlier, are the only form of equity-based compensation that is not currently required to be reported as an expense in the financial statements. The proposal also includes provisions that we believe would improve the transparency of the effects of equity-based compensation on reported cash flows.

The proposal reflects the view that all forms of equity-based compensation should be properly accounted for as such and that the existing exception for fixed plan employee stock options results in reporting that not only ignores the economic substance of those transactions but also distorts reported earnings, profitability, and other key financial metrics. Thus, under the current standards, the greater the use of fixed plan employee stock options, the greater the distortion of reported results. I would note that, in contrast, this distortion does not occur when enterprises use stock options, or similar instruments such as stock purchase warrants, for purposes other than compensating employees, for example, in acquiring goods or services or in financing or merger and acquisition transactions. In those cases, current accounting standards do require that stock options or warrants be valued and accounted for in the financial statements.

In the public company arena, the proposal would bring about greater comparability between the over 575 companies that have voluntarily opted to account for the cost of employee stock options and many others that have elected not to do so. It also would be responsive to the growing number of companies, including major technology companies, whose shareholders by a majority vote have approved nonbinding proxy resolutions mandating expensing of all employee stock options. Management of a number of those companies has indicated that they are awaiting completion of our project in order to respond to the demands of their shareholders.

The proposal also would result in substantial convergence in the accounting for equity-based compensation between our standards and international accounting standards that will, beginning next year, be followed by enterprises, including many small and nonpublic enterprises, in over 90 countries around the world. I also would note that our neighbor to the north, Canada, who often has followed the lead of the US in improving accounting standards, felt that it could not wait on this topic, and decided to mandate expensing of employee stock options beginning in January of this year. I understand that implementation of their new standard has to-date gone very smoothly.

Finally, I also would note, as indicated earlier, that improvements in accounting standards have economic consequences. More credible, comparable, and transparent financial information can enhance the efficiency of capital allocation in our markets. Most agree that efficient allocation of capital is essential to the growth and stability of the US economy.

With regard to potential economic consequences of our proposal, many economic experts that have reviewed the issue of the accounting for employee stock options, including Federal Reserve Chairman Alan Greenspan, former Federal Reserve Chairman Paul A. Volcker, Nobel Prize winning economists Robert C. Merton and Joseph E. Stiglitz, and groups like the Financial Economist Roundtable, the Republican Staff of the Joint Economic Committee of the US Congress, the Conference Board Commission on Public Trust and Private Enterprise (co-chaired by Peter G. Petersen and Secretary John W. Snow), major investment banks, and the Congressional Budget Office, all have indicated support for the mandatory expensing of all employee stock options. Indeed many of those experts have also indicated that mandatory expensing could have positive economic consequences because of the improvements in capital allocation that would result from eliminating the exception from expense recognition for fixed plan employee stock options, and, thus, having more credible, comparable, and transparent financial information.

I also would note that some of those experts and many compensation experts have indicated that the expensing of all employee stock options would result in a more accurate and meaningful assessment by employers of the true costs and benefits of the many available forms of equity-based compensation, thereby leading to sounder and more creative compensation approaches.

I would now like to hand over to George who will discuss the several special provisions contained in our proposal relating to small businesses, as well as other matters relating to our continuing work and due process on this important topic.

Thank you, Bob—and good afternoon everyone.

Before I outline the special small business provisions contained in our proposal to improve the accounting for equity-based compensation, I would first like to provide some brief background on small businesses and financial accounting and reporting standards.

First, there is no federal law requiring nonpublic enterprises to use FASB standards. Thus, for most small businesses, the use of our standards is primarily a private choice. For some small businesses, that choice may be influenced by whether they have plans to become a public enterprise.

For other small businesses, the decision to follow FASB standards may be influenced or controlled by their current or potential lenders, suppliers, other contracting parties, or State regulators. To the extent that one of those parties requires that the financial reports of a small business comply with our standards, that requirement presumably reflects that party's opinion that our standards result in better, more transparent, information for their respective purposes.

Second, it is also important to note that the FASB has long recognized as part of our public due process procedures that the costs of complying with our standards can fall disproportionately on small businesses. In recognition of that fact, the Board actively solicits and carefully considers requests from users, auditors, and preparers of the financial reports of small businesses to provide for special provisions to alleviate the costs of implementing our standards. Those requests come from our continuous and ongoing due process and deliberations throughout the life of a project.

In following our project on equity-based compensation, all interested parties, including large and small businesses, can take advantage of our free weekly Action Alert e-mail subscription, which discusses current agenda items and past Board decisions. Interested parties also can attend our open Board meetings, call in, or listen to our free web cast of our meetings on the day of the meeting, with replays of our meetings available for one week thereafter. Our meetings get extensive news coverage by the top news agencies, and our free website includes an up-to-date summary of all equity-based compensation issues discussed and our tentative decisions.

We actively seek input from various State CPA societies whose membership, in turn, briefs their clients, in many cases small businesses, on the status of this and other Board activities. In addition, liaison meetings with various groups having small business representation, and Board member and staff speaking engagements provide additional means of receiving valuable input from the small business community.

With respect to this proposal, it is our understanding that although the use of employee stock options is prevalent at some small businesses, particularly start-ups and venture capital backed enterprises that plan to become public enterprises, the vast majority of small businesses in the US do not grant employee stock options. As indicated earlier, however, for those small businesses that are affected by our proposal, the proposal includes several special provisions intended to alleviate the costs of implementing the proposed requirements.

First, the proposal includes a special provision that would permit most small businesses (including all that are nonpublic enterprises) to measure compensation cost using a simpler, less costly "intrinsic value method," rather than the fair-value-based method that would be required for most public enterprises. Under the intrinsic value method, the amount of compensation expense required to be reported would generally be equivalent to the amount of the income tax deduction for stock options.

Second, the proposal includes a special provision that provides that most small businesses that are nonpublic enterprises would have a simpler, less costly "prospective" transition to the proposed new requirements.

Finally, the proposal includes a special provision that provides that the effective date of the proposed standard for nonpublic enterprises would be delayed for one year until 2006.

I also would like to note that the proposal includes a Notice for Recipients ("Notice") that highlights and describes these special provisions. The Notice requests that respondents to the proposal indicate what other special provisions for small businesses might be appropriate and whether any or all such special provisions should also be extended to public enterprises that are small business issuers under the federal securities laws. The Notice also highlights and describes 19 other key aspects of the proposal, including the proposed mandatory recognition of compensation cost, valuation methods and guidance, measurement attribute and measurement date, employee stock purchase plans, attribution of compensation cost, modifications and settlements, disclosures, transition, cash flows, and the overall understandability of the proposal.

The Board currently plans to discuss the proposal's special provisions and other issues about the proposal with representatives of small businesses at the inaugural public meeting of our Small Business Advisory Committee on May 11. Our request for agenda items for this meeting showed interest in the proposal. We also plan to hold public roundtable meetings with valuation and compensation experts, and users, auditors, and preparers of financial reports in June to discuss a broad range of issues about the proposal.

Following the end of the proposal's comment period in June, the Board plans to redeliberate, at public meetings, issues raised in response to the proposal. Those redeliberations will include careful consideration of the ongoing input received from all parties, including ongoing input from the members of the Small Business Advisory Committee.

Only after carefully evaluating the input at public meetings will the Board consider whether to issue a final standard. The Board's current plans are to complete its redeliberations and be in a position to issue a final standard in the fourth quarter of this year.

On behalf of myself and Bob, I would again like to express our appreciation for inviting us to participate in this hearing. All of the information we obtain in connection with this hearing will be carefully considered.

In conclusion, let me assure you that you, and the users, auditors, and preparers of financial reports, including small business financial reports, can have confidence that the Board will continue to actively reach out and solicit input in response to our proposal. That input will be carefully considered in an open, thorough, and objective manner. Our ultimate goal is to develop an accounting standard that will faithfully report the underlying economic effects of equity-based compensation transactions and, thus, significantly improve the transparency and integrity of financial reporting in the US.

Thank you again, Chairman Baker. Bob and I would welcome the opportunity to respond to any questions.

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May 4, 2004

Full Text of Testimony

Chairman Baker, Ranking Member Kanjorski, and Members of the Subcommittee:

I am Robert Herz, chairman of the Financial Accounting Standards Board ("FASB" or "Board"). With me is one of my fellow Board members, George Batavick. George is heading up the FASB's recently established Small Business Advisory Committee ("SBAC").

We are pleased to appear before you today on behalf of the FASB. We want to thank you for inviting us to participate in this very important and timely hearing.

Our testimony includes a brief overview of (1) the FASB, including the importance of the Board's independence and the ability to conduct its work in a systematic, thorough, and objective manner, (2) the process the FASB follows in developing accounting standards, (3) the background and basis for the Board's unanimous decision to issue a proposal to improve the accounting for equity-based compensation, (4) the key provisions of the proposal, (5) the special provisions of the proposal applicable to small business, (6) how the proposal would improve financial reporting, (7) the current status of, and the FASB's plans relating to, the proposal, (8) some observations about some of the more common arguments offered by some opponents of the proposal, and (9) some observations about H.R. 3574.[1]

The FASB

The FASB is an independent private-sector organization.[2] We are not part of the federal government. Our independence from enterprises, auditors, and the federal government is fundamental to achieving our mission—to establish and improve standards of financial accounting and reporting for both public and private enterprises, including small businesses.[3] Those standards are essential to the efficient functioning of the capital markets and the United States ("US") economy because investors, creditors, and other consumers of financial reports rely heavily on credible, transparent, comparable, and unbiased financial information to make rational resource allocation decisions.

The FASB's independence, the importance of which was recently reaffirmed by the Sarbanes-Oxley Act of 2002 ("Act"),[4] is fundamental to our mission because our work is technical in nature, designed to provide preparers with the guidance necessary to report information about their economic activities. Our standards are

[1] H.R. 3574, 108th Congress, 1st Session (November 21, 2004).
[2] See Attachment 1 for information about the Financial Accounting Standards Board ("FASB" or "Board").
[3] See Attachment 2 for excerpts from recent materials about the importance of the FASB's independence and concerns about proposed legislation.
[4] Sarbanes-Oxley Act of 2002, Public Law Number 107-204, Sections 108-109.

the basis to measure and report on the underlying economic transactions of business enterprises. Like investors and creditors, Congress and other policy makers need an independent FASB to maintain the integrity of the standards in order to obtain the financial information necessary to properly assess and implement the public policies they favor. While bending the standards to favor a particular outcome may seem attractive to some in the short run, in the long run a biased accounting standard is harmful to investors, creditors, the capital markets, and the US economy.

The FASB's authority with respect to public enterprises comes from the US Securities and Exchange Commission ("SEC"). The SEC has the statutory authority to establish financial accounting and reporting standards for publicly held enterprises. For 30 years, the SEC has looked to the FASB for leadership in establishing and improving those standards. The SEC recently issued a Policy Statement reaffirming this longstanding relationship.[5]

The Policy Statement, consistent with the language and intent of the Act, also reemphasizes the importance of the FASB's independence described earlier.[6] It states:

> By virtue of today's Commission determination, the FASB will continue its role as the preeminent accounting standard setter in the private sector. In performing this role, the FASB must use independent judgment in setting standards and should not be constrained in its exploration and discussion of issues. This is necessary to ensure that the standards developed are free from bias and have the maximum credibility in the business and investing communities.[7]

The SEC, together with the private-sector Financial Accounting Foundation ("FAF"),[8] maintains active oversight of the FASB's activities.

What Process Does the FASB Follow in Developing Accounting Standards?

Because the actions of the FASB affect so many organizations, its decision-making process must be open, thorough, and as objective as possible. The FASB

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[5] "Policy Statement: Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter," Exchange Act Release Nos. 33-8221; 34-47743; IC-26028; FR-70 (April 28, 2003).

[6] Sarbanes-Oxley Act of 2002, Sections 108-109; the legislative history of the Sarbanes-Oxley Act of 2002 ("Act") is clear that the provisions of the Act relating to the FASB were intended to "strengthen the independence of the FASB . . . from . . . companies whose financial statements must conform to FASB's rules." Senate Report 107-205, 107th Congress, 2d Session (July 3, 2002), page 13.

[7] Policy Statement, Page 5 of 8.

[8] See Attachment 1 for information about the Financial Accounting Foundation.

carefully considers the views of all interested parties, including users, auditors, and preparers of financial reports of both public and private enterprises, including small businesses.

Our Rules of Procedure require an extensive and thorough public due process.[9] That process involves public meetings, public hearings or roundtables, field visits or field tests, liaison meetings with interested parties, and exposure of our proposed standards to external scrutiny and public comment. The FASB members and staff also regularly meet informally with a wide range of interested parties to obtain their input and to better our understanding of their views. As discussed further below, many of our due process activities include active outreach to, and participation by, users, auditors, or preparers of the financial reports of small businesses. The Board makes final decisions only after carefully considering and analyzing the input of all interested parties.

While our process is similar to the Administrative Procedure Act process used for federal agency rule making, it provides for far more public deliberations of the relevant issues and far greater opportunities for interaction with the Board by all interested parties. It also is focused on making technical, rather than policy or legal, judgments. The FASB's Mission Statement and Rules of Procedure require that in making those judgments the Board must balance the often conflicting perspectives of various interested parties and make independent, objective decisions guided by the fundamental concepts and key qualitative characteristics of financial reporting set forth in our conceptual framework.

The FASB and the FAF, in consultation with interested parties, periodically review the FASB's due process procedures to ensure that the process is working efficiently and effectively for users, auditors, and preparers of financial reports.[10] Over the past two years, the FASB and the FAF have undertaken a significant number of actions to improve the Board's due process procedures. Some of those actions were intended to increase the quality and breadth of input to our process, including increasing the input from users, auditors, and preparers of small businesses. Those particular actions include the following:

- Establishing a SBAC in order to increase involvement by the small business community in developing accounting standards. The SBAC, whose members represent diverse perspectives and experiences, comprises lenders, investors and analysts, preparers of financial statements from a broad range of businesses, including controllers and chief financial officers, and auditors from the small business community.

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[9] See Attachment 1 for information about the FASB's due process.

[10] The Securities and Exchange Commission ("SEC") also recently reviewed the FASB's due process and concluded that "the FASB has the capacity . . . and is capable of improving both the accuracy and effectiveness of financial reporting . . ." Policy Statement, page 5 of 8.

- Establishing a User Advisory Council ("UAC") in order to obtain more active user involvement in our process. The UAC comprises representatives of individual and institutional investors, investment and commercial banks, rating agencies, and other groups that represent investors and key users. Several of the members of the UAC are primarily users of financial reports of small businesses.

- Making our public Board meeting announcements available to interested parties more broadly through an email subscription service.

- Making our public Board meetings available to interested parties for monitoring via the telephone and via web cast on our website free of charge.

- Making all of our proposals for public comment, all of the comments received, and the full text of all our standards publicly available on our website.

What Are the Background and Basis for the Board's Unanimous Decision to Issue a Proposal to Improve the Accounting for Equity-Based Compensation?

A Brief History of the Accounting for Equity-Based Compensation

APB Opinion 25

US accountants and accounting standard setters have long debated the issue of the best way to report employee stock options. In 1972, the Accounting Principles Board ("APB"), the predecessor of the FASB, issued APB Opinion No. 25, *Accounting for Stock Issued to Employees.* Partly because techniques to estimate the value of stock options did not yet exist, the drafters of Opinion 25 created an exception to the normal financial reporting model.[11] That model encompasses the general principle that all of an enterprise's costs should be included in the enterprise's financial statements; otherwise, the enterprise's income is overstated.

Under the Opinion 25 exception, only stock options granted to employees that meet certain specified criteria (so-called fixed plan employee stock options) are not reported as an expense. All other options and all other forms of equity-based

[11] Opinion 25 measures stock issued to employees using the "intrinsic value based method." Under that method, compensation cost is the excess, if any, of the quoted market price of the stock at grant date or other measurement date over the amount an employee must pay to acquire the stock. Opinion 25, paragraph 10. The consequence of using the intrinsic value based method is that stock options are frequently issued with the quoted market price of the stock at grant date equal to the amount an employee must pay to acquire the stock and, thus, no expense is reported in the financial statements.

transactions result in expenses to be included in the financial statements consistent with the general principle.

Statement 123

Many parties agreed that the Opinion 25 exception was not the best approach to transparent financial reporting for employee stock options, and, in 1984, the FASB undertook a project to reconsider the issue. In 1993, after several delays in the project, the FASB issued an Exposure Draft, *Accounting for Stock-based Compensation,* for public comment. The Exposure Draft proposed to replace Opinion 25 and require recognition of compensation cost for all awards that eventually vest, based on their fair value at the grant date. For nonpublic enterprises, the Board decided to permit those enterprises to omit expected volatility from the fair value determination (so-called minimum value method) because "estimating expected volatility for the stock of a newly formed entity that is rarely traded, even privately, is not feasible."[12]

In 1995, however, when the FASB issued Statement No. 123, *Accounting for Stock-Based Compensation,* it permitted companies to continue to apply Opinion 25, while also requiring annual footnote disclosures of the fair values (or minimum value for nonpublic enterprises) of fixed plan employee stock options otherwise omitted from the financial statements. The following paragraphs of Statement 123 summarize the basis for the Board's decision to only *encourage*, rather than *require*, that all stock-based compensation be measured at fair value at date of grant and reported as an expense in determining an enterprise's net income:

> The Board continues to believe that financial statements would be more relevant and representationally faithful if the estimated fair value of employee stock options was included in determining an entity's net income, just as all other forms of compensation are included. To do so would be consistent with accounting for the cost of all other goods and services received as consideration for equity instruments. . . . However, in December 1994, the Board decided that the extent of improvement in financial reporting that was envisioned when this project was added to its technical agenda . . . was not attainable because the deliberate, logical consideration of issues that usually leads to improvement in financial

[12] Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (October 1995), paragraph 174.

> reporting was no longer present. Therefore, the Board decided to specify as preferable and to encourage but not to require recognition of compensation cost for all stock-based employee compensation, with required disclosure of the pro forma effects of such recognition by entities that continue to apply Opinion 25.
>
> The Board believes that disclosure of the pro forma effects of recognizing compensation cost according to the fair value based method will provide relevant new information that will be of value to the capital markets and thus will achieve some but not all of the original objectives of the project. However, the Board also continues to believe that disclosure is not an adequate substitute for recognition of assets, liabilities, equity, revenues, and expenses in financial statements. . . . *The Board chose a disclosure-based solution for stock-based employee compensation to bring closure to the divisive debate on this issue—not because it believes that solution is the best way to improve financial accounting and reporting.*[13]

In 2002, in Congressional testimony before the Committee on Banking, Housing and Urban Affairs, Dennis R. Beresford, who was the FASB chairman at the time Statement 123 was issued, shared his views about that Statement and the reasons for the Board's decision:

> As many of you may recall, the FASB had proposed that companies account for the expense represented by the fair value of stock options granted to officers and employees. The business community and accounting firms strongly opposed this proposal and a number of corporations engaged in a lobbying effort to stymie the FASB's initiative.
>
> Certain members of Congress were sufficiently influenced by the appeals from corporate executives that they were persuaded to introduce legislation to counter the FASB's proposal. The legislation would have prohibited public companies from following any final FASB rule on this matter. More importantly, the legislation would have imposed requirements that the SEC repeat the FASB's process on any new

[13] Statement 123, paragraphs 61 and 62 (emphasis added).

> accounting proposals, thus effectively eviscerating the FASB. Faced with the strong possibility that its purpose would have been eliminated by this legislation, the FASB made a strategic decision to require companies to disclose the effect of stock options in a footnote to the financial statements but not record the expense in the income statement.[14]

Pertinent Events Following the Issuance of Statement 123

For many years following the issuance of Statement 123, only a handful of companies elected to adopt the fair value method of reporting employee stock options as an expense in the income statement. In addition, few investors and other users of financial statements expressed significant concerns with that practice.

Beginning in 2001, however, following the highly publicized bankruptcies of several major enterprises including Enron Corp., Global Crossing Ltd., and WorldCom, Inc., many investors and other users of financial statements began questioning enterprises' accounting and reporting for employee stock options. Moreover, many enterprises began considering whether to voluntarily expense all equity-based compensation consistent with the requirements of Statement 123. As of March 2003, when the Board added the project on equity-based compensation to its agenda, 179 public companies had adopted or announced their intention to adopt the fair-value-based accounting method in Statement 123.[15]

In 2001, the FASB's international counterpart, the International Accounting Standards Board ("IASB") took up the subject of the accounting for stock options. It needed to do so, not only because of the growing use of employee stock options around the world, but also because there was no existing literature in the international standards on this topic.

In November 2002, it proposed, as the FASB decided almost 10 years ago in developing Statement 123, that the appropriate accounting for employee stock options is to measure compensation for the fair value of the options at the date granted and to recognize the cost over the period the option vests.[16] And, also as the Board decided in developing Statement 123, the IASB proposed that the best

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[14] Prepared statement at a hearing on Accounting and Investor Protection Issues Raised by Enron and Other Public Companies: Oversight of the Accounting Profession, Audit Quality and Independence, and Formulation of Accounting Principles (February 26, 2002), page 5 (emphasis added).
[15] FASB Proposed Statement of Financial Accounting Standards, *Share-Based Payment* (March 31, 2004), paragraph C5.
[16] IASB Proposed IFRS, *Share-based Payment* (November 2002); FASB Exposure Draft, *Accounting for Stock-based Compensation* (June 1993).

way to measure the fair value at grant date is to use established option-pricing models and then make certain adjustments for the unique features of employee stock options. However, the IASB's particular set of adjustments and allocation methods were somewhat different from those under the fair value method developed by the FASB in Statement 123. There also were some other important differences between the IASB's proposal and the Statement 123 approach. Nevertheless, the fundamental conclusions were the same.

As the IASB released its exposure draft, the FASB issued an Invitation to Comment that explained in detail the similarities of and differences between the IASB proposal and the existing US standards and that solicited comments on those differences.[17] The purpose of the Invitation to Comment was twofold: (1) to solicit comments on certain issues that the Board would discuss when, in accordance with its objectives of improving US financial accounting and reporting standards and promoting international convergence of high-quality accounting standards, it considered whether it should propose any further improvements to the US accounting standards on equity-based compensation and (2) to assist constituents that were planning to respond to the IASB's proposal.

The FASB received 302 comment letters in response to the Invitation to Comment. Most commentators from industry that made general observations about the accounting for equity-based compensation, many of whom were from the high-technology industry, were generally against mandatory expense recognition of all equity-based compensation. Those commentators raised a number of issues including (1) whether mandated expensing of fixed plan employee stock options has a clear or widely accepted rationale; (2) whether existing option pricing models, including Black-Scholes and binomial models, even when adjusted, produce inaccurate and misleading information; and (3) whether mandated expensing of fixed plan employee stock options will discourage broad-based compensation plans.

In contrast, most commentators that were users of financial statements, including creditors, individual investors, pension funds, mutual funds, and financial analysts, were generally supportive of mandatory expense recognition of all employee stock options. Some representative examples include the following:

> Stock options have become a disgrace insofar as accurate reporting of expenses is concerned for corporation[s].

[17] FASB Invitation to Comment, *Accounting for Stock-Based Compensation: A Comparison of FASB Statement No. 123,* Accounting for Stock-Based Compensation, *and Its Related Interpretations, and IASB Proposed IFRS,* Share-based Payment (November 2002).

I strongly recommend that there be a requirement for stock options to be expensed.

Benham M. Black, Partner, Black, Noland & Read, PLC, and Director, Virginia Financial Group, Inc. (an independent bank holding company with total assets of $1.04 billion), 1/31/03

[A]s a fiduciary, I continue to be infuriated with the tech industry . . . and their blatantly self-serving position on stock options. Options have contributed mightily to the current crisis of confidence that we have in the stock market, and I view the expensing of options as a long-overdue and necessary step towards restoring both confidence and rationality in the market. . . . The tech industry has been masterful at marshalling their shareholders own capital against them, given their vociferous lobbying against the proper accounting treatment of options, but the time has come to treat options for what they are—compensation—and force them to be treated on par with all other forms of compensation.

Kenneth F. Broad, CFA, Portfolio Manager, Transamerica Investment Management, LLC (a registered investment adviser managing $12.5 billion in equity and fixed-income assets for mutual funds, funds for funds, separately managed accounts, retirement plans and various for-profit and nonprofit enterprises), 1/31/03

CPF . . . supports the view that stock options are compensation, have a cost, and that those costs should be included on reported income statements.

Michael R. Fanning, Chief Executive Officer, Central Pension Fund of the International Union of Operating Engineers and Participating Employers (on behalf of over 150,000 participants of the CPF), 1/23/03

Investors support the core conclusions by the IASB and the FASB that stock based compensation should be recognized as an expense and that the amount of compensation expense should be based on the fair value of stock-based awards at grant date.

James E. Heard, Chief Executive Officer, Institutional Shareholder Services (serving more than 950 institutional investors and corporate clients worldwide), 1/31/03

The Institute urges the Board to move forward with a reconsideration of Statement No. 123 as soon as practicable. We continue to believe that accounting standards should (1) require the issuers to treat the fair value of stock options granted to employees to be recognized as expense in the income statement and (2) ensure uniformity in how stock options are valued for this purpose.

Gregory M. Smith, Director – Operations/Compliance & Fund Accounting, Investment Company Institute (a national association including 8,938 mutual funds, 535 closed-end investment companies and 6 sponsors of unit investment trusts; its mutual fund members have assets of about $6.539 trillion, accounting for approximately 95% of total industry assets, and 90.2 million individual shareholders), 1/31/03

The Council supports the principles outlined in the IASB's exposure draft, and we urge the Financial Accounting Standards Board to propose and approve similar rules. The IASB proposal is in line with the Council policy on the issue, which states that since stock options granted to employees, directors and non-employees are compensation and have a cost, companies should include these costs as an expense on their reported income statements and disclose their valuation assumptions.

Sarah A. B. Teslik, Executive Director, Council of Institutional Investors (an association of more than 130 corporate, public and union pension funds with more than $3 trillion in pension assets), 1/21/03

In addition, the Board received many letters and emails from individual investors and other members of the general public from around the country urging the Board to mandate expense recognition for all equity-based compensation. Representative examples include the following:

> I strongly recommend that employee stock options be mandated as an expense on corporate financial statements. As long as these options can be passed out like funny money, thereby encouraging those on the receiving end to manipulate the financial records to their advantage – people like me will stay away from the market.
>
> *John S. Clauss, Jr., Glendale, California, 2/10/03*

> We encourage you to . . . require employee stock options to be counted as an expense. If you don't take this action who do you think will make these greed-monger's start accounting for their massive profits? Do the RIGHT THING, Damn it! . . .
>
> *David and Nancy Gabrielsen, Beavercreek, Oregon, 2/11/03*

> Companies are not required to expense options, which means they can give out as many as they want.
>
> I urge the FASB to require employee stock options to be counted as an expense. . . .
>
> *Rob Rocco, Avon Lake, Ohio, 2/12/03*

FASB's Current Project to Improve the Accounting for Equity-Based Compensation

In March 2003, at a public meeting, the Board decided to add a project to its agenda to address issues relating to equity-based compensation. That decision was based largely on three reasons.

The first reason was the high level of public concern expressed by creditors, individual and institutional investors, pension funds, mutual funds, financial analysts, and other users of financial statements about the need to improve the financial accounting and reporting for equity-based compensation, in particular the need to eliminate the exception from expense recognition that presently exists *only* for fixed plan employee stock options. Those users of financial statements that have been urging the FASB to eliminate the exception for fixed plan employee stock options include:

- The Council of Institutional Investors (an association of more than 130 corporate, public, and union pension funds with more than $3 trillion in pension assets)
- Institutional Shareholder Services (serving more than 950 institutional investors and corporate clients worldwide)
- The Office of the State Comptroller of New York (an investor, shareholder, and sole trustee of the nation's second largest pension fund at approximately $100 billion in assets)
- Moody's Investor Services
- The Central Pension Fund of the International Union of Operating Engineers and Participating Employers (on behalf of more than 150,000 participants of the CPF)
- The Teachers Insurance and Annuity Association College Retirement Equities Fund (a financial services company with approximately $262 billion in assets under management, serving nearly 3 million education and research employees at 15,000 institutions)
- The Investment Company Institute (a national association including 8,938 mutual funds, 535 closed-end investment companies, and 6 sponsors of unit investment trusts; its mutual fund members have assets of about $6.539 trillion, accounting for approximately 95 percent of total industry assets, and 90.2 million individual shareholders)
- The Association for Investment Management and Research (a nonprofit professional organization of 61,600 financial analysts, portfolio managers, and other investment professionals)[18]
- The American Federation of Labor and Congress of Industrial Organizations (representing 13 million of America's workers in 65 member unions)

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[18] A 2001 survey conducted by the Association for Investment Management and Research found that more than 80 percent of financial analysts and portfolio managers responding to the survey believed that stock options granted to employees are compensation and should be recognized as an expense in the income statements of the enterprises that grant them. AIMR, "Analysts, Portfolio Managers Want Employee Stock Options Expensed on Income Statements, Global AIMR Survey Shows" (November 19, 2001).

- The Conference Board Commission on Public Trust and Private Enterprise (co-chaired by Peter G. Peterson, chairman of the Blackstone Group, former Secretary of Commerce and chairman of the Federal Reserve Bank of New York, and John W. Snow, (former) chairman, CSX Corporation and former chairman, Business Roundtable).

As indicated above, fixed plan employee stock options are the *only* form of employee stock options that *is not* required to be reported as an expense in the income statements of the enterprises that grant them. All other forms of employee compensation, including cash salaries, bonuses, fringe benefits, restricted stock, stock warrants, performance-based stock options, indexed-based stock options, employee stock ownership plans, are (and have long been) required to be reported as an expense. Moreover, when equity-based grants of any form are issued to nonemployees for goods or services, they also are (and have long been) required to be reported as an expense. The exception for fixed plan employee stock options is clearly an anomaly in today's financial accounting and reporting.

Also as indicated above, creditors, investors, and other users of financial reports have urged the Board to address the exception for fixed plan employee stock options. Many have pointed to the negative impact that exception has had on promoting excessive awards of such options, particularly to corporate executives, and the negative behavioral aspects that it has had on corporate responsibility.[19] Clearly, many creditors, investors, and other users of financial reports want this issue addressed and resolved in the near term.[20]

In 2002, President Bush announced a ten-point plan to improve corporate responsibility.[21] That plan including the following statement: "The authors of accounting standards must be responsive to the needs of investors."[22] There is no other issue on the Board's agenda on which investors have been clearer about the need for an improvement in the existing accounting standards.

The second reason the Board decided to add a project to its agenda to address issues relating to equity-based compensation was because of the complexity and noncomparability and, thus, potential lack of transparency created by the

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[19] The Conference Board, "Commission on Public Trust and Private Enterprise, Findings and Recommendations, Part 1: Executive Compensation" (September 17, 2002), page 10.
[20] The major US accounting firms also are generally supportive of expensing of all employee stock options. Letter from Jack A. Weisbaum to the Honorable Richard H. Baker and the Honorable Paul E. Kanjorski (March 19, 2004); Letter from Dennis M. Nally, Eugene O'Kelly, James H. Quigley, and James S. Turley to the Honorable Richard H. Baker and the Honorable Paul E. Kanjorski (March 17, 2004); Letter from Edward Nusbaum to the Honorable Richard H. Baker (March 17, 2004); "Big Four Shift View on Expensing Options," *Financial Executive's News* (May 1, 2003).
[21] Ten-Point Plan to Improve Corporate Responsibility and Protect America's Shareholders (March 7, 2002).
[22] *Id.*

alternative accounting treatments presently available for reporting equity-based compensation. That lack of transparency has been magnified by the recent trend noted above of enterprises adopting the voluntary fair value provisions of Statement 123. Some of those enterprises, including Citigroup Inc. and J.P. Morgan Chase & Co., have requested that the Board mandate the expensing of all employee stock options. It is also interesting to note some of those enterprises, including Wal-Mart Stores, Inc., Netflix Inc., and Home Depot, Inc., have historically offered broad-based stock option plans to many nonexecutive employees and have indicated that adopting fair value expensing for all employee stock options will not result in a curtailment of those programs.[23]

The third reason the Board decided to add a project to its agenda to address issues relating to equity-based compensation was the opportunity to achieve convergence to a common, high-quality international accounting standard in this area. As noted earlier, the IASB issued a proposal in November 2002 that would require that all stock options be expensed at their fair value at grant date. To maximize the opportunity for international convergence, the FASB concluded that it needed to consider the US accounting requirements for equity-based compensation concurrently with IASB's consideration of its proposal.

The FASB has long been committed to actively working with the IASB and other national accounting standard setters to promote international convergence of accounting standards concurrent with improving the quality of financial reporting.[24] Both the Act[25] and the Policy Statement[26] indicate the support of the US Congress and the SEC, respectively, for the FASB's convergence efforts.

Since March 2003, the Board has held 38 public meetings to discuss the project. Preparations for those meetings included thousands of hours of research on issues relating to the project, including the review of the results of many research studies on the topic.

In addition, the Board and staff have participated in public and private discussions about the project with hundreds of individuals, including members of the Financial Accounting Standards Advisory Council, the UAC, the Option Valuation Group,[27] and other groups and organizations representing preparers, auditors, and users of financial reports. The Board also has conducted field visits with a variety of

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[23] News from Carl Levin, U.S. Senator, Michigan, "Stock Option Roundtable Dismissed as One-Sided" (May 8, 2003), page 2; Reed Hastings, "Expense It!" *The Wall Street Journal* (April 5, 2004).
[24] FASB, *Rules of Procedure* (December 1, 2002, as amended), page 2.
[25] Act, Section 108(a)(2).
[26] Policy Statement, page 4 of 8.
[27] The Board established the Option Valuation Group to provide information and advice on how to improve the guidance in Statement 123 on measuring the fair value of stock options. Proposed Statement of Financial Accounting Standards, *Share-Based Payment*, paragraph C37.

enterprises of various sizes, including small businesses, covering a range of industries to discuss issues relating to the project.

In February 2004, at a public meeting, the Board unanimously agreed to the issuance of a proposal for public comment. That proposal was issued on March 31, 2004.[28]

What Are the Key Provisions of the Proposal?

<u>Scope</u>

The scope of the proposal is very broad addressing the accounting for transactions in which an enterprise exchanges its valuable equity instruments for employee services, including employee stock purchase plans. 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. The proposal does not change the accounting for similar transactions involving parties other than employees or the 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.

<u>Recognition</u>

For public enterprises, the proposal would require that the cost of employee services received in exchange for equity instruments 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.

<u>Measurement</u>

The proposal would require that the grant-date fair value of employee stock options and similar instruments be estimated using existing option-pricing models adjusted for the unique characteristics of those options and instruments.

<u>Disclosures</u>

The proposal would require that the footnotes to financial statements of both public and nonpublic enterprises disclose the information that users of financial information need to understand the nature of the equity-based compensation transactions and the effects of those transactions on the financial statements.

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[28] See Attachment 4 for a summary of the proposal.

Transition and Effective Date

The proposal would be applied to public enterprises prospectively for fiscal years beginning after December 15, 2004, as if all equity-based compensation awards granted, modified, or settled after December 15, 1994, had been accounted for using the fair-value-based method of accounting.

What Are the Special Provisions of the Proposal Applicable to Small Business?

Consistent with the requirements of its mission and due process, when the Board developed the proposal it evaluated whether the proposal would fill a significant need and whether the costs imposed to apply the provisions of the proposal, 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 the proposal on nonpublic enterprises (most small businesses are nonpublic enterprises).

The Board noted that the available statistical data about small businesses and employee stock options appears to indicate that very few small businesses operate stock option plans and, therefore, are unlikely, to be affected by the proposal.[29] For those small businesses, however, that do operate such plans the Board concluded that the proposal should include special provisions that mitigate the incremental costs those enterprises would incur in complying with the proposal's provisions.

Those special provisions include permitting most small businesses to (1) use a simpler, less costly method to measure compensation cost; (2) use a simpler, less costly method to transition to the new requirements; and (3) have a delayed effective date.

Simpler, Less Costly Measurement Approach

Most nonpublic enterprises would be permitted (and public enterprises, in the limited circumstances in which it is not possible to reasonably estimate the fair value of an equity instrument at the grant date, would be required) to measure

[29] Andrew Pendleton, Joseph Blasi, Douglas Kruse, Erika Poutsma, and James Sesil, "Theoretical Study on Stock Options in Small and Medium Enterprises," Final Report to the Enterprise-Directorate General, Commission of the European Communities (October 2002), page 45 (indicating that the incidence of any form of share scheme among small and medium size businesses is very low); Douglas Kruse and Joseph Blasi, Rutgers University, and Richard Freeman, Harvard University, "Analysis of the National Organizations Survey of 2002" (2004), Table 8 (Indicating that 5 percent of small businesses in the U.S. granted options to 10 percent or more of employees in 2002); Beth Levin Crimmel and Jeffrey L. Schildkraut, "Stock Option Plans Surveyed by NCS," *Compensation and Working Conditions* (Spring 2001), Table 3, page 11 (referencing 1999 survey indicating that 2.1 percent of enterprises with 100 employees or fewer offered stock options to employees).

compensation cost using a simpler "intrinsic value method," rather then the fair-value-based method that would be required for other enterprises.[30]

Under the intrinsic value method, the compensation cost for any reporting period would be measured based on the difference between any excess of the fair value of the enterprises' stock and the exercise price of the employee stock options granted, with final measurement of compensation cost at settlement date. The total amount of compensation expense reported under the intrinsic value method would generally be equivalent to the total amount of income tax deduction for option grants presently reported by those enterprises.

The Board believes that applying the intrinsic value method described above lessens incremental costs that nonpublic enterprises may incur in applying the proposed requirements. The Board noted that nonpublic enterprises must currently calculate the intrinsic value method whenever employee stock options are granted (for financial reporting purposes) and whenever employee stock options are exercised (for income tax deduction purposes). The Board also noted that most nonpublic enterprises only prepare audited financial reports once a year. Finally, to the extent that a nonpublic enterprise is funded by a venture capital firm, the Board noted that those firms are required to determine the fair value of their investments for financial reporting purposes.

After considering the input from users, auditors, and preparers of nonpublic enterprises' financial reports, the Board concluded that the intrinsic value method provided more meaningful information than other alternatives, including the minimum value method alternative permitted in Statement 123.[31] In rejecting the minimum value method alternative, the Board noted that that method ignores a key element of what makes options valuable, that is the ability of the holder for a potentially lengthy period of time to capture the appreciation in the value of the underlying stock.[32] As such, it results in a measurement that is not representationally faithful to the underlying economics of the transaction. It also was noted that the minimum value method could be easily manipulated to result in zero compensation expense being recognized.[33]

[30] The International Accounting Standards Board's International Financial Reporting Standard (IFRS) 2, *Share-based Payment* (February 2004), paragraph 24, does not permit the use of the intrinsic value method for nonpublic or public enterprises, but does require that that method be used by nonpublic or public enterprises in the rare circumstance that the fair value of the equity instrument cannot be estimated reliably.
[31] Proposed Statement of Financial Accounting Standards, *Share-Based Payment*, paragraphs C68-C72.
[32] *Id.* paragraph C72.
[33] Mark Rubinstein, "On the Accounting Valuation of Employee Stock Options," *Journal of Derivatives* (Fall 1995), page 21.

Simpler, Less Costly Transition Approach

All nonpublic enterprises would apply the proposed standard prospectively and not be required (as other enterprises) to apply the requirements to any nonvested portion of awards that were granted before the date of adoption of the proposed standard.

Delayed Effective Date

The effective date of the proposed standard for most nonpublic enterprises would be delayed for one year (fiscal years after December 15, 2005), as compared with the proposed effective date for other enterprises (fiscal years after December 15, 2004).

Solicitation of Comments on Special Provisions

The Board specifically highlighted the special provisions applicable to small businesses in the following issues contained in the proposal's Notice for Recipients ("Notice") to encourage respondents to provide further input on those issues:

> *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?
>
> *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 1993 and the Securities Exchange Act of 1934. Do you believe that some or all of those alternatives should be extended to those public entities?[34]

Also as noted above, the Board plans to discuss the views of individuals representing small and medium-sized businesses regarding the above issues and other aspects of the proposal at the inaugural meeting of the SBAC.

The Board will carefully consider during its public redeliberations of the proposal the input received from users, auditors, and preparers of small business financial reports and carefully consider whether the proposed requirements are cost effective and meet the demands of those parties and the marketplace.

How Would the Proposal Improve Financial Reporting?

The proposal would improve financial reporting by requiring for the first time the recognition of all compensation cost incurred as a result of receiving services in exchange for valuable equity instruments issued by the employer. Recognizing all compensation cost relating to equity-based compensation 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

[34] Proposed Statement of Financial Accounting Standards, *Share-Based Payment*, pages v and vi; see Attachment 4 for the complete Notice for Recipients.

decisions. Such information specifically will help users of financial reports understand the impact that equity-based compensation arrangements have on an enterprise's financial condition and operations. That Board view was confirmed in a recent survey of 302 buy-side portfolio managers and research professionals, who by a four-to-one margin indicated that they believe the proposal will improve transparency in financial reporting.[35] That same survey found that "an overwhelming majority--90%--of respondents said they are opposed to any exemptions from the options expensing rule for 'start-ups' or technology companies."[36]

In addition, a recent survey of 30 institutional technology investors found that more than 90 percent support the Board's effort to require enterprises to report employee stock option expense in their income statements.[37] That same survey also found that nearly 70 percent of technology investors opposed exceptions from the proposal for "newly public companies."[38]

Both surveys are consistent with a 2001 survey of more than 18,000 analyst and portfolio managers in which 83 percent of respondents agreed that employee stock options are compensation and should be recognized as an expense in the income statements of the enterprises that grant them.[39]

Also of note, during the 2003 and current proxy season, shareholders at over 30 enterprises have voted in favor of nonbinding resolutions mandating expensing of all employee stock options at the date of grant.[40] Some of those enterprises, including Apple Computer, Inc., IBM, MBNA Corp., Texas Instruments Inc., and Wells Fargo have indicated they will comply with their shareholders' request only after the FASB's new standard becomes effective.[41]

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[35] Broadgate Consultants, Inc., "Institutional Investors Support FASB Options Expensing Proposal" (April 7, 2004).

[36] *Id.;* see Attachment 5 for additional excerpts from materials about the proposal.

[37] Steven Milunovich and Richard Farmer, "Tech Stock Options—The Invisible Cash Flow Drain," Merrill Lynch Comment (February 3, 2004), page 7.

[38] *Id.* page 11.

[39] AIMR, "Analysts, Portfolio Managers Want Employee Stock Options Expensed on Income Statements, Global AIMR Survey Shows."

[40] Statement for the Record of Damon A. Silvers, Associate General Counsel, American Federation of Labor and Congress of Industrial Organizations Before the Committee on Governmental Affairs Subcommittee on Financial Management, the Budget, and International Security, United States Senate (April 20, 2004); Louis Lavelle, "Shareholders United to Expense Options," *BusinessWeek* Online (May 27, 2003).

[41] "Apple Won't Expense Options Before Rule Change," *Reuters* (May 13, 2003); Brian Bergstein, "IBM Shareholders Vote to Expense Options," *The Associated Press* (April 27, 2004); Jonathan D. Epstein, "MBNA Listens, Will Deduct Stock Options from Earnings," *The News Journal* (May 7, 2003); Crayton Harrison, "Shareholders for Texas Instruments Vote to Expense Stock Options," *The Dallas Morning News Knight Ridder/Tribune News* (April 16, 2004); Mark Calvey, "Wells Shareholders Call on Bank to Expense Options," *San Francisco Business Times* (April 28, 2004).

The proposal also would improve comparability by eliminating one of the two different methods of accounting for equity-based compensation transactions that were available to most enterprises (the Opinion 25 method) and would also thereby simplify existing US generally accepted accounting principles ("GAAP"). The existing accounting for equity-based compensation had been specifically identified by many parties, including the SEC, as an example of a "rules-based standard" that has "fueled the demand for increased guidance" and that has led to further complex, detailed, and form-driven rules.[42] Eliminating different methods of accounting for the same transaction leads to improved comparability of financial statements because similar economic transactions are accounted for similarly. That should, in turn, result in accounting information that is more decision useful to creditors and investors.

The proposal also results in greater international comparability in the accounting for equity-based compensation. In February 2004, the IASB issued International Financial Reporting Standard (IFRS) 2, *Share-based Payment.*[43] Converging to a common set of high-quality financial accounting standards on an international basis for equity-based compensation improves the comparability of financial information around the world and simplifies the accounting for enterprises that report financial statements under both US GAAP and international accounting standards. As indicated above, both the Act and the Policy Statement indicate support of the US Congress and the SEC, respectively, for the FASB's convergence efforts.

What Is the Current Status of, and the FASB's Plans Relating to, the Proposal?

As indicated above, the Board issued the proposal for public comment on March 31, 2004. Also as indicated above, the proposal includes a Notice that highlights and describes twenty-two specific issues (three of which are related to small businesses) that respondents might wish to consider in developing their comments.[44] The comment period ends on June 30, 2004.

The Board plans to hold public roundtable meetings with interested users, auditors, preparers, and compensation and valuation experts to discuss the issues related to the proposal. Those roundtable meetings are scheduled to take place on

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[42] Staff of the US 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" (July 25, 2003), pages 24 and 25.

[43] Of note, in September 2003, the Accounting Standards Board ("AcSB") of Canada issued *Stock-Based Compensation and Other Stock-Based Payments,* Section 3870. Section 3870, consistent with IFRS 2 and the FASB proposal, requires the expensing of all equity-based compensation. Significant concerns in Canada about the inadequacies of the existing accounting for equity-based compensation led the AcSB to take the unusual action of requiring that Section 3870 become effective in 2004, prior to completion of the related FASB project and prior to the effective date of IFRS 2.

[44] See Attachment 4 for the Notice for Recipients.

June 24, 2004, in Palo Alto, California, and June 29, 2004 in Norwalk, Connecticut. The Board plans to seek participants for each meeting that represent a wide variety of users, preparers, and auditors of financial reports, and compensation and valuation experts. The Board also plans to discuss the views of interested parties representing small and medium-sized businesses regarding the proposal at the inaugural meeting of the SBAC to be held on May 11, 2004, in Norwalk, Connecticut.

Following the end of the comment period, the Board will redeliberate at public meetings the issues raised by the proposal. Those public redeliberations will be thorough and objective.

The redeliberations, consistent with the FASB's Rules of Procedure, will address the key conceptual, measurement, disclosure, and cost-benefit issues raised by the proposal and will include careful consideration of the input received by all parties. The redeliberations also will benefit from the FASB staff and Board's ongoing discussion of the key issues with interested parties from a broad range of perspectives, including valuation and compensation experts that the FASB has been consulting with and will continue to consult with throughout the entire process. As with virtually all FASB projects, the redeliberations will likely result in a number of changes that improve the proposal.

Only after carefully evaluating all of the key issues and carefully considering the input received in response to the proposal will the Board consider whether to issue a final standard. No final standard may be issued without approval by a majority vote of the Board.

The Board's current plans are to issue a final standard in the fourth quarter of this year. As with all of the FASB's activities, the FAF and the SEC will closely monitor and oversee the Board's due process on this important project.

Some Observations about Some of the More Common Arguments Offered by Some Opponents of the Proposal

Four of the more common arguments made by some of the opponents of the Board's proposal to improve the financial accounting and reporting for equity-based compensation are (1) employee stock options do not represent a cost and, therefore, should not be required to be expensed, (2) the cost of employee stock options cannot be reliably estimated, (3) mandatory expensing of employee stock options will eliminate broad-based stock option plans, and (4) mandatory expensing of fixed plan employee stock options will have negative economic consequences, including harmful implications to US technology leadership and job creation. The following presents some observations about each of those arguments.

Employee Stock Options Do Not Represent a Cost

In connection with the development of the proposal, the Board, after public deliberations, decided by a unanimous vote that goods and services received from any party in exchange for equity-based compensation should result in a cost that is recognized in the financial statements. That decision led to the proposed elimination of the existing exception that permits fixed plan employee stock options to avoid expense recognition.

The basis for the Board's proposed decision is that the Board agreed that all employee stock options, including fixed plan stock options, have value and those valuable financial instruments given to employees give rise to compensation cost that is properly included in measuring an enterprise's net income. Employee stock options provide an employee a valuable right to buy an enterprise's stock for a fixed price during a fixed time period. Similar rights are bought and sold in organized markets by speculators and other parties.

Furthermore, companies issue similar options and warrants to outside parties to acquire goods and services and in connection with acquisitions and financing transactions (and the fair value of those exchanges are always reported on the face of the financial statements without exception). If such rights were not valuable, employees, speculators, and other parties would not purchase them. Because employees purchase those rights with services, those consumed services represent an expense that is properly included in measuring an enterprise's net income.

The Board also discussed and disagreed with the related argument made by some parties that equity-based compensation should not be reported as a cost and deducted from earnings, but instead should only be reflected in diluted earnings per share when the options are exercised. The Board noted that the argument ignores the fact that all equity-based compensation, other than fixed plan employee stock options, is currently reported as a cost and deducted from earnings.

The Board believes that information about dilution from stock and stock option issuances is relevant information for investors. Diluted earnings per share, however, do not reflect all of the effects of equity-based compensation transactions.[45]

In addition to potential dilution, equity-based compensation transactions also affect the amount of the enterprise's employee compensation costs. As noted earlier, under existing accounting standards, all forms of equity-based

[45] Of note, the diluted earnings per share calculation takes into account only those stock options that are in-the-money and ignores the potential dilutive impact of options that are either at- or out-of-the-money. FASB Statement No. 128, *Earnings per Share* (February 1997), paragraphs 20-23.

compensation, except for fixed plan employee stock options, are reported as part of an enterprise's employee compensation costs.

The Board believes that all compensation costs, including fixed plan employee stock options costs, must be reported as an expense and deducted from earnings in order to provide investors with sound, fair, and credible information about an enterprise's net income. As the Congressional Budget Office recently concluded in its paper analyzing the accounting for employee stock options, "[i]f 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."[46] More recently, in expressing support for the proposal in testimony before the Joint Economic Committee, Federal Reserve System Chairman Alan Greenspan stated:

> "With respect to stock options, I think it would be a bad mistake for the Congress to impede FASB in this regard." . . .
>
> "The whole point of accounting is to tell somebody whether a specific strategy is working or not." . . .
>
> "[Not expensing employee stock options results in] 'a distorted view as to what the profitability of a particular operation is and you will get a distortion in the allocation of capital." . . .
>
> "But the point of issue is not whether it is more or less profitable, but are the figures right? And in this regard, as best I can judge the FASB changes in recommendations with respect to accounting procedures strike me as correct, and it's not clear to me what the purpose the Congress is in this particular procedure." . . .
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> "I think the Congress would err in going forward and endeavoring to impede FASB in its particular activities."[47]

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[46] Congressional Budget Office, "Accounting for Employee Stock Options" (April 2003), Summary, Section 2 of 3, pages 1 and 2 (emphasis added).

[47] Dear colleague letter from The Honorable Pete Stark, Joint Economic Committee, Congress of the United States, "Greenspan Says Congress Impeding FASB Stock Options Rules Would be a 'Bad Mistake'" (April 27, 2004).

The Cost of Employee Stock Options Cannot Be Reliably Estimated

In its public deliberations leading to the development of the proposal, the Board did not find persuasive the argument that the estimated fair value of employee stock options based on currently available valuation techniques would be so unreliable as to impair the credibility and comparability of financial statements. To the contrary, the Board believes that use of the Opinion 25 intrinsic value method has and would continue to impair not only the relevance and reliability, but also the credibility, of financial statements by omitting a potentially significant component of the total cost of employee services.

The Board notes that thousands of public enterprises have been estimating the fair value of employee stock options, generally consistent with the approach contained in the proposal, and have been reporting those amounts in their audited financial statement footnotes for eight years. Moreover, 576 enterprises, 116 of which represent 41 percent of the S&P 500 index based on market capitalization, have estimated and reported or will soon estimate and report all of their employee stock options as an expense in their audited and certified financial statements generally consistent with the proposal's approach.[48]

In addition, many valuation experts and many other parties, including the Congressional Budget Office, agree that employee stock options can be reliably valued.[49] It is widely acknowledged that far more complicated financial instruments, including long-dated and complex derivatives, and convertible bonds containing embedded long-dated options, are valued in the marketplace daily and that value is routinely reported by enterprises.[50]

Uncertainties inherent in estimates of the fair value of equity-based payment arrangements are generally no more significant than the uncertainties inherent in measurements of, for example, loan loss reserves, valuation allowances for deferred tax assets, and pensions and other postretirement benefit obligations.[51] For those items, as well for many other items in accounting involving the use of estimates, enterprises are required to use appropriate measurement techniques, relevant data, and management judgment in the preparation of financial

[48] Pat McConnell, Janet Pegg, Chris Senyek, and Dane Mott, "Accounting Issues: 576 Companies Have Voluntarily Adopted Option Expensing Under the Fair Value Method," Bear Stearns (April 29, 2004); see Attachment 3.
[49] Congressional Budget Office, "Accounting for Employee Stock Options," Summary, Section 2 of 3, page 2, and Section 3 of 3, pages 5 and 6.
[50] Hearing on H.R. 3574: Stock Option Accounting Reform Act, Before the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises of the Committee on Financial Services, Summary of Testimony of Robert C. Merton (March 3, 2004).
[51] Michael B. Clement, "Accounting: The Case for Expensing Stock Options," Goldman Sachs Global Equity Research (April 7, 2004), page 1.

statements.[52] Few accrual-based accounting measurements can claim absolute reliability, but most parties agree that financial statement recognition of estimated amounts that are approximately right is preferable to the alternative—recognizing no amounts.[53]

<u>Mandatory Expensing of Employee Stock Options Will Eliminate Broad-Based Stock Option Plans</u>

If broad-based employee stock option plans are a good business decision, meaning that the benefits derived from those plans exceed their costs, mandatory expensing of fixed plan employee stock options should not lead to the elimination of broad-based stock option plans. Many other forms of compensation, including pension plans and Employee Stock Purchase Plans, have been and continue to be "broad-based" at many enterprises, notwithstanding that those and other forms of compensation, other than fixed plan employee stock options, are reported as an expense.

As indicated above, Wal-Mart Stores, Inc., Netflix Inc., and Home Depot, Inc., have historically offered broad-based stock option plans to many nonexecutive employees and have indicated that voluntarily adopting fair value expensing for all employee stock options will not result in any curtailment of those programs. The CEO of Netflix Inc. recently commented:

> Thoughtful Silicon Valley CEO after CEO lines up to say that closing the stock option loophole will curtail the innovation economy as we know it. But Amazon, Microsoft and my company, Netflix, all voluntarily converted last year to expensing, have continued to give broad-based equity incentives, and innovation continues unabated. Stock options may be the symbol of the Silicon Valley culture, but it is not the essence. We innovate because it thrills us, not because of some accounting treatment."[54]

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[52] As an example, Intel Corporation's ("Intel") Form 10-K for fiscal year ended December 27, 2003, includes a disclosure of "Critical Accounting Estimates" in Management's Discussion and Analysis of Financial Condition and Results of Operations. That disclosure describes "difficult and subjective judgments" in five specific areas that Intel acknowledges "have a significant impact on the results we report in our financial statements." Those five areas include goodwill, non-marketable equity securities, inventory, long-lived assets, and income taxes. Intel Form 10-K, pages 32-34.

[53] Steven Milunovich and Richard Farmer, "Tech Stock Options—The Invisible Cash Flow Drain," Merrill Lynch Comment, page 5.

[54] Reed Hastings, "Expense It!" *The Wall Street Journal*.

Mandatory Expensing of Employee Stock Options Will Have Negative Economic Consequences

Some opponents of the proposal argue that the recognition of compensation cost based on fair value may have undesirable economic consequences, including harmful implications for US technology leadership and job creation.[55] As indicated above, they often suggest that the required recognition of compensation cost from equity-based payment arrangements is likely to cause some enterprises to reduce, eliminate, or otherwise revise those arrangements. Some also contend that recognition of compensation cost for employee stock options will raise the cost of capital for enterprises that make extensive use of those options. All of those assertions seem to be based on the presumptions that (1) most, if not all, current equity-based arrangements are inherently desirable regardless of their cost and (2) Opinion 25's accounting requirements have only desirable economic consequences. The Board considers neither presumption to be either supportable or relevant in establishing accounting standards for equity-based payment arrangements.

The Board's operating precepts require it to consider issues in an evenhanded manner, without attempting to encourage or to discourage specific actions. That does not imply that improved financial reporting should have no economic consequences. To the contrary, a change in accounting standards that result in financial statements that are more relevant and representationally faithful, and thus more useful for decision making, presumably would have economic consequences. For example, required recognition of compensation cost based on the provisions of the proposal would result in comparable accounting for all forms of employee compensation. The Board believes that any decision to reassess and modify existing equity-based payment arrangements would be based on information that better represents the costs and benefits of various forms of compensation.

Some investors and others have noted the dramatic increase in the number of stock options awarded to employees during recent years. The Board understands that the vast majority of stock options awarded to employees are fixed plan employee stock options for which enterprises that continued to use the accounting requirements of Opinion 25 recognized no compensation expense. The accounting under Opinion 25 treats most fixed plan employee stock options as though they

[55] Some commentators have found it ironic that defending US jobs is used as an argument against the FASB proposal, when many high technology and venture capital enterprises are at the same time trying to convince Congress and other State legislators not to impose restrictions on outsourcing as they actively promote the movement of jobs overseas. Steven Milunovich and Richard Farmer, "Tech Stock Options—The Invisible Cash Flow Drain," Merrill Lynch Comment, page 6. Some recent articles discussing support of outsourcing by representatives of the high technology or venture capital industries include Don Clark, "Another Lure of Outsourcing: Job Expertise," *The Wall Street Journal* (April 12, 2004); Ann Grimes, "Venture Firms Seek Start-Ups That Outsource," *The Wall Street Journal* (April 2, 2004); and Karl Schoenberger, "Fears Over Offshoring Inflated, Says AeA," *Mercury News* (March 24, 2004).

were a "free good," which implies that the services received in exchange for those options are obtained without incurring a cost. But employee services received in exchange for stock options are not free. Stock options are valuable equity instruments for which valuable consideration is received—consideration that should be recognized regardless of whether it is in the form of cash, goods, or services from employees or other suppliers. Accounting for fixed plan employee stock options as though they imposed no cost on the enterprise that issues them may encourage their substitution for other forms of compensation, such as stock options or other instruments with performance or market conditions that may be preferable in a particular situation. Requiring recognition of compensation cost based on fair value increases the neutrality of financial reporting and removes an accounting incentive for an entity to choose a form of incentive compensation—fixed plan employee stock options—that may not be the most advantageous in its circumstances.

Many would agree that an enterprise's expenditures for a broad range of items, such as pensions, education and training, environmental remediation, or occupational, health, and safety programs, are expenditures that should be encouraged. Those items, however, like all forms of employee compensation, are a cost of the enterprise and properly reported as expenses in financial reports.

Of note, the above observations have generally been supported by many economic experts who have reviewed the issue, including Federal Reserve Chairman Alan Greenspan,[56] former Federal Reserve Chairman (and current chairman of the Trustees of the International Accounting Standards Committee Foundation) Paul A. Volcker,[57] Nobel Prize winning economists Robert C. Merton[58] and Joseph E. Stiglitz,[59] the Financial Economist Roundtable,[60] the Republican Staff of the Joint Economic Committee of the US Congress,[61] the Conference Board Commission on Public Trust and Private Enterprise,[62] and the Congressional Budget Office.[63]

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[56] Dear colleague letter from The Honorable Pete Stark, Joint Economic Committee, Congress of the United States, "Greenspan Says Congress Impeding FASB Stock Options Rules Would be a 'Bad Mistake;'" Federal Reserve System Chairman Alan Greenspan, Remarks at the 2002 Financial Markets Conference of the Federal Reserve Bank of Atlanta, Sea Island, Georgia (May 3, 2002), pages 5 and 6.

[57] Hearing before the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises of the Committee on Financial Services, Testimony of Paul A. Volcker (June 3, 2002), pages 3 and 4.

[58] Hearing on H.R. 3574: Stock Option Accounting Reform Act, Before the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises of the Committee on Financial Services, Summary of Testimony of Robert C. Merton.

[59] Joseph E. Stiglitz, "The Roaring Nineties" (October 2003), pages 115-139.

[60] Statement of Financial Economist Roundtable on the Controversy over Executive Compensation (November 24, 2003).

[61] Joint Economic Committee, Republican Senate Staff, Economic Policy Research, "Understanding the Stock Option Debate," Report 107-04 (July 9, 2002), page 18.

[62] The Conference Board, "The Commission on Public Trust and Private Enterprise, Findings and Recommendations, Part 1: Executive Compensation," page 6.

[63] The Congressional Budget Office, "Accounting for Employee Stock Options," Section 3, pages 4 and 5.

Some Observations about H.R. 3574

As many experts have indicated, the provisions of H.R. 3574 are seriously flawed and violate fundamental concepts of financial accounting and reporting.[64] The FASB is particularly concerned about the provisions in H.R. 3574 that would prohibit the SEC from recognizing as "'generally accepted' any accounting principle established . . . relating to the expensing of stock options," unless the standard includes certain specific requirements and until an economic impact study of unlimited duration has been completed.[65] The Board strongly opposes such an effort to block improvements to the financial accounting and reporting for equity-based compensation for several reasons, including the following.

First, HR 3574 would override the Board's independent, objective, open, and ongoing due process to make unbiased decisions on the substance and timing of improvements to the accounting for equity-based compensation. As indicated above, such intervention would be in direct conflict with the expressed needs and demands of many investors and other users of financial reports. Such intervention also would appear to be inconsistent with the language and intent of the Act and the related Policy Statement, both of which were intended to enhance the independence of the FASB.

Second, HR 3574 would have an adverse impact on the FASB's efforts to achieve timely convergence of high-quality international accounting standards in this important area and again appears to be inconsistent with the language and intent of the Act and the related Policy Statement, both of which indicate support for the FASB's convergence efforts. As indicated above, enterprises in 90 countries around the world will begin reporting all equity-based compensation as an expense, in a manner generally consistent with our proposal, beginning on January 1, 2005.

Finally, and perhaps most importantly, HR 3574 would establish a dangerous precedent in that it would send a clear and unmistakable signal that Congress is willing to intervene in the independent, objective, and open accounting standard-setting process based on factors other than the pursuit of sound and fair financial reporting. That signal would likely prompt others to seek political intervention in future technical activities of the FASB.

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[64] Letter from Edward Nusbaum, CEO, Grant Thornton LLP, To the Honorable Richard H. Baker, United States House of Representatives (March 17, 2004), page 4; Summary of the Testimony of Robert C. Merton, Before the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises of the Committee on Financial Services, H.R. 3574: Stock Option Accounting Reform Act. See Attachment 2 for additional comments from experts and others on H.R. 3574 and other proposed legislation.

[65] H.R. 3574, Section 3(a)(3).

For all of the above reasons, HR 3574 would likely result in a giant step backwards in the recent and ongoing efforts by Congress, the SEC, the FASB, and many other parties, to restore public confidence and trust in the integrity of financial reporting.

Conclusion

In conclusion, let me assure you that you, and the users, auditors, and preparers of financial reports, including small business financial reports, can have confidence that the Board will continue to actively reach out and solicit input in response to our proposal. That input will be carefully considered in an open, thorough, and objective manner. Our ultimate goal is to develop an accounting standard that will faithfully report the underlying economic effects of equity-based compensation transactions and, thus, significantly improve the transparency and integrity of financial reporting in the US.

Thank you again, Chairman Baker. We would welcome the opportunity to respond to any questions.

Testimony of
Robert H. Herz
Chairman
and
George J. Batavick
Board Member
Financial Accounting Standards Board
before the
Capital Markets, Insurance and Government Sponsored Enterprises
Subcommittee of the Committee on Financial Services
May 4, 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

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;

- 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:

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.

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 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, 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.

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 or by contacting the FASB Order Department at 1-800-748-0659, weekdays 9:00 a.m. to 5:00 p.m. EST.

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For information about submitting written comments on documents or about public hearings, access the FASB website at 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 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.*

9/03

Testimony of
Robert H. Herz
Chairman
and
George J. Batavick
Board Member
Financial Accounting Standards Board
before the
Capital Markets, Insurance and Government Sponsored Enterprises
Subcommittee of the Committee on Financial Services
May 4, 2004

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

Enron, WorldCom, and other corporate governance failures demonstrate the dangers of not having independent accounting and auditing standards.

If Congress interferes with the FASB proposal, the dangerous precedent of intervention into accounting standards will be set. Congressional interference is detrimental to the independent nature of the FASB and the accounting treatment of stock options is a matter best left to FASB to determine.

The Honorable Daniel K. Akaka, Ranking Member, Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs, United States Senate, April 20, 2004

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

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

I would like to reiterate my support for an independent FASB to bring this project to a timely conclusion with the accounting they have proposed.

Jack T. Ciesielski, President, R.G. Associates, Inc., April 21, 2004

In my years of observing the standard setting process, I've seen the Board develop improved accounting standards with an unmatched level of openness and fairness. Their standards will not make everyone happy – in addressing the complicated issues they're charged with, it's impossible to satisfy all parties involved. The reason we're here is because some of the FASB's constituents are so unhappy with their attempts to reform the accounting for option compensation that they've pulled Congress into the process.

They're seeking a legislative answer to an accounting rule they oppose, and in doing so, usurping the FASB's authority to set standards. I believe that the FASB's ability to develop impartial standards resulting in robust information for investors to use would be seriously hampered if legislative intervention becomes the norm for disagreeing with their pronouncements, and a blueprint for such behavior was created the last time the Board attempted to remedy option compensation accounting ten years ago. While it may benefit a few of the Board's constituents to preserve the broken accounting model, in the long run our capital markets would likely suffer – and result in capital being misallocated in the economy.

Jack T. Ciesielski, President, R.G. Associates, Inc., April 20, 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, President, R.G. Associates, Inc., March, 1, 2004

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

It is critical for the FASB to debate and make decisions without government intervention.

Donald P. Delves, President, The Delves Group, April 20, 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

. . . [P]olitical interference with the private-sector accounting board is a dangerous precedence.

The Honorable Peter G. Fitzgerald, Chairman of the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs, United States Senate, April 20, 2004

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 FASB's independence.

The Honorable Peter G. Fitzgerald, Chairman of the Financial Management, the Budget, and International Security Subcommittee of the Committee on Governmental Affairs, United States Senate, 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

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

With respect to stock options, I think it would be a bad mistake for the Congress to impede FASB in this regard.

. . . .

And in this regard, as best I can judge the FASB changes in recommendations with respect to accounting procedures strike me as correct, and it's not clear to me what the purpose of Congress is in this particular procedure.

. . . .

I think the Congress would err in going forward and endeavoring to impede FASB in its particular activities.

The Honorable Alan Greenspan, Chairman, Federal Reserve System, April 21, 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 10th 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 10th 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 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, . . . 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

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 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 then the disease.

Louis Lavelle, BusinessWeek, November 26, 2003

Today, because the FASB has tackled one of the toughest accounting issues in its history by proposing to require companies to treat stock option compensation as an expense in their financial statements like all other forms of compensation, opponents of stock option expensing want Congress to override FASB's independent judgement, politicize the standard-setting process, and roll over FASB's independence. To do so would be to signal that accounting maneuvers to prop up earnings are still acceptable and turn our backs on the lessons of Enron. It would be a grave mistake.

The Honorable Carl Levin, United States Senate, April 28, 2004

FASB . . . resisted enormous pressure from corporate executives when they decided to end the accounting that keeps stock options off corporate books as an expense, thereby making a company's earnings look better than they are. Hopefully, Congress will also stand up to the powerful political forces being brought to bear to overrule FASB. Congress should protect FASB's independence and its resolution of controversial accounting issues based on accounting expertise rather than political considerations. That's what we committed to do two years ago when we enacted the Sarbanes-Oxley Act, and it is critical that, in this first big test, we continue to champion, preserve, and fortify FASB's independence.

The Honorable Carl Levin, United States Senate, April 20, 2004

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

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

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

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

My conclusion is that it would not serve the public interest for the Congress to mandate a different accounting treatment.

Robert G. Mendoza, Chairman, Integrated Finance Limited, April 28, 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 top 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 FASBs 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 10th 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 10th largest state pension system in the U.S. and the 17th 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

This is not the first time FASB has attempted to require appropriate expensing of stock options. In the mid-1990's, just as stock options were becoming a popular form of executive compensation, FASB attempted to require option expensing, but was pressured by Congress into abandoning its position. We believe that this thwarting of FASB's role as an independent body was a key initiator of the chain of events that led to the corporate scandals of the last several years.

Damon A. Silvers, Associate General Counsel, American Federation of Labor and Congress of Industrial Organizations (on behalf of the AFL-CIO and affiliated unions' 13 millions members), April 20, 2004

Congress should head the warning of Chairman Greenspan and not limit FASB's rule-making abilities. I strongly urge members not to support legislation that would prevent FASB from implementing its new rule for counting the value of employee stock options as an expense.

The Honorable Pete Stark, Ranking Member, Joint Economic Committee, United States Congress, April 27, 2004

In 1993, Congress stepped in and pressured FASB into revising a similar proposal to expense stock options. Some in Congress would again limit FASB's rule making abilities. I strongly urge members not to support legislation that would prevent FASB from implementing its new rule. It was a mistake in 1993; it would be a mistake now, and a continuing disservice to investors.

The Honorable Pete Stark, Ranking Member, Joint Economic Committee, United States Congress, April 20, 2004

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, Ranking Member, Joint Economic Committee, United States Congress, 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 trusteed, 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

Convergence is extremely important to us. We will be horrified if politicians stepped in and forced FASB to alter standards.

Sir David Tweedie, Chairman, International Accounting Standards Board, April 19, 2004

I suggest that, before acting, Senators and Congressmen ask themselves two simple questions:

Do I really want to substitute my judgment on an important but highly technical accounting principle for the collective judgment of a body carefully constructed to assure professional integrity, relevant experience, and independence from parochial and political pressures?

Have I taken into account the adverse impact of overruling FASB on the carefully constructed effort to meet the need, in a world of globalized finance, for a common set of international standards?

The Honorable Paul A. Volcker, Chairman of the Trustees of the International Accounting Standards Committee Foundation, and former Chairman of the Federal Reserve System, April 20, 2004

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

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

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 then 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
and
George J. Batavick
Board Member
Financial Accounting Standards Board
before the
Capital Markets, Insurance and Government Sponsored Enterprises
Subcommittee of the Committee on Financial Services
May 4, 2004

Attachment 3

List of 576 Companies That Have Voluntarily Adopted Option Expensing Under the Fair Value Method

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Accounting and Taxation / Rated: None
April 29, 2004

Accounting Issues: 576 Companies Have Voluntarily Adopted Option Expensing Under the Fair Value Method

Key Points

*** We have identified 576 companies that have volunarily begun expensing stock options under the fair value method. These companies are listed in Appendix A.

*** One hundred sixteen of these companies are in the S&P 500 and represent 41% of the index based on market capitalization (see Appendix B). Seven of these companies are in the NASDAQ 100 and represent 12% of the index based on market capitalization (see Appendix C).

*** Three hundred thirty of these companies have market capitalizations in excess of $1 billion. One hundred four of these companies have market capitalizations in excess of $10 billion.

*** Two hundred forty of these companies are from the financial sector.

On March 31, 2004, the Financial Accounting Standards Board (FASB) released its Exposure Draft of a proposed revision to SFAS No. 123, which, if approved, will require public companies following US GAAP to begin expensing employee stock options under the modified prospective method for fiscal years beginning after December 15, 2004. For December year-end companies, this means the standard will take effect January 1, 2005. Under the modified prospective method, companies will be required to expense all unvested share-based compensation awards granted, modified, or settled after December 15, 1994. However, companies will not restate results of previous years. To learn more about the proposed changes to SFAS No. 123 in the Exposure Draft, please see our March 30, 2004 First Call, *Accounting Issues: Expensing Employee Stock Options in 2005 Would Lower S&P 500 Earnings by Less than 3%.*

We have identified 576 companies that have voluntarily adopted the fair value method as of April 28, 2004 (see Appendix A for the list of the companies). One hundred sixteen of these companies are members of the S&P 500 and represent 41% of the index based on market capitalization. Seven of these companies are members of the NASDAQ 100 and represent 12% of the index based on market capitalization. In Appendix B, we identify the S&P 500 companies that have adopted the fair value method and provide the 2003 pro forma stock option expense for all members of the index (based on the index composition as of March 19, 2004). In Appendix C, we identify the NASDAQ 100 companies that have adopted the fair value method and provide the 2003 pro forma stock option expense for all members of the index (based on the index composition as of March 19, 2004).

The 576 early adopters listed in Appendix A are a fairly even distribution of large and small companies. Three hundred thirty of the 576 companies identified as voluntary adopters in Appendix A have market capitalizations in excess of $1 billion. One hundred four of the 576 companies identified in Appendix A have market capitalizations in excess of $10 billion.

A large concentration of the adopters are in the financial sector. Of the 576 companies, 240 (42%) are companies in the financial sector.

The vast majority of early adopters have opted to use the prospective method to expense stock options. We have identified the method adopted by 546 of 576 companies. Of the 546 companies, 454 (83%) are using the prospective method, 54 (16%) are using the modified prospective method, and 38 (7%) are using the retroactive restatement method. In accordance with the Exposure Draft, companies that have adopted the prospective method will be required to change to the modified prospective method in the first fiscal year beginning after December 15, 2004.

Under the prospective method, the fair value method of expensing stock options is applied *only* to options granted in the year of adoption and subsequently (under FAS No. 148, this method is no longer allowed to be adopted for fiscal years beginning after December 15, 2003). For definitions of the prospective, modified prospective, or retroactive restatement methods see Exhibit 1. For a more detailed explanation of the implications of adopting under the prospective, modified prospective, or retroactive restatement methods, see our February 12, 2004 First Call, *Accounting Issues: Companies Continue to Voluntarily Adopt Expensing of Stock Options Using the Fair Value Method*.

Exhibit 1. Alternative Transition Methods Permitted Until 2004

Prospective method:	The fair value method of expensing options is applied only to options granted in the year of adoption and subsequently. Entities are not permitted to use this method for fiscal years beginning after December 15, 2003.
Modified prospective method:	The fair value method of expensing options is applied to all unvested options and options granted in the year of adoption and subsequently.
Retroactive restatement method:	The fair value method of expensing options is applied to all years presented as if it had been adopted for option grants after December 15, 1994.

Source: Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation — Transition and Disclosure, an amendment of FASB Statement No. 123.*

For a detailed explanation of the accounting for stock-based compensation under FAS No. 123 and expected emerging changes in stock-based compensation granting trends, see our July 2003 Accounting Issues, *Accounting for Stock-Based Compensation: Restricted Stock and Employee Stock Options Compared*.

APPENDIX A: Companies that Currently Expense or Intend to Expense Stock Options using the Fair Value Method

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April 28, 2004

($ 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	10,874	2002	3/7/2003	Finance	Investment Management	Retroactive Restatement
ABER	Aber Diamond Corp	Jan-04	No	1,679	2003	12/3/2002	Non-Energy Minerals	Other Metals/Minerals	Method Not Specified
AKR	Acadia Rlty Trust	Dec-03	No	346	2002	3/28/2003	Finance	Real Estate Investment Trusts	Prospective
AES	AES Corp	Dec-03	Yes	4,948	2003	3/26/2003	Utilities	Electric Utilities	Prospective
AEM	Agnico-Eagle Mines Limited	Dec-03	No	1,056	2003	5/7/2003	Non-Energy Minerals	Precious Metals	Prospective
AGU	Agrium Inc	Dec-03	No	1,602	2003	02/12/2004	Process Industries	Chemicals: Agricultural	Prospective
ACNAF	Air Canada	Dec-03	No	5,398	2002	2/12/2003	Transportation	Airlines	Prospective
ALAB	Alabama National Bancorporation	Dec-03	No	798	1998	1998	Finance	Regional Banks	Prospective (b)
AIN	Albany International Corp	Dec-03	No	990	2003	8/8/2003	Process Industries	Textiles	Prospective
ARE	Alexandria Real Estate Equity Inc	Dec-03	No	1,106	2003	3/31/2003	Finance	Real Estate Investment Trusts	Prospective
Y	Alleghany Corp	Dec-03	No	2,027	2003	3/20/2003	Finance	Property/Casualty Insurance	Prospective
AACB	Alliance Atlantis Communications, Inc	Mar-04	No	785	2003	8/7/2003	Consumer Services	Broadcasting	Prospective
AC	Alliance Capital Management Holdings LP	Dec-03	No	8,841	2003	5/14/2003	Finance	Investment Managers	Prospective
AZ	Allianz AG	Dec-03	No	40,051	2003	11/28/2003	Finance	Multi-Line Insurance	Retroactive Restatement
ALL	Allstate Corp	Dec-03	Yes	32,772	2003	8/12/2002	Finance	Property/Casualty Insurance	Prospective
AMZN	Amazon (c)	Dec-03	No	18,742	N/A	7/23/2002	Retail Trade	Internet Retail	Not Adopted
AMB	AMB Property Corp	Dec-03	No	2,562	2002	7/8/2002	Finance	Real Estate Investment Trusts	Prospective
ABK	Ambac Financial Group Inc	Dec-03	Yes	7,896	2003	10/17/2002	Finance	Specialty Insurance	Prospective
ACO	AMCOL International Corp	Dec-03	No	569	2003	5/14/2003	Non-Energy Minerals	Construction Materials	Prospective
AEE	Ameren Corp	Dec-03	Yes	7,922	2003	3/5/2003	Utilities	Electric Utilities	Prospective
ACAS	American Capital Strategies	Dec-03	No	1,840	2003	5/14/2003	Finance	Finance/Rental/Leasing	Prospective
AXP	American Express	Dec-03	Yes	64,852	2003	8/12/2002	Finance	Financial Conglomerates	Prospective
SOFN	American Independence Corp	Sep-03	No	131	2003	11/2002	Finance	Life/Health Insurance	Prospective
AIG	American International Group	Dec-03	Yes	192,913	2003	8/11/2002	Finance	Multi-Line Insurance	Prospective
ANL	American Land Lease Inc	Dec-03	No	138	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	2,828	2003	11/10/2003	Finance	Finance/Rental/Leasing	Prospective
AMTD	Ameritrade Holding Corp	Sep-03	No	5,897	2003	10/31/2003	Finance	Investment Banks/Brokers	Prospective
APC	Anadarko Petroleum Corp	Dec-03	Yes	13,718	2003	3/14/2003	Energy Minerals	Oil & Gas Production	Prospective
AGCC	Anchor Glass Container Corp.	Dec-03	No	380	2003	5/15/2003	Process Industries	Containers/Packaging	Prospective
ANR	Annuity And Life RE Holdings	Dec-03	No	30	2003	11/14/2003	Finance	Life/Health Insurance	Prospective
APA	Apache Corp.	Dec-03	Yes	13,957	2003	03/12/2004	Energy Minerals	Oil & Gas Production	Prospective
AIV	Apartment Investment & Management Co.	Dec-03	Yes	2,688	2003	3/7/2003	Finance	Real Estate Investment Trusts	Prospective
AIT	Applied Industrial Technologies Inc	Jun-04	No	508	2003	10/14/2003	Distribution Services	Wholesale Distributors	Modified Prospective
ARCH	Arch Wireless Inc	Dec-03	No	N/A	2003	8/12/2003	Communications	Wireless Telecommunications	Prospective
ASN	Archstone Smith Trust	Dec-03	No	5,249	2003	3/3/2003	Finance	Real Estate Investment Trusts	Prospective
ARI	Arden Realty Group	Dec-03	No	1,850	2003	3/28/2003	Finance	Real Estate Investment Trusts	Prospective
ARTL	Aristotle Corp	Dec-03	No	82	2002	11/7/2002	Consumer Non-Durables	Apparel/Footwear	Prospective
HOST	Arlington Hospitality Inc	Dec-03	No	17	2003	11/14/2003	Consumer Services	Hotels/Resorts/Cruiselines	Method Not Specified
ARM	ArvinMeritor, Inc	Sep-03	No	1,477	2003	2/12/2003	Producer Manufacturing	Auto Parts: OEM	Modified Prospective
ASH	Ashland Inc	Sep-03	Yes	3,344	2003	2/13/2003	Energy Minerals	Oil Refining/Marketing	Modified Prospective
APQCF	Asia Pacific Resources Ltd	Feb-04	No	40,051	2003	7/1/2003	Non-Energy Minerals	Other Metals/Minerals	Prospective
ALF	Assisted Living Concepts Inc	Dec-03	No	16	2003	8/14/2003	Health Services	Hospital/Nursing Management	Prospective
ASUR	Assure Energy Inc.	Dec-03	No	5,398	2003	04/08/2004	Commercial Services	Miscellaneous Commercial Services	Prospective
T	AT&T	Dec-03	Yes	14,553	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
ARXG	Aurora Gold Corp.	Dec-03	No	5	2003	03/25/2004	Non-Energy Minerals	Precious Metals	Method Not Specified
AVB	Avalon Bay Communities Inc	Dec-03	No	3,575	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
SMKE	Axion Power	Dec-03	No	-	2003	3/15/2004	Consumer Durables	Electronics/Appliances	Prospective
AXS	Axis Capital Holdings Limited	Dec-03	No	4,592	2003	02/11/2004	Finance	Multi-Line Insurance	Prospective
BKR	Baker Michael Corp	Dec-03	No	106	2003	3/28/2003	Industrial Services	Engineering & Construction	Prospective
BDG	Bandag Inc	Dec-03	No	934	2002	11/14/2002	Consumer Durables	Automotive Aftermarket	Modified Prospective
BAC	Bank of America Corp	Dec-03	Yes	166,410	2003	8/12/2002	Finance	Major Banks	Prospective
BK	Bank of New York Co. Inc	Dec-03	Yes	23,504	2003	8/13/2002	Finance	Major Banks	Prospective
BNS	Bank of Nova Scotia	Oct-03	No	26,701	2003	12/4/2002	Finance	Major Banks	Prospective
OZRK	Bank of the Ozarks Inc	Dec-03	No	401	2003	7/11/2003	Finance	Regional Banks	Prospective
ONE	Bank One	Dec-03	Yes	56,561	2002	7/16/2002	Finance	Major Banks	Prospective
BBUS	Barnabus Enterprises Ltd.	May-04	No	-	2003	10/31/2003	Non-Energy Minerals	Precious Metals	Method Not Specified
MWH	BayCorp Holdings Corp	Dec-03	No	8	2003	8/14/2002	Utilities	Electric Utilities	Prospective
BCE	BCE Inc	Dec-03	No	18,901	2003	12/18/2002	Communications	Major Telecommunications	Prospective
BSC	Bear Stearns Cos Inc	Nov-03	Yes	8,655	2003	2/28/2003	Finance	Investment Banks/Brokers	Prospective
BED	Bedford Property Investors Inc	Dec-03	No	459	2003	3/11/2003	Finance	Real Estate Investment Trusts	Modified Prospective
BLS	BellSouth Corp	Dec-03	Yes	49,199	2003	2/28/2003	Communications	Major Telecommunications	Retroactive Restatement
BMRB	Benchmarl Bankshares Inc	Dec-03	No	45	2003	03/22/2004	Finance	Regional Banks	Prospective
BETA	Beta Oil & Gas Inc	Dec-03	No	40	2003	3/31/2003	Energy Minerals	Oil & Gas Production	Prospective
AQCB	Bevsystems International Inc.	Mar-04	No	N/A	2003	9/10/2003	Consumer Non-Durables	Beverages: Non-Alcoholic	Method Not Specified
BBL	BHP Billiton PLC	Jun-04	No	52,659	2003	10/23/2003	Non-Energy Minerals	Other Metals/Minerals	Modified Prospective
BICR	Biocoral Inc	Dec-03	No	40,051	2003	3/13/2003	Health Technology	Medical Specialties	Prospective
BLK	Blackrock Inc	Dec-03	No	3,897	2003	5/15/2003	Finance	Investment Managers	Prospective
BA	Boeing Co	Dec-03	Yes	35,785	1998	1998	Electronic Technology	Aerospace & Defense	Prospective (b)
BCC	Boise Cascade Corp.	Dec-03	Yes	3,170	2003	03/02/2004	Process Industries	Pulp & Paper	Prospective
BOKF	BOK Financial Corp.	Dec-03	No	2,349	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	1,181	2002	3/27/2003	Finance	Real Estate Investment Trusts	Prospective
BNN	Brascan Corp.	Dec-03	No	6,014	2002	05/21/2003	Finance	Financial Conglomerates	Prospective
BRE	BRE Properties, Inc	Dec-03	No	1,577	2003	10/14/2002	Finance	Real Estate Investment Trusts	Prospective
CGT	CAE Inc	Mar-04	No	938	2003	8/8/2003	Electronic Technology	Aerospace & Defense	Method Not Specified
CALC	California Coastal Communities, Inc	Dec-03	No	156	2003	8/7/2003	Finance	Real Estate Development	Modified Prospective
[illegible]	Calpine Corp	Dec-03	Yes	[illegible]	2003	[illegible]	Utilities	Alternative Power Generation	Prospective

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April 28, 2004

($ in millions)

Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
CLPO	Calprop Corp	Dec-03	No	3	2002	4/25/2003	Consumer Durables	Homebuilding	Prospective
CAC	Camden National Corp	Dec-03	No	245	2003	8/27/2002	Finance	Regional Banks	Prospective
CCJ	Cameco Corp	Dec-03	No	2,600	2003	1/28/2004	Non-Energy Minerals	Other Metals/Minerals	Prospective
CLU	Canada Life Financial Corp (e)	Dec-03	No	39	2003	12/9/2002	Finance	Life/Health Insurance	Prospective
CNI	Canadian National Railway Company	Dec-03	No	11,475	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	3,730	2003	1/27/2004	Transportation	Railroads	Prospective
GUSH	Canargo Energy Corp	Dec-03	No	96	2003	11/14/2003	Industrial Services	Oilfield Services/Equipment	Prospective
CCBG	Capital City Bank Group Inc	Dec-03	No	556	2003	5/15/2003	Finance	Regional Banks	Prospective
CTDN	Capital Directions Inc	Dec-03	No	32	2002	3/31/2003	Finance	Major Banks	Prospective
COF	Capital One Financial Corp	Dec-03	Yes	16,449	2003	1/21/2004	Finance	Finance/Rental/Leasing	Prospective
RKE	Capital Rock Energy Corp.	Dec-03	No	51	2003	8/19/2003	Utilities	Electric Utilities	Retroactive Restatement
CSWC	Capital Southwest Corp	Mar-04	No	306	2003	8/8/2003	Finance	Miscellaneous	Prospective
COMRF	Cardiome Pharma Corp.	Dec-03	No	185	2003	04/20/2004	Health Technology	Biotechnology	Prospective
CRE	Carramerica Realty Corp	Dec-03	No	1,560	2003	2/28/2003	Finance	Real Estate Investment Trusts	Prospective
CATY	Cathay Bancorp, Inc (f)	Dec-03	No	1,646	2003	4/15/2003	Finance	Regional Banks	Method Not Specified
CBL	CBL & Associates Properties, Inc	Dec-03	No	1,561	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
GLDUE	CDG Investments Inc.	Sep-03	No	3	2003	2/28/2003	Non-Energy Minerals	Precious Metals	Prospective
CFK	CE Franklin Limited	Dec-03	No	61	2003	04/12/2004	Industrial Services	Oilfield Services/Equipment	Prospective
FUN	Cedar Fair, L.P.	Dec-03	No	1,621	2003	5/8/2003	Consumer Services	Movies/Entertainment	Modified Prospective
CZ	Celanese AG	Dec-03	No	2,009	2002	10/22/2002	Process Industries	Chemicals: Specialty	Method Not Specified
CLS	Celestica Inc	Dec-03	No	4,140	2003	1/29/2004	Electronic Technology	Electronic Components	Prospective
CD	Cendant Corp (d)	Dec-03	Yes	25,159	2003	8/28/2002	Consumer Services	Other Consumer Services	Prospective
CTX	Centex Corp	Mar-04	Yes	6,839	2004	9/12/2002	Consumer Durables	Homebuilding	Prospective
CETVF	Central European Media Enterprise	Dec-03	No	2,069	2003	5/7/2003	Consumer Services	Broadcasting	Prospective
CHG	CH Energy Group Inc	Dec-03	No	751	2003	2/19/2003	Utilities	Electric Utilities	Modified Prospective
CPLY	Championlyte Holdings Inc	Dec-03	No	6	2002	8/19/2003	Consumer Non-Durables	Food: Specialty/Candy	Prospective
CHTR	Charter Communications	Dec-03	No	1,334	2002	8/6/2002	Consumer Services	Cable/Satellite TV	Prospective
CME	Chicago Mercantile Exchange Holdings Inc	Dec-03	No	3,921	2003	1/10/2003	Finance	Investment Banks/Brokers	Retroactive Restatement
CEVC	China Energy Ventures Corp	Dec-03	No	22	2002	4/16/2003	Communications	Specialty Telecommunications	Prospective
CHH	Choice Hotels International, Inc	Dec-03	No	1,591	2003	9/25/2002	Consumer Services	Hotels/Resorts/Cruiselines	Prospective
CWON	Choice One Communications	Dec-03	No	23	2003	11/21/2002	Communications	Specialty Telecommunications	Prospective
CB	Chubb Corp	Dec-03	Yes	13,079	2003	8/14/2002	Finance	Property/Casualty Insurance	Modified Prospective
CSB	Ciba Specialty Chemicals Holdings Inc	Dec-03	No	4,552	2003	2/4/2003	Process Industries	Chemicals: Specialty	Modified Prospective
CIN	Cinergy Corp	Dec-03	Yes	6,945	2003	7/24/2002	Utilities	Electric Utilities	Prospective
C	Citigroup	Dec-03	Yes	254,285	2003	8/4/2002	Finance	Financial Conglomerates	Prospective
CLF	Cleveland-Cliffs Inc	Dec-03	No	594	2003	4/24/2003	Non-Energy Minerals	Steel	Prospective
CMS	CMS Energy Corp	Dec-03	Yes	1,426	2003	3/31/2003	Utilities	Electric Utilities	Prospective
KO	Coca-Cola Co.	Dec-03	Yes	124,219	2002	7/14/2002	Consumer Non-Durables	Beverages: Non-Alcoholic	Modified Prospective
COHT	Cohesant Technologies Inc	Nov-03	No	18	2003	3/31/2003	Producer Manufacturing	Industrial Machinery	Modified Prospective
CLP	Colonial Properties Trust	Dec-03	No	982	2003	3/28/2003	Finance	Real Estate Investment Trusts	Prospective
CMA	Comerica	Dec-03	Yes	9,105	2002	8/6/2002	Finance	Major Banks	Prospective
CMMD	Command Securities	Mar-04	No	8	2002	6/30/2003	Commercial Services	Miscellaneous Commercial Services	Prospective
CBSH	Commerce Bancshares, Inc	Dec-03	No	3,027	2003	2/3/2003	Finance	Regional Banks	Retroactive Restatement
NNN	Commercial Net Lease Realty	Dec-03	No	875	2003	03/12/2004	Finance	Real Estate Investment Trusts	Prospective
CA	Computer Associates	Mar-04	Yes	16,540	2003	7/29/2002	Technology Services	Packaged Software	Prospective
COP	ConocoPhillips	Dec-03	Yes	51,071	2003	9/25/2002	Energy Minerals	Integrated Oil	Prospective
MCF	Contango Oil & Gas	Jun-04	No	91	2002	8/5/2002	Energy Minerals	Oil & Gas Production	Prospective
CBE	Cooper Industries	Dec-03	Yes	5,398	2003	8/6/2002	Producer Manufacturing	Electrical Products	Prospective
CORS	Corus Bankshares Inc	Dec-03	No	1,074	2003	1/20/2004	Finance	Regional Banks	Modified Prospective
COST	Costco Wholesale Corp	Aug-03	Yes	262	2003	8/14/2002	Retail Trade	Discount Stores	Prospective
TEU	CP Ships Limited	Dec-03	No	1,550	2004	04/07/2004	Transportation	Marine Shipping	Modified Prospective
CACC	Credit Acceptance Michigan	Dec-03	No	641	2003	4/24/2003	Finance	Finance/Rental/Leasing	Retroactive Restatement
CSR	Credit Suisse Group	Dec-03	No	38,711	2003	8/5/2003	Finance	Major Banks	Prospective
CREO	Creo Inc.	Sep-03	No	433	2004	2/3/2004	Technology Services	Packaged Software	Method Not Specified
CEI	Crescent Real Estate Equities Co.	Dec-03	No	1,574	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	3,391	2003	5/13/2003	Communications	Specialty Telecommunications	Prospective
CSGS	CSG Systems International	Dec-03	No	884	2003	12/10/2003	Technology Services	Data Processing Services	Prospective
CSX	CSX Corp	Dec-03	Yes	6,731	2003	2/26/2003	Transportation	Railroads	Prospective
CMI	Cummins Inc	Dec-03	Yes	2,697	2003	5/12/2003	Producer Manufacturing	Trucks/Construction/Farm Machinery	Prospective
DCX	DaimlerChrysler AG - ADR	Dec-03	No	45,857	2003	7/24/2003	Consumer Durables	Motor Vehicles	Prospective
DTMG	DataMEG Corp	Dec-03	No	25	2003	4/16/2003	Electronic Technology	Electronic Components	Prospective
DLM	Del Monte Foods Company	Apr-04	No	2,421	2003	7/22/2003	Consumer Non-Durables	Food: Major Diversified	Prospective
DFG	Delphi Financial Group, Inc	Dec-03	No	1,271	2003	7/23/2003	Finance	Life/Health Insurance	Prospective
DLX	Deluxe Corp.	Dec-03	Yes	2,070	2004	03/12/2004	Commercial Services	Commercial Printing/Forms	Modified Prospective
DB	Deutsche Bank AG	Dec-03	No	47,968	2003	3/27/2003	Finance	Major Banks	Prospective
DTPI	Diamondcluster International	Mar-04	No	358	2003	8/13/2003	Commercial Services	Miscellaneous Commercial Services	Prospective
DVS	Diversified Security Solutions Inc	Dec-03	No	38	2003	5/15/2003	Commercial Services	Miscellaneous Commercial Services	Prospective
NSKY	Document Security Systems Inc	Dec-03	No	1,018	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	693	2003	5/14/2003	Finance	Finance/Rental/Leasing	Prospective
DTC	Domtar Inc	Dec-03	No	2,797	2002	04/01/2004	Process Industries	Pulp & Paper	Prospective
DRL	Doral Financial Corp	Dec-03	No	3,607	2003	2/4/2003	Finance	Finance/Rental/Leasing	Modified Prospective
DOW	Dow Chemical Company	Dec-03	Yes	38,741	2003	8/26/2002	Process Industries	Chemicals: Major Diversified	Prospective
DPL	DPL Inc	Dec-03	No	2,328	2003	2/20/2003	Utilities	Electric Utilities	Prospective
DW	Drew Industries Inc	Dec-03	No	378	2002	3/28/2003	Producer Manufacturing	Building Products	Prospective
DRE	Duke Realty	Dec-03	No	4,064	2002	7/31/2002	Finance	Real Estate Investment Trusts	Prospective
DD	DuPont	Dec-03	Yes	44,423	2003	11/5/2002	Process Industries	Chemicals: Major Diversified	Prospective

APPENDIX A: Companies that Currently Expense or Intend to Expense Stock Options using the Fair Value Method (Continued)

BEAR
STEARNS

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April 28, 2004

($ in millions)

Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
DDN	Dynamex Inc	Jul-03	No	156	2004	6/16/2003	Transportation	Air Freight/Couriers	Modified Prospective
DYN	Dynegy Inc	Dec-03	Yes	1,431	2003	4/11/2003	Utilities	Gas Distributors	Prospective
EACE	eAcceleration Corp	Dec-03	No	5,398	2003	11/12/2003	Technology Services	Packaged Software	Modified Prospective
ERMC	Eagle River Mining Corp.	Dec-03	No	-	N/A	04/09/2004	Non-Energy Minerals	Precious Metals	Method Not Specified
EGP	Eastgroup Properties Inc	Dec-03	No	623	2002	03/15/2004	Finance	Real Estate Investment Trusts	Prospective
ECLG	Ecollege.com Inc	Dec-03	No	424	2003	1/21/2004	Technology Services	Internet Software/Services	Prospective
EGAM	EGames Inc	Jun-04	No	17	2003	11/14/2002	Consumer Durables	Recreational Products	Prospective
EGO	Eldorado Gold Corp.	Dec-03	No	655	2003	03/09/2004	Non-Energy Minerals	Precious Metals	Prospective
ELI	Elite Pharmaceuticals Inc	Mar-04	No	48	2003	2/14/2003	Health Technology	Pharmaceuticals: Generic	Prospective
ISEE	Emerging Vision Inc	Dec-03	No	9	2003	04/05/2004	Retail Trade	Specialty Stores	Prospective
EMR	Emerson Electronics	Sep-03	Yes	26,179	2003	8/6/2002	Producer Manufacturing	Electrical Products	Prospective
NYNY	Empire Resorts Inc	Dec-03	No	373	2003	5/15/2003	Consumer Services	Casinos/Gaming	Prospective
ENH	Endurance Specialty Holdings Limited	Dec-03	No	2,164	2002	1/28/2003	Finance	Property/Casualty Insurance	Prospective
EGN	Energen	Dec-03	No	1,501	2003	03/12/2004	Utilities	Gas Distributors	Prospective
EBF	Ennis Business Forms Inc	Feb-04	No	261	2003	6/27/2003	Commercial Services	Commercial Printing/Forms	Prospective
ETR	Entergy Corp	Dec-03	Yes	13,028	2003	3/19/2003	Utilities	Electric Utilities	Prospective
ETOP	Entropin Inc	Dec-03	No	7	1999	1999	Health Technology	Pharmaceuticals: Other	Prospective (b)
ENT	Equant NV (v)	Dec-03	No	2,595	2002	3/17/2003	Technology Services	Information Technology Services	Modified Prospective
EOP	Equity Office Properties	Dec-03	Yes	10,226	2003	3/31/2003	Finance	Real Estate Investment Trusts	Prospective
EQR	Equity Residential	Dec-03	Yes	7,653	2003	5/13/2003	Finance	Real Estate Investment Trusts	Prospective
ESS	Essex Property Trust Inc	Dec-03	No	1,398	2004	03/15/2004	Finance	Real Estate Investment Trusts	Retroactive Restatement
RE	Everest Re Group, Ltd	Dec-03	No	4,720	2002	10/21/2002	Finance	Property/Casualty Insurance	Prospective
EXFO	Exfo Electro Optical Engineering Inc	Aug-03	No	316	2004	03/31/2004	Electronic Technology	Electronic Equipment/Instruments	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	281,777	2003	3/26/2003	Energy Minerals	Integrated Oil	Prospective
FNM	Fannie Mae	Dec-03	Yes	67,838	2003	7/23/2002	Finance	Finance/Rental/Leasing	Prospective
FFG	FBL Financial Group, Inc	Dec-03	No	766	2003	8/29/2002	Finance	Life/Health Insurance	Prospective
FII	Federated Investors Inc	Dec-03	Yes	3,238	2003	03/12/2004	Finance	Investment Managers	Prospective
FCH	FelCor Lodging Trust Inc	Dec-03	No	601	2003	10/30/2002	Finance	Real Estate Investment Trusts	Prospective
FNF	Fidelity National Financial Inc	Dec-03	No	6,159	2003	10/23/2003	Finance	Specialty Insurance	Prospective
FITB	Fifth Third Bancorp	Dec-03	Yes	31,013	2004	04/14/2004	Finance	Regional Banks	Retroactive Restatement
FCBP	First Community Bancorp	Dec-03	No	544	2003	11/7/2003	Finance	Regional Banks	Prospective
FLLC	First Financial Bancorp California	Dec-03	No	30	2003	5/14/2003	Finance	Major Banks	Prospective
FR	First Industrial Realty Trust, Inc	Dec-03	No	1,429	2003	2/12/2003	Finance	Real Estate Investment Trusts	Prospective
FKYS	First Keystone Corp	Dec-03	No	112	2003	5/13/2003	Finance	Major Banks	Prospective
FNSC	First National Bancshares Inc	Dec-03	No	51	2003	03/30/2004	Finance	Regional Banks	Prospective
FNCB	First National Community Bancorp, Inc	Dec-03	No	161	2003	5/9/2003	Finance	Major Banks	Prospective
FNRN	First Northern Community Bancorp	Dec-03	No	94	2003	8/14/2003	Finance	Regional Banks	Prospective
FRC	First Republic Bank	Dec-03	No	575	2003	6/23/2003	Finance	Regional Banks	Prospective
FBF	FleetBoston Financial Corp	Dec-03	Yes	N/A	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
FTI	FMC Technologies Inc	Dec-03	No	1,867	2004	03/26/2004	Industrial Services	Oilfield Services/Equipment	Retroactive Restatement
FNBG	FNB Bancorp	Dec-03	No	79	2003	3/31/2003	Finance	Regional Banks	Prospective
FNX	FNX Mining Company Inc	Dec-03	No	226	2004	11/18/2003	Non-Energy Minerals	Other Metals/Minerals	Retroactive Restatement
F	Ford Motor Company (k)	Dec-03	Yes	28,746	2003	9/12/2002	Consumer Durables	Motor Vehicles	Modified Prospective
FDG	Fording Canadian Coal Trust	Dec-03	No	1,950	2003	2/4/2004	Energy Minerals	Coal	Prospective
FS	Four Seasons Hotels Inc	Dec-03	No	1,945	2003	03/17/2004	Consumer Services	Hotels/Resorts/Cruiselines	Prospective
WFA	France Telecommunications (v)	Dec-03	No	59,051	2002	3/21/2003	Communications	Major Telecommunications	Modified Prospective
FRE	Freddie Mac	Dec-03	Yes	39,833	2002	7/23/2002	Finance	Finance/Rental/Leasing	Retroactive Restatement
GBL	Gabelli Asset Management Inc	Dec-03	No	1,180	2003	7/26/2002	Finance	Investment Managers	Prospective
GBP	Gables Residential	Dec-03	No	934	2003	11/4/2002	Finance	Real Estate Investment Trusts	Prospective
GXY	Galaxy Nutritional Foods	Mar-04	No	31	2003	8/14/2003	Consumer Non-Durables	Food: Meat/Fish/Dairy	Prospective
AJG	Gallagher (Arthur J)	Dec-03	No	2,933	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	309,314	2002	7/31/2002	Producer Manufacturing	Industrial Conglomerates	Prospective
JOB	General Employment Enterprises, Inc	Sep-03	No	9	2002	8/5/2002	Commercial Services	Personnel Services	Method Not Specified
GM	General Motors	Dec-03	Yes	27,762	2003	8/6/2002	Consumer Durables	Motor Vehicles	Prospective
GPC	Genuine Parts	Dec-03	Yes	6,399	2003	3/5/2003	Distribution Services	Wholesale Distributors	Prospective
GP	Georgia Pacific Corp	Dec-03	Yes	9,695	2003	11/10/2003	Process Industries	Pulp & Paper	Prospective
GTAX	Gilman & Ciocia	Jun-04	No	5	2002	1/21/2004	Consumer Services	Other Consumer Services	Prospective
GS	Goldman Sachs Group Inc	Nov-03	Yes	48,456	2003	8/13/2002	Finance	Investment Banks/Brokers	Prospective
GVA	Granite Construction Inc	Dec-03	No	938	2003	3/28/2003	Industrial Services	Engineering & Construction	Prospective
GXP	Great Plains Energy	Dec-03	No	2,243	2003	11/14/2002	Utilities	Electric Utilities	Modified Prospective
GREY	Grey Global Group Inc	Dec-03	No	1,018	2003	8/14/2002	Commercial Services	Advertising/Marketing Services	Prospective
GNTY	Guaranty Bancshares, Inc	Dec-03	No	58	2002	9/6/2002	Finance	Regional Banks	Modified Prospective
GTRC	Guitar Center	Dec-03	No	892	2003	6/13/2003	Retail Trade	Specialty Stores	Prospective
HRB	H&R Block Inc (l)	Apr-04	Yes	8,241	2004	9/11/2002	Consumer Services	Other Consumer Services	Prospective
	Haights 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	22	2003	5/15/2003	Finance	Property/Casualty Insurance	Prospective
HANA	Hanaro Telecom Inc	Dec-03	No	744	2003	6/6/2003	Communications	Major Telecommunications	Modified Prospective
JHF	Hancock John Financial Services	Dec-03	Yes	13,545	2003	5/14/2003	Finance	Financial Conglomerates	Prospective
HDL	Handleman Company	Apr-04	No	584	2003	9/10/2002	Distribution Services	Wholesale Distributors	Prospective
JHX	Hardie James Industries NV	Mar-04	No	2,181	2003	5/28/2003	Non-Energy Minerals	Construction Materials	Retroactive Restatement
HAR	Harman International Industries	Jun-04	No	5,646	2003	8/19/2002	Consumer Durables	Electronics/Appliances	Prospective
HIG	Hartford Financial Services Group, Inc	Dec-03	Yes	18,589	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	560	2003	3/31/2003	Energy Minerals	Oil & Gas Production	Prospective
HE	Hawaiian Electric Industries Inc	Dec-03	No	1,914	2002	1/21/2003	Utilities	Electric Utilities	Modified Prospective
HCP	Health Care Property Investors Inc	Dec-03	No	6,249	2002	2/20/2003	Finance	Real Estate Investment Trusts	Prospective
HCN	Health Care REIT Inc	Dec-03	No	1,691	2003	5/1/2003	Finance	Real Estate Investment Trusts	Prospective

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April 28, 2004

($ in millions)

Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
HETC	Healthetech Inc	Dec-03	No	14	2003	03/29/2004	Health Technology	Medical Specialties	Prospective
HMSL	Hemosol Inc	Dec-03	No	42	2003	03/19/2004	Health Technology	Biotechnology	Prospective
HPC	Hercules Inc	Dec-03	Yes	1,331	2003	8/7/2003	Process Industries	Chemicals: Major Diversified	Prospective
HPG	Heritage Propane Partners	Aug-03	No	N/A	2003	11/26/2003	Utilities	Gas Distributors	Modified Prospective
HIW	Highwoods Properties Inc	Dec-03	No	1,231	2003	3/20/2003	Finance	Real Estate Investment Trusts	Prospective
SLMM	Hockey Company	Dec-03	No	N/A	2003	03/26/2004	Consumer Durables	Recreational Products	Prospective
HD	Home Depot Inc	Jan-04	Yes	81,807	2003	8/23/2002	Retail Trade	Home Improvement Chains	Prospective
HME	Home Properties of New York Inc	Dec-03	No	1,231	2003	8/7/2002	Finance	Real Estate Investment Trusts	Modified Prospective
HRL	Hormel Foods Corp	Oct-03	No	4,297	2003	11/7/2003	Consumer Non-Durables	Food: Meat/Fish/Dairy	Prospective
HMT	Host Marriott Corp	Dec-03	No	3,960	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	1,437	2003	2/21/2003	Energy Minerals	Oil & Gas Production	Prospective
HBC	HSBC Holdings PLC (m)	Dec-03	No	162,445	2002	2/20/2003	Finance	Major Banks	Prospective
HU	Hudson United Bancorp	Dec-03	No	1,636	2003	3/14/2003	Finance	Regional Banks	Prospective
HUVL	Hudson Valley Holding	Dec-03	No	N/A	2002	3/27/2003	Finance	Regional Banks	Prospective
HS	Hughes Electronics Corp	Dec-03	No	24,960	2003	5/8/2003	Consumer Services	Cable/Satellite TV	Prospective
HBEK	Humboldt Bancorp	Dec-03	No	294	2003	3/28/2003	Finance	Major Banks	Prospective
HYPD	Hyperdynamics	Jun-04	No	89	2004	02/23/2004	Technology Services	Information Technology Services	Retroactive Restatement
IRW	IBT Bancorp Inc	Dec-03	No	137	2003	03/15/2004	Finance	Regional Banks	Prospective
ICOC	ICO Inc	Sep-03	No	49	2003	2/14/2003	Industrial Services	Oilfield Services/Equipment	Prospective
N	Inco Limited	Dec-03	No	6,132	2003	2/4/2003	Non-Energy Minerals	Other Metals/Minerals	Prospective
IMKTA	Ingles Markets Inc	Sep-03	No	268	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	Integramed America Inc	Dec-03	No	28	2003	11/13/2003	Health Services	Medical/Nursing Services	Prospective
USAI	Interactive Corp (i)	Dec-03	No	5,398	2003	7/24/2002	Retail Trade	Internet Retail	Prospective
ITGB	International Thoroughbreds Breeders	Jun-04	No	13	2003	10/14/2003	Consumer Services	Casinos/Gaming	Prospective
ICCSA	Internet Commerce Corp.	Jul-03	No	5,398	2004	03/16/2004	Technology Services	Internet Software/Services	Prospective
MMH	Interstate Hotels & Resorts, Inc	Dec-03	No	1,018	2003	5/12/2003	Consumer Services	Hotels/Resorts/Cruiselines	Prospective
IAIA	Intier Automotive Inc	Dec-03	No	810	2003	02/24/2004	Producer Manufacturing	Auto Parts: OEM	Prospective
ITG	Investment Technology Group New	Dec-03	No	655	2003	03/12/2004	Finance	Investment Banks/Brokers	Prospective
INVS	INVESTools Inc	Dec-03	No	93	2003	3/21/2003	Finance	Savings Banks	Prospective
IOM	Iomega	Dec-03	No	279	2003	7/24/2002	Electronic Technology	Computer Peripherals	Prospective
IPCR	IPC Holdings, Ltd	Dec-03	No	1,893	2003	3/18/2003	Finance	Property/Casualty Insurance	Prospective
IPS	Ipsco Inc	Dec-03	No	927	2003	04/02/2004	Non-Energy Minerals	Steel	Prospective
IRM	Iron Mountain Inc	Dec-03	No	3,781	2003	3/21/2003	Commercial Services	Miscellaneous Commercial Services	Prospective
IST	Ispat International NV	Dec-03	No	1,334	2003	03/10/2004	Non-Energy Minerals	Steel	Prospective
SFI	iStar Financial	Dec-03	No	4,163	2003	7/24/2002	Finance	Real Estate Investment Trusts	Prospective
HUGO	Ivanhoe Mines Limited	Dec-03	No	1,600	2002	11/17/2003	Non-Energy Minerals	Other Metals/Minerals	Modified Prospective
JPM	J.P. Morgan Chase & Co.	Dec-03	Yes	79,729	2003	8/12/2002	Finance	Financial Conglomerates	Prospective
JEF	Jefferies Group, Inc	Dec-03	No	2,061	2003	2/5/2003	Finance	Investment Banks/Brokers	Prospective
JAS.A	Jo-Ann Stores Inc	Jan-04	No	5,398	2003	5/20/2003	Retail Trade	Specialty Stores	Modified Prospective
JCI	Johnson Controls Inc	Sep-03	Yes	11,062	2003	10/9/2002	Producer Manufacturing	Auto Parts: OEM	Prospective
JNY	Jones Apparel Group Inc	Dec-03	Yes	4,773	2003	7/31/2002	Consumer Non-Durables	Apparel/Footwear	Prospective
KWD	Kellwood Co. (w)	Jan-04	No	1,117	2003	8/28/2002	Consumer Non-Durables	Apparel/Footwear	Not Adopted
KEY	KeyCorp	Dec-03	Yes	12,422	2003	10/17/2002	Finance	Major Banks	Prospective
KSE	Keyspan Corp	Dec-03	Yes	5,808	2003	9/26/2002	Utilities	Gas Distributors	Prospective
KTR	Keystone Property Trust	Dec-03	No	638	2003	4/14/2003	Finance	Real Estate Investment Trusts	Prospective
KRC	Kilroy Realty Corp	Dec-03	No	912	2002	8/13/2002	Finance	Real Estate Investment Trusts	Prospective
KIM	Kimco Realty Corp	Dec-03	No	4,728	2003	3/27/2003	Finance	Real Estate Investment Trusts	Prospective
KFS	Kingsway Financial Services Inc	Dec-03	No	641	2003	02/19/2004	Finance	Property/Casualty Insurance	Method Not Specified
KMRT	Kmart Holding Corp	Jan-04	No	4,208	2003	8/29/2003	Retail Trade	Discount Stores	Prospective
KNOL	Knology	Dec-03	No	191	2002	3/31/2003	Electronic Technology	Communications Equipment	Prospective
KPN	Koninklijke PTT Nedeerlands	Dec-03	No	18,352	2003	03/12/2004	Communications	Major Telecommunications	Retroactive Restatement
LAB	Labranche & Co. Inc	Dec-03	No	614	2003	5/15/2003	Finance	Investment Banks/Brokers	Prospective
LHO	Lasalle Hotel Properties	Dec-03	No	543	2003	02/18/2004	Finance	Real Estate Investment Trusts	Prospective
LEA	Lear Corp	Dec-03	No	4,403	2003	10/18/2002	Producer Manufacturing	Auto Parts: OEM	Prospective
LEE	Lee Enterprises	Sep-03	No	2,131	2003	7/22/2002	Consumer Services	Publishing: Newspapers	Retroactive Restatement
LM	Legg Mason Inc	Mar-04	No	6,215	2003	11/14/2003	Finance	Investment Banks/Brokers	Prospective
LEG	Leggett & Platt	Dec-03	Yes	4,609	2003	11/20/2002	Consumer Durables	Home Furnishings	Prospective
LEH	Lehman Brothers Holdings Inc	Nov-03	Yes	21,421	2004	04/14/2004	Finance	Investment Banks/Brokers	Prospective
LVLT	Level 3 Communications, Inc	Dec-03	No	2,348	1998	1998	Technology Services	Information Technology Services	Prospective (b)
LBI	Liberte Investments Del	Jun-04	No	147	2003	11/14/2003	Finance	Real Estate Investment Trusts	Prospective
LRY	Liberty Property Trust	Dec-03	No	3,187	2003	4/22/2003	Finance	Real Estate Investment Trusts	Prospective
LECO	Lincoln Electric Holdings, Inc	Dec-03	No	1,284	2003	10/16/2002	Producer Manufacturing	Industrial Machinery	Prospective
LNC	Lincoln National Corp	Dec-03	Yes	8,330	2003	8/8/2002	Finance	Life/Health Insurance	Retroactive Restatement
LINN	Lion Inc	Dec-03	No	17	2003	5/15/2003	Commercial Services	Financial Publishing/Services	Prospective
LYG	Lloyds TSB Group PLC	Dec-03	No	42,421	2003	6/23/2003	Finance	Financial Conglomerates	Prospective
STAR	Lone Star Steakhouse & Saloon Inc	Dec-03	No	654	2002	4/14/2003	Consumer Services	Restaurants	Retroactive Restatement
LGBW	Longbow Mining Corp.	Dec-03	No	-	2003	04/08/2004	Non-Energy Minerals	Precious Metals	Retroactive Restatement
LOW	Lowe's Companies, Inc	Jan-04	Yes	42,191	2003	8/19/2002	Retail Trade	Home Improvement Chains	Prospective
LTC	LTC Properties Inc	Dec-03	No	288	2003	3/31/2003	Finance	Real Estate Investment Trusts	Prospective
LUME	Lumenis LTD	Dec-03	No	47	2003	3/28/2003	Health Technology	Medical Specialties	Prospective
LYO	Lyondell Chemical Co.	Dec-03	No	3,022	2003	8/13/2002	Process Industries	Chemicals: Specialty	Prospective
MTB	M & T Bank Corp	Dec-03	No	10,076	2003	9/19/2002	Finance	Regional Banks	Retroactive Restatement
MRD	MacDermid Inc	Dec-03	No	1,031	2001	4/1/2001	Process Industries	Industrial Specialties	Prospective
MAC	Macerich Company	Dec-03	No	2,537	2002	8/12/2002	Finance	Real Estate Investment Trusts	Prospective
CLI	Mack Cali Realty Corp	Dec-03	No	2,278	2002	2/26/2003	Finance	Real Estate Investment Trusts	Prospective
MGCN	Magic Media Networks Inc	Oct-03	No	4	2002	2/17/2004	Consumer Services	Movies/Entertainment	Prospective
MGA	Magna International Inc	Dec-03	No	8,001	2003	02/27/2004	Producer Manufacturing	Auto Parts: OEM	Prospective
MHR	Magnum Hunter Resources	Dec-03	No	759	2003	8/6/2003	Energy Minerals	Oil & Gas Production	Prospective

APPENDIX A: Companies that Currently Expense or Intend to Expense Stock Options using the Fair Value Method (Continued)

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April 28, 2004

($ in millions)

Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
MHC	Manufactured Home Communities Inc	Dec-03	No	743	2003	5/13/2003	Finance	Real Estate Investment Trusts	Modified Prospective
MFC	Manulife Financial Corp.	Dec-03	No	18,131	2003	04/01/2004	Finance	Life/Health Insurance	Prospective
MRO	Marathon Oil	Dec-03	Yes	10,591	2003	8/6/2002	Energy Minerals	Oil Refining/Marketing	Prospective
TUG	Maritrans Inc	Dec-03	No	127	2003	3/11/2003	Transportation	Marine Shipping	Prospective
MAS	Masco Corp	Dec-03	Yes	12,877	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	9,264	2003	8/16/2002	Retail Trade	Department Stores	Prospective
MBI	MBIA Inc	Dec-03	Yes	8,926	2002	7/29/2002	Finance	Specialty Insurance	Modified Prospective
MDZ	MDS Inc	Oct-03	No	2,307	2004	03/04/2004	Health Services	Services to the Health Industry	Prospective
MIG	Meadowbrook Insurance Group, Inc	Dec-03	No	164	2003	5/8/2003	Finance	Property/Casualty Insurance	Prospective
MEL	Mellon Financial Corp	Dec-03	Yes	13,236	2003	8/13/2002	Finance	Investment Managers	Prospective
MRBK	Mercantile Bankshares	Dec-03	No	3,421	1995	1995	Finance	Regional Banks	Prospective (b)
MHX	Meristar Hospitality Corp	Dec-03	No	441	2003	3/31/2003	Finance	Real Estate Investment Trusts	Prospective
MER	Merrill Lynch & Company Inc	Dec-03	Yes	55,190	2004	03/09/2004	Finance	Investment Banks/Brokers	Retroactive Restatement
MCC	Mestek Inc	Dec-03	No	159	2003	5/15/2003	Producer Manufacturing	Building Products	Prospective
MET	MetLife Inc	Dec-03	Yes	26,113	2003	8/12/2002	Finance	Life/Health Insurance	Prospective
MTG	MGIC Investment Corp	Dec-03	Yes	7,344	2003	5/15/2003	Finance	Property/Casualty Insurance	Prospective
MSCC	Microsemi Corp	Sep-03	No	785	2003	5/14/2003	Electronic Technology	Semiconductors	Modified Prospective
MSFT	Microsoft Corp	Jun-04	Yes	297,278	2004	7/8/2003	Technology Services	Packaged Software	Retroactive Restatement
MRR	Mid-Atlantic Realty Trust	Dec-03	No	N/A	2003	4/30/2003	Finance	Real Estate Investment Trusts	Prospective
MWFS	Mid-Wisconsin Financial Services Inc	Dec-03	No	49	2003	03/24/2004	Finance	Major Banks	Prospective
MLS	Mills Corp	Dec-03	No	2,077	2002	3/31/2003	Finance	Real Estate Investment Trusts	Prospective
MRAE	Mirae Corp.	Dec-03	No	186	N/A	06/30/2003	Electronic Technology	Electronic Production Equipment	Method Not Specified
GRO	Mississippi Chemical Corp	Jun-04	No	229	2003	11/19/2002	Process Industries	Chemicals: Agricultural	Prospective
MOL.A	Molson Inc	Mar-04	No	2,986	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	132	2003	5/14/2003	Finance	Real Estate Investment Trusts	Prospective
MRH	Montpelier Re Holdings Ltd	Dec-03	No	2,100	2002	11/5/2002	Finance	Property/Casualty Insurance	Method Not Specified
MCO	Moody's Corp	Dec-03	Yes	9,871	2003	12/13/2002	Commercial Services	Financial Publishing/Services	Prospective
MWD	Morgan Stanley	Nov-03	Yes	58,291	2003	8/13/2002	Finance	Investment Banks/Brokers	Prospective
NCC	National City Corp	Dec-03	Yes	21,295	2003	10/29/2002	Finance	Major Banks	Prospective
NADS	National Diversified Services Inc.	Dec-03	No	-	2003	3/28/2003	Finance	Real Estate Investment Trusts	Prospective
NFP	National Financial Partners Corp	Dec-03	No	1,052	2003	8/8/2003	Commercial Services	Financial Publishing/Services	Prospective
NGG	National Grid Transco PLC	Mar-04	No	23,525	2003	6/11/2003	Utilities	Electric Utilities	Retroactive Restatement
NAP	National Processing Inc	Dec-03	No	1,387	2003	2/19/2003	Technology Services	Data Processing Services	Prospective
NWLIA	National Western Life Insurance Co	Dec-03	No	533	2003	5/15/2003	Finance	Life/Health Insurance	Modified Prospective
NAVG	Navigators Group Inc	Dec-03	No	355	2003	3/10/2004	Finance	Property/Casualty Insurance	Method Not Specified
NFLX	Netflix, Inc	Dec-03	No	1,526	2003	6/9/2003	Retail Trade	Internet Retail	Retroactive 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	1,049	2003	10/30/2002	Utilities	Gas Distributors	Prospective
NMEN	New Medium Enterprises Inc.	Jun-04	No	N/A	2003	08/26/2003	Electronic Technology	Electronic Equipment/Instruments	Method Not Specified
NXL	New Plan Excel Realty Trust Inc	Dec-03	No	2,299	2003	3/6/2003	Finance	Real Estate Investment Trusts	Prospective
NSK	New Skies Satellites NV	Dec-03	No	845	2003	5/1/2003	Communications	Specialty Telecommunications	Prospective
NXY	Nexen Inc	Dec-03	No	4,980	2003	7/17/2003	Energy Minerals	Oil & Gas Production	Prospective
NMR	Nomura Holdings Inc	Mar-04	No	33,224	2002	12/18/2002	Finance	Investment Banks/Brokers	Modified Prospective
NRD	Noranda Inc	Dec-03	No	4,894	2002	11/19/2002	Non-Energy Minerals	Other Metals/Minerals	Prospective
NTK	Nortek Holdings Inc	Dec-03	No	N/A	2003	03/30/2004	Producer Manufacturing	Building Products	Prospective
NT	Nortel Networks	Dec-03	No	23,947	2003	1/24/2003	Electronic Technology	Telecommunications Equipment	Prospective
PAL	North American Palladium	Dec-03	No	527	2003	03/22/2004	Non-Energy Minerals	Precious Metals	Prospective
NDMLF	Northern Dynasty Minerals Ltd.	Dec-03	No	N/A	2002	07/01/2003	Non-Energy Minerals	Other Metals/Minerals	Retroactive Restatement
NWAC	Northwest Airlines Corp	Dec-03	No	908	2003	3/20/2003	Transportation	Airlines	Prospective
NFI	NovaStar Financial Inc	Dec-03	No	863	2003	12/28/2003	Finance	Real Estate Investment Trusts	Method Not Specified
NYM	Nymagic Inc	Dec-03	No	261	2003	3/15/2004	Finance	Specialty Insurance	Prospective
ORH	Odyssey Re Holdings Corp	Dec-03	No	1,655	2003	8/1/2003	Finance	Property/Casualty Insurance	Prospective
ORI	Old Republic International Corp	Dec-03	No	4,441	2003	8/8/2003	Finance	Property/Casualty Insurance	Prospective
OMG	OM Group Inc	Dec-03	No	824	2003	12/24/2003	Process Industries	Chemicals: Specialty	Prospective
OMM	OMI Corp	Dec-03	No	923	2003	11/10/2003	Industrial Services	Oilfield Services/Equipment	Prospective
OMC	Omnicom Group Inc	Dec-03	Yes	15,183	2004	03/16/2004	Commercial Services	Advertising/Marketing Services	Retroactive Restatement
ONCY	Oncolytics Biotech Inc	Dec-03	No	207	2003	11/19/2003	Health Technology	Biotechnology	Prospective
OKE	Oneok Inc	Dec-03	No	2,247	2003	2/21/2003	Utilities	Gas Distributors	Prospective
OPMR	Optimal Group Inco	Dec-03	No	107	2003	3/31/2003	Electronic Technology	Electronic Equipment/Instruments	Prospective
ORNGF.PK	Orange PLC (v)	Dec-03	No	1,018	2002	6/24/2003	Communications	Wireless Telecommunications	Modified Prospective
OHB	Orleans Homebuilders Com	Jun-04	No	312	2003	9/23/2003	Consumer Durables	Homebuilding	Prospective
PCAR	PACCAR Inc	Dec-03	Yes	10,479	2003	9/24/2002	Producer Manufacturing	Trucks/Construction/Farm Machinery	Prospective
PHS	PacifiCare Health Systems	Dec-03	No	3,514	2003	4/30/2003	Health Services	Managed Health Care	Prospective
SPOT	Panamsat Corp	Dec-03	No	3,490	2003	3/6/2003	Communications	Specialty Telecommunications	Prospective
PZZA	Papa John's International, Inc	Dec-03	No	600	2002	7/30/2002	Consumer Services	Restaurants	Prospective
PLLL	Parallel Petroleum Corp	Dec-03	No	115	2003	10/31/2003	Energy Minerals	Oil & Gas Production	Prospective
PRE	Partnerre Limited	Dec-03	No	3,027	2003	8/13/2003	Finance	Multi-Line Insurance	Prospective
PMRT	Pawnmart Inc	Jan-04	No	0	2003	5/15/2003	Finance	Finance/Rental/Leasing	Retroactive Restatement
PSO	Pearson PLC	Dec-03	No	9,477	N/A	8/7/2000	Consumer Services	Publishing: Books/Magazines	Prospective
PNG	Penn-America Group, Inc	Dec-03	No	209	2003	8/7/2003	Finance	Property/Casualty Insurance	Modified Prospective
PEI	Pennsylvania REIT	Dec-03	No	1,169	2003	3/31/2003	Finance	Real Estate Investment Trusts	Modified Prospective
PEP	Pepsico Inc	Dec-03	Yes	94,036	2003	12/2/2003	Consumer Non-Durables	Food: Major Diversified	Retroactive Restatement
PRGO	Perrigo Co.	Jun-04	No	1,536	2003	1/24/2003	Health Technology	Pharmaceuticals: Other	Retroactive Restatement
PGH	Personal Group Holdings PLC	Dec-03	No	101	2003	03/03/2004	Finance	Miscellaneous	Prospective
PCZ	Petro-Canada	Dec-03	No	12,060	2003	01/29/2004	Energy Minerals	Integrated Oil	Prospective
PSJ	Petsec Energy Ltd.	Dec-03	No	5,398	N/A	06/27/2003	Energy Minerals	Oil & Gas Production	Method Not Specified
PHG	Philips Electronics KON	Dec-03	No	37,196	2003	02/23/2004	Producer Manufacturing	Industrial Conglomerates	Prospective
PNX	Phoenix Companies Inc	Dec-03	No	1,240	2003	5/15/2003	Finance	Life/Health Insurance	Prospective

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Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
PNW	Pinnacle West Capital Corp	Dec-03	Yes	3,648	2002	11/14/2002	Utilities	Electric Utilities	Prospective
PJC	Piper Jaffray Companies	Dec-03	No	1,041	2003	6/25/2003	Finance	Investment Banks/Brokers	Prospective
PDG	Placer Dome Inc	Dec-03	No	6,199	2003	03/05/2004	Non-Energy Minerals	Precious Metals	Prospective
PCL	Plum Creek Timber Co.	Dec-03	Yes	5,587	2002	8/2/2002	Finance	Real Estate Investment Trusts	Prospective
PMC	PMC Capital Inc	Dec-03	No	2,691	2003	3/31/2003	Miscellaneous	Investment Trusts/Mutual Funds	Prospective
PCC	PMC Commercial Trust	Dec-03	No	149	2003	3/31/2003	Finance	Real Estate Investment Trusts	Prospective
PNC	PNC Financial Services Group, Inc	Dec-03	Yes	14,847	2003	9/30/2002	Finance	Major Banks	Prospective
PPP	Pogo Producing Company	Dec-03	No	3,036	2003	8/9/2002	Energy Minerals	Oil & Gas Production	Prospective
BPOP	Popular, Inc	Dec-03	No	5,515	2002	10/9/2002	Finance	Major Banks	Method Not Specified
PRAA	Portfolio Recovery Association Inc	Dec-03	No	414	2002	3/17/2003	Commercial Services	Miscellaneous Commercial Services	Prospective
PPS	Post Properties Inc	Dec-03	No	1,060	2003	5/15/2003	Finance	Real Estate Investment Trusts	Prospective
POT	Potash Corp of Saskatchewan Inc.	Dec-03	No	4,565	2003	2/5/2004	Process Industries	Chemicals: Agricultural	Prospective
PPG	PPG Industries Inc	Dec-03	Yes	10,646	2004	2/20/2004	Process Industries	Industrial Specialties	Modified Prospective
PPL	PPL Corp	Dec-03	Yes	7,823	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	2,581	2002	8/6/2002	Energy Minerals	Oil Refining/Marketing	Prospective
PP	Prentiss Properties Trust	Dec-03	No	1,436	2003	3/28/2003	Finance	Real Estate Investment Trusts	Prospective
PSMT	PriceSmart	Aug-03	No	51	2003	8/5/2002	Retail Trade	Discount Stores	Prospective
PRM	Primedia Company Inc	Dec-03	No	702	2003	2/5/2004	Consumer Services	Publishing: Books/Magazines	Prospective
PFG	Principal Financial Group	Dec-03	Yes	11,283	2002	8/7/2002	Finance	Financial Conglomerates	Prospective
PG	Procter & Gamble (q)	Jun-04	Yes	135,689	N/A	8/5/2002	Consumer Non-Durables	Household/Personal Care	Not Adopted
PGR	Progressive Corp Ohio	Dec-03	Yes	19,262	2003	5/12/2003	Finance	Property/Casualty Insurance	Prospective
PL	Protective Life	Dec-03	No	2,529	1995	1995	Finance	Life/Health Insurance	Prospective (b)
PRVD	Provide Commerce Inc.	Jun-04	No	257	2003	9/22/2003	Retail Trade	Catalog & Mail Order	Prospective
PVX	Provident Energy Trust	Dec-03	No	689	2003	03/22/2004	Finance	Miscellaneous	Prospective
PFGI	Provident Financial Group, Inc	Dec-03	No	1,957	2003	1/15/2003	Finance	Regional Banks	Prospective
PRU	Prudential Financial Inc	Dec-03	Yes	23,865	2003	8/13/2002	Finance	Financial Conglomerates	Prospective
PSB	PS Business Parks, Inc	Dec-03	No	845	2002	9/9/2002	Finance	Real Estate Investment Trusts	Prospective
PSA	Public Storage Inc	Dec-03	No	5,408	2002	11/14/2002	Finance	Real Estate Investment Trusts	Prospective
PHM	Pulte Homes, Inc	Dec-03	Yes	6,059	2003	3/17/2003	Consumer Durables	Homebuilding	Prospective
QZMRE	Quartz Mountain Resources Ltd.	Jul-03	No	40,051	2003	2/3/2004	Non-Energy Minerals	Precious Metals	Prospective
IQW	Quebecor World Inc	Dec-03	No	2,309	2003	2/6/2004	Commercial Services	Commercial Printing/Forms	Prospective
QUIP	Quipp Inc	Dec-03	No	21	2003	3/14/2003	Producer Manufacturing	Industrial Machinery	Prospective
RAE	Rae Systems Inc	Dec-03	No	318	2003	5/8/2003	Technology Services	Internet Software/Services	Modified Prospective
RAVN	Raven Industries	Jan-04	No	294	2002	8/20/2002	Producer Manufacturing	Miscellaneous Manufacturing	Modified Prospective
RJF	Raymond James Financial	Sep-03	No	1,891	2003	2/3/2003	Finance	Investment Banks/Brokers	Modified Prospective
RCNC	RCN Corp	Dec-03	No	33	2000	2000	Communications	Major Telecommunications	Prospective (b)
O	Realty Income	Dec-03	No	1,456	2002	7/26/2002	Finance	Real Estate Investment Trusts	Prospective
RA	Reckson Associated Realty Corp	Dec-03	No	1,633	2002	12/16/2002	Finance	Real Estate Investment Trusts	Prospective
RFCG	Refocus Group Inc	Dec-03	No	18	2002	3/19/2003	Health Technology	Medical Specialties	Modified Prospective
RGA	Reinsurance Group of America, Inc	Dec-03	No	2,499	2003	1/30/2003	Finance	Life/Health Insurance	Prospective
RNR	RenaissanceRe Holdings Ltd	Dec-03	No	3,806	2003	10/14/2002	Finance	Property/Casualty Insurance	Prospective
RBNC	Republic Bancorp Inc	Dec-03	No	861	2003	3/21/2003	Finance	Regional Banks	Prospective
REPB	Republic Bancshares Inc	Dec-03	No	N/A	2003	11/14/2003	Finance	Regional Banks	Prospective
RVP	Retractable Technologies Inc	Dec-03	No	164	2002	11/14/2002	Health Technology	Medical Specialties	Prospective
REY	Reynolds & Reynolds Company	Sep-03	No	2,350	2003	12/12/2003	Technology Services	Information Technology Services	Retroactive Restatement
RFS	RFS Hotel Investors, Inc (r)	Dec-03	No	N/A	2003	8/1/2002	Finance	Real Estate Investment Trusts	Prospective
RBA	Ritchie Brothers Auctioneers	Dec-03	No	969	2003	02/26/2004	Commercial Services	Miscellaneous Commercial Services	Prospective
RAD	Rite Aid Corp	Feb-04	No	2,776	2004	7/3/2003	Retail Trade	Drugstore Chains	Modified Prospective
RJR	RJ Reynolds Tobacco Holdings Inc	Dec-03	Yes	4,972	2003	5/15/2003	Consumer Non-Durables	Tobacco	Prospective
ROH	Rohm & Haas Co.	Dec-03	Yes	8,858	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	4,389	2002	6/27/2003	Finance	Multi-Line Insurance	Modified Prospective
RY	Royal Bank Of Canada	Oct-03	No	29,675	2003	12/4/2003	Finance	Major Banks	Prospective
RYG	Royal Group Technologies	Sep-03	No	1,109	2003	2/5/2004	Producer Manufacturing	Building Products	Prospective
RUSM	Russel Metals Inc	Dec-03	No	307	2003	2/6/2004	Distribution Services	Wholesale Distributors	Prospective
RML	Russell Corp	Dec-03	No	610	2003	5/21/2003	Consumer Non-Durables	Apparel/Footwear	Prospective
SKFB	S And K Famous Brands	Jan-04	No	43	2003	04/13/2004	Retail Trade	Apparel/Footwear Retail	Prospective
SAFC	Safeco Corp	Dec-03	Yes	6,196	2003	10/25/2002	Finance	Multi-Line Insurance	Prospective
SKS	Saks Inc	Jan-04	No	2,434	2003	8/20/2002	Retail Trade	Department Stores	Prospective
SHS	Sauer-Danfoss Inc	Dec-03	No	726	2003	8/13/2003	Producer Manufacturing	Auto Parts: OEM	Prospective
BFS	Saul Centres Inc	Dec-03	No	413	2003	8/14/2003	Finance	Real Estate Investment Trusts	Prospective
SBC	SBC Communication	Dec-03	Yes	84,096	2002	1/28/2003	Communications	Major Telecommunications	Retroactive Restatement
BUNZ	Schlotzskys Inc	Dec-03	No	14	2003	8/13/2002	Consumer Services	Restaurants	Prospective
SLB	Schlumberger Ltd	Dec-03	Yes	36,321	2003	7/23/2003	Industrial Services	Oilfield Services/Equipment	Prospective
SCT	Scottish Annuity & Life Holdings Ltd	Dec-03	No	813	2003	8/12/2003	Finance	Life/Health Insurance	Modified Prospective
SMG	Scotts Co.	Sep-03	No	2,167	2003	7/25/2002	Process Industries	Chemicals: Agricultural	Prospective
SCST	SCS Transportation Inc	Dec-03	No	347	2003	4/30/2003	Transportation	Trucking	Prospective
SNBJ	Security Bank Corp	Dec-03	No	40,051	2002	2/28/2003	Finance	Regional Banks	Prospective
SECX	SED International Holdings Inc	Jun-04	No	8	2003	2/14/2003	Distribution Services	Electronics Distributors	Prospective
SVM	ServiceMaster	Dec-03	No	3,501	2003	7/31/2002	Consumer Services	Other Consumer Services	Prospective
SJR	Shaw Communications Inc	Aug-03	No	3,807	2004	04/05/2004	Consumer Services	Cable/Satellite TV	Prospective
SI	Siemens AG	Sep-03	No	68,629	2003	12/5/2003	Producer Manufacturing	Industrial Conglomerates	Prospective
SPG	Simon Property	Dec-03	Yes	10,095	2002	7/31/2002	Finance	Real Estate Investment Trusts	Prospective
SSD	Simpson Manufacturing Co. Inc	Dec-03	No	1,243	2003	5/9/2003	Producer Manufacturing	Building Products	Prospective
SFD	Smithfield Foods, Inc	Apr-04	No	3,088	2002	8/22/2002	Consumer Non-Durables	Food: Meat/Fish/Dairy	Prospective
SSCC	Smurfit-Stone Container Corp	Dec-03	No	4,617	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	51	2003	3/25/2003	Finance	Savings Banks	Prospective
SWHI	SonomaWest Holdings Inc	Jun-04	No	11	2002	2002	Finance	Real Estate Development	Prospective

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Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
SJI	South Jersey Industries Inc	Dec-03	No	557	2003	8/14/2003	Utilities	Gas Distributors	Prospective
SUG	Southern Union Panhandle Corp	Jun-04	No	1,455	2002	5/30/2003	Utilities	Gas Distributors	Prospective
SWWC	Southwest Water Co.	Dec-03	No	202	2002	3/28/2003	Utilities	Water Utilities	Retroactive Restatement
SOV	Sovereign Bancorp	Dec-03	No	5,818	2002	7/19/2002	Finance	Savings Banks	Prospective
FON	Sprint FON Group	Dec-03	Yes	16,840	2003	8/12/2003	Communications	Major Telecommunications	Prospective
PCS	Sprint PCS Group	Dec-03	Yes	9,910	2003	5/14/2003	Communications	Wireless Telecommunications	Prospective
SJOE	St Joseph Capital Corp.	Dec-03	No	39	2003	03/29/2004	Finance	Regional Banks	Prospective
SFG	Stancorp Financial Group, Inc	Dec-03	No	1,834	2003	1/30/2003	Finance	Life/Health Insurance	Prospective
STSI	Star Scientific Inc	Dec-03	No	179	1999	1999	Consumer Non-Durables	Tobacco	Prospective (b)
SRFDF	Starfield Resources Inc.	Feb-04	No	N/A	2003	02/05/2004	Non-Energy Minerals	Other Metals/Minerals	Prospective
SCX	Starrett LS Company	Jun-03	No	106	2003	11/7/2003	Consumer Durables	Tools & Hardware	Prospective
STT	State Street Corp	Dec-03	Yes	16,835	2003	8/13/2002	Finance	Financial Conglomerates	Prospective
SCTP	Steel City Productions Inc (u)	Dec-03	No	-	2003	3/31/2003	Retail Trade	Specialty Stores	Prospective
SCS	Steelcase Inc	Feb-04	No	1,961	2004	9/23/2002	Producer Manufacturing	Office Equipment & Supplies	Prospective
STCS	Sterling Construction Company, Inc (u)	Dec-03	No	1,018	2003	8/14/2003	Distribution Services	Wholesale Distributors	Prospective
SRI	Stoneridge	Dec-03	No	342	2003	03/15/2004	Producer Manufacturing	Auto Parts: OEM	Prospective
SGLBF	Stratos Global Corp	Dec-03	No	405	2003	1/22/2004	Communications	Specialty Telecommunications	Prospective
STU	Student Loan Corp	Dec-03	No	2,876	2003	3/25/2003	Finance	Finance/Rental/Leasing	Prospective
SMT	Summit Properties Inc	Dec-03	No	701	2003	3/17/2003	Finance	Real Estate Investment Trusts	Prospective
SLC	Sun Life Financial Services of Canada	Dec-03	No	16,100	2002	7/31/2002	Finance	Financial Conglomerates	Prospective
SUN	Sunoco, Inc	Dec-03	Yes	4,809	2002	9/11/2002	Energy Minerals	Oil Refining/Marketing	Modified Prospective
STI	SunTrust Banks, Inc	Dec-03	Yes	19,695	2002	8/13/2002	Finance	Major Banks	Prospective
TNX	Tan Range Explorations Corp.	Dec-03	No	N/A	2003	03/15/2004	Non-Energy Minerals	Precious Metals	Prospective
SKT	Tanger Factory Outlet Centers	Dec-03	No	516	2003	5/6/2003	Finance	Real Estate Investment Trusts	Modified Prospective
TGT	Target Corp	Jan-04	Yes	40,849	2003	4/10/2003	Retail Trade	Discount Stores	Prospective
TARR	Tarragon Realty Investors	Dec-03	No	279	2002	8/5/2002	Finance	Real Estate Investment Trusts	Prospective
TCO	Taubman Centers, Inc	Dec-03	No	1,036	2003	3/24/2003	Finance	Real Estate Investment Trusts	Prospective
TBWC	TB Woods Corp.	Dec-03	No	41	2003	5/2/2003	Producer Manufacturing	Industrial Machinery	Modified Prospective
TCB	TCF Financial Corp	Dec-03	No	3,536	2000	2000	Finance	Regional Banks	Prospective (b)
TNL	Technitrol, Inc	Dec-03	No	928	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
TLSN	TeliaSonera AB	Dec-03	No	20,903	2002	6/30/2003	Communications	Major Telecommunications	Retroactive Restatement
TELM	Tellium Inc (s)	Dec-03	No	1,018	2003	8/15/2003	Electronic Technology	Telecommunications Equipment	Prospective
TBC	Tembec Inc.	Sep-03	No	N/A	2004	02/13/2004	Non-Energy Minerals	Forest Products	Prospective
TIN	Temple-Inland	Dec-03	Yes	3,527	2003	8/5/2002	Process Industries	Containers/Packaging	Prospective
THC	Tenet Healthcare Corp	Dec-03	Yes	5,306	2003	3/18/2003	Health Services	Hospital/Nursing Management	Retroactive 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	273	2002	11/19/2002	Finance	Regional Banks	Method Not Specified
TII	Thomas Industries Inc	Dec-03	No	598	2003	03/12/2004	Producer Manufacturing	Electrical Products	Prospective
AXLE	TJT Inc	Sep-03	No	3	2004	02/13/2004	Industrial Services	Environmental Services	Prospective
TOD	Todd Shipyards Corp	Mar-04	No	96	2003	6/10/2003	Producer Manufacturing	Metal Fabrication	Prospective
TORM	TOR Minerals International Inc	Dec-03	No	37	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
TOPTF	Trans Orient Petroleum Limited	Jul-03	No	2	2002	01/30/2004	Energy Minerals	Oil & Gas Production	Prospective
TAC	Transalta Corp	Dec-03	No	2,417	2003	3/28/2003	Utilities	Electric Utilities	Method Not Specified
TRH	Transatlantic Holdings	Dec-03	No	4,802	2003	3/28/2003	Finance	Property/Casualty Insurance	Prospective
TRP	Transcanada Pipelines Limited	Dec-03	No	9,680	2002	03/15/2004	Industrial Services	Oilfield Services/Equipment	Prospective
RIG	Transocean Inc	Dec-03	Yes	8,766	2003	3/26/2003	Industrial Services	Contract Drilling	Prospective
TAP.B	Travelers Property Casualty Corp (n)	Dec-03	Yes	N/A	2003	10/16/2002	Finance	Property/Casualty Insurance	Prospective
TRZ	Trizec Properties Inc	Dec-03	No	2,168	2003	11/6/2003	Finance	Real Estate Investment Trusts	Prospective
TRMK	Trustmark Corp.	Dec-03	No	1,588	2003	3/21/2003	Finance	Regional Banks	Prospective
TM.V	Tumi Resources Ltd	Dec-03	No	40,051	2003	7/31/2003	Non-Energy Minerals	Metals Mining	Prospective
TUP	Tupperware International	Dec-03	Yes	1,126	2003	8/6/2002	Consumer Durables	Home Furnishings	Prospective
UCI	Uici	Dec-03	No	701	2003	3/28/2003	Finance	Life/Health Insurance	Prospective
UIL	UIL Holdings Corp	Dec-03	No	685	2003	2/28/2003	Utilities	Electric Utilities	Prospective
UMH	United Mobile Homes, Inc	Dec-03	No	121	2003	5/14//2003	Finance	Real Estate Investment Trusts	Prospective
UNBJ	United National Bancorp (t)	Dec-03	No	N/A	2002	3/20/2003	Finance	Regional Banks	Retroactive Restatement
UPS	United Parcel Service Inc	Dec-03	Yes	80,902	2003	8/14/2002	Transportation	Air Freight/Couriers	Prospective
UTR	Unitrin, Inc	Dec-03	No	2,901	2003	4/10/2003	Finance	Multi-Line Insurance	Prospective
UCL	Unocal Corp	Dec-03	Yes	10,077	2003	8/11/2003	Energy Minerals	Oil & Gas Production	Prospective
UNM	Unumprovident Corp	Dec-03	Yes	4,501	2003	2/6/2004	Finance	Life/Health Insurance	Prospective
UAIR	US Airways Group, Inc	Dec-03	No	148	2003	8/14/2003	Transportation	Airlines	Prospective
USB	US Bancorp	Dec-03	Yes	49,697	2004	1/20/2004	Finance	Regional Banks	Retroactive Restatement
VLY	Valley National Bancorp	Dec-03	No	2,551	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	73	2003	8/18/2003	Electronic Technology	Electronic Equipment/Instruments	Prospective
VZ	Verizon Communications Inc	Dec-03	Yes	105,112	2003	12/5/2002	Communications	Major Telecommunications	Prospective
VLGEA	Village Supermarket Inc	Jul-03	No	98	2003	6/6/2003	Retail Trade	Food Retail	Prospective
VPI	Vintage Petroleum Inc	Dec-03	No	979	2003	03/12/2004	Energy Minerals	Oil & Gas Production	Prospective
VC	Visteon Corp	Dec-03	Yes	1,379	2003	10/18/2002	Producer Manufacturing	Auto Parts: OEM	Prospective
VTST	Vitalstate Inc.	Dec-03	No	5,398	2003	03/30/2004	Distribution Services	Wholesale Distributors	Method Not Specified
VVN	Vitran Inc	Dec-03	No	184	2003	03/23/2004	Transportation	Trucking	Prospective
VNO	Vornado Realty Trust	Dec-03	No	6,212	2003	8/7/2002	Finance	Real Estate Investment Trusts	Prospective
WHI	W Holding Co. Inc	Dec-03	No	1,859	2003	3/31/2003	Finance	Savings Banks	Modified Prospective
BER	W R Berkley Corp	Dec-03	No	3,489	2003	5/15/2003	Finance	Property/Casualty Insurance	Prospective
WPL	W.P. Stewart & Co., Ltd	Dec-03	No	917	2003	7/31/2002	Finance	Investment Managers	Prospective
WB	Wachovia	Dec-03	Yes	61,192	2002	7/18/2002	Finance	Major Banks	Prospective
WMT	Wal-Mart Stores Inc	Jan-04	Yes	252,908	2003	8/14/2002	Retail Trade	Discount Stores	Retroactive Restatement
WRNC	Warnaco Group, Inc	Dec-03	No	951	2003	5/15/2003	Consumer Non-Durables	Apparel/Footwear	Prospective
WM	Washington Mutual, Inc	Dec-03	Yes	34,862	2003	1/29/2003	Finance	Savings Banks	Prospective

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April 28, 2004

($ in millions)

Ticker	Company	Year End	S&P 500	Market Capitalization	Adoption Year	Announcement Date (a)	Sector	Industry	Method Adopted
WPO	Washington Post Co.	Dec-03	No	8,904	2002	7/15/2002	Consumer Services	Publishing: Newspapers	Prospective
WFT	Weatherford International Ltd	Dec-03	No	5,843	2003	1/30/2004	Industrial Services	Oilfield Services/Equipment	Prospective
WBST	Webster Financial	Dec-03	No	2,129	2002	7/24/2002	Finance	Savings Banks	Prospective
WRI	Weingarten Realty Investors	Dec-03	No	2,457	2003	3/17/2003	Finance	Real Estate Investment Trusts	Prospective
WRP	Wellsford Real Properties, Inc	Dec-03	No	113	2003	5/9/2003	Finance	Real Estate Development	Prospective
WBKC	Westbank Corp.	Dec-03	No	102	2003	03/09/2004	Finance	Regional Banks	Prospective
WBK	Westpac Banking Corp.	Sep-03	No	23,949	2002	11/07/2003	Finance	Major Banks	Prospective
WFSI	WFS Financial Inc	Dec-03	No	1,844	2003	6/11/2003	Finance	Finance/Rental/Leasing	Prospective
WHT	Wheaton River Minerals Limited	Dec-03	No	1,308	2004	03/15/2004	Non-Energy Minerals	Precious Metals	Method Not Specified
WINA	Winmark Corp	Dec-03	No	151	2002	3/19/2003	Retail Trade	Specialty Stores	Prospective
WIN	Winn-Dixie Stores Inc	Jun-04	Yes	1,138	1996	1996	Retail Trade	Food Retail	Prospective (b)
INT	World Fuel Services	Dec-03	No	476	2002	8/1/2002	Commercial Services	Miscellaneous Commercial Services	Prospective
XL	XL Capital Ltd	Dec-03	Yes	10,834	2003	2/11/2003	Finance	Property/Casualty Insurance	Prospective
YCC	Yankee Candle Co. Inc	Dec-03	No	1,313	2003	10/22/2003	Consumer Non-Durables	Consumer Sundries	Prospective
ZNT	Zenith National Insurance Corp	Dec-03	No	866	2002	3/14/2003	Finance	Multi-Line Insurance	Prospective
ZHNE	Zhone Technologies Inc (s)	Dec-03	No	280	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

(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 Cendant in March 2001.
(e) On July 10, 2003, Great-West Lifeco Inc completed its acquitition 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 April 1, 2004, St. Paul Travelers completed the merger that combines The St. Paul Companies (NYSE:SPC) and Travelers Property Casualty Corp. (NYSE:TAP.A and TAP.B).
(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 8/5/02 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 2/1/04, 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.
(v) Equant and Orange are subsidiaries of France Telecom.
(w) In an August 28, 2002 press release, Kellwood stated that the company would begin expensing stock options in Fiscal 2003. As of December 4, 2003, the company was still applying APB 25.

APPENDIX B: Pro Forma Income From Continuing Operations of the S&P 500 By Sector and Industry Group ($ in Millions)

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		2003					2002					2001				
Sector (# of Companies)	Industry Group Name (# of Companies)	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
Consumer Discretionary (87)	Auto Components (6)	(308)	17	(69)	(360)	N/M	(104)	2	(128)	(230)	N/M	(342)	15	(142)	(468)	N/M
	Automobiles (3)	4,172	254	(320)	4,106	-2%	3,226	44	(378)	2,892	-10%	2,224	18	(330)	1,913	-14%
	Distributors (1)	354	0	(6)	348	-2%	368	-	(3)	364	-1%	297	-	(3)	294	-1%
	Hotels Restaurants & Leisure (11)	5,469	36	(568)	4,937	-10%	4,726	19	(584)	4,161	-12%	4,629	28	(509)	4,148	-10%
	Household Durables (13)	3,452	38	(164)	3,327	-4%	3,178	20	(176)	3,022	-5%	2,103	22	(167)	1,958	-7%
	Internet & Catalog Retail (1)	447	5	(202)	251	-44%	250	6	(193)	63	-75%	90	3	(212)	(118)	-230%
	Leisure Equipment & Products (4)	1,086	0	(56)	1,030	-5%	1,427	1	(149)	1,279	-10%	537	2	(112)	428	-20%
	Media (15)	10,776	83	(1,764)	9,096	-16%	(35,738)	88	(2,235)	(37,884)	N/M	(3,583)	84	(2,466)	(5,964)	N/M
	Multiline Retail (11)	8,212	20	(254)	7,978	-3%	6,140	5	(259)	5,887	-4%	4,556	8	(253)	4,311	-5%
	Specialty Retail (17)	12,304	84	(827)	11,561	-6%	10,164	91	(799)	9,456	-7%	7,295	52	(789)	6,559	-10%
	Textiles, Apparel & Luxury Goods (5)	1,904	8	(106)	1,806	-5%	1,728	9	(113)	1,623	-6%	1,338	2	(94)	1,247	-7%
	Sector Total	47,868	546	(4,335)	44,079	-8%	(4,636)	285	(5,017)	(9,368)	N/M	19,147	233	(5,075)	14,306	-25%
Consumer Staples (37)	Beverages (7)	11,509	611	(840)	11,280	-2%	10,221	585	(781)	10,025	-2%	8,725	296	(668)	8,353	-4%
	Food & Staples Retailing (10)	13,795	140	(490)	13,444	-3%	13,470	113	(469)	13,114	-3%	12,071	113	(420)	11,765	-3%
	Food Products (10)	6,508	58	(293)	6,273	-4%	5,617	61	(348)	5,331	-5%	5,728	53	(277)	5,505	-4%
	Household Products (4)	8,816	-	(519)	8,297	-6%	7,683	-	(578)	7,106	-8%	6,005	-	(468)	5,537	-8%
	Personal Products (3)	2,212	1	(137)	2,075	-6%	1,890	1	(149)	1,742	-8%	1,470	1	(143)	1,327	-10%
	Tobacco (3)	6,239	10	(32)	6,217	0%	11,821	-	(149)	11,671	-1%	9,813	11	(217)	9,607	-2%
	Sector Total	49,077	819	(2,311)	47,586	-3%	50,702	761	(2,474)	48,989	-3%	43,812	474	(2,193)	42,093	-4%
Energy (23)	Energy Equipment & Services (8)	1,549	14	(222)	1,341	-13%	(4,318)	13	(310)	(4,615)	N/M	2,776	9	(254)	2,532	-9%
	Oil & Gas (15)	43,192	257	(434)	43,014	0%	16,039	168	(616)	15,591	-3%	27,325	142	(694)	26,773	-2%
	Sector Total	44,741	271	(656)	44,355	-1%	11,720	181	(926)	10,976	-6%	30,101	151	(948)	29,304	-3%
Financials (84)	Capital Markets (15)	25,683	2,402	(3,810)	24,275	-5%	15,219	1,958	(4,929)	12,247	-20%	14,214	1,970	(4,758)	11,426	-20%
	Commercial Banks (25)	45,712	547	(1,440)	44,820	-2%	40,786	334	(1,627)	39,493	-3%	27,681	364	(1,695)	26,350	-5%
	Consumer Finance (5)	8,089	172	(767)	7,494	-7%	6,280	110	(815)	5,575	-11%	4,187	51	(643)	3,595	-14%
	Diversified Financial Services (3)	18,945	137	(408)	18,673	-1%	14,357	12	(463)	13,905	-3%	13,822	7	(577)	13,251	-4%
	Insurance (24)	28,317	283	(957)	27,643	-2%	18,860	122	(950)	18,033	-4%	11,967	113	(827)	11,253	-6%
	Real Estate (6)	1,724	35	(56)	1,702	-1%	2,101	44	(75)	2,071	-1%	4,312	31	(58)	4,284	-1%
	Thrifts & Mortgage Finance (6)	15,486	124	(290)	15,320	-1%	20,927	95	(273)	20,749	-1%	13,828	84	(220)	13,691	-1%
	Sector Total	143,956	3,699	(7,728)	139,927	-3%	118,530	2,675	(9,132)	112,072	-5%	90,011	2,619	(8,779)	83,850	-7%
Health Care (47)	Biotechnology (5)	1,720	8	(518)	1,211	-30%	(2,075)	16	(478)	(2,537)	N/M	1,429	12	(429)	1,012	-29%
	Health Care Equipment & Supplies (13)	5,936	8	(746)	5,198	-12%	5,152	16	(712)	4,455	-14%	3,895	16	(676)	3,234	-17%
	Health Care Providers & Services (17)	9,315	161	(1,048)	8,428	-10%	7,706	168	(980)	6,894	-11%	5,288	74	(716)	4,647	-12%
	Pharmaceuticals (12)	26,683	91	(2,730)	24,045	-10%	37,323	82	(2,693)	34,712	-7%	31,409	76	(2,342)	29,143	-7%
	Sector Total	43,655	269	(5,042)	38,881	-11%	48,105	282	(4,863)	43,524	-10%	42,021	178	(4,163)	38,036	-9%
Industrials (59)	Aerospace & Defense (9)	8,113	547	(929)	7,731	-5%	7,772	514	(906)	7,381	-5%	6,424	433	(776)	6,081	-5%
	Air Freight & Logistics (3)	3,864	457	(547)	3,773	-2%	4,092	392	(504)	3,979	-3%	3,028	441	(531)	2,938	-3%
	Airlines (2)	(331)	-	(90)	(421)	N/M	(1,031)	-	(100)	(1,131)	N/M	(705)	-	(55)	(760)	N/M
	Building Products (2)	1,145	41	(73)	1,113	-3%	1,035	21	(60)	996	-4%	498	20	(56)	462	-7%
	Commercial Services & Supplies (13)	4,670	12	(290)	4,392	-6%	4,122	5	(612)	3,515	-15%	2,776	20	(536)	2,260	-19%
	Construction & Engineering (1)	179	-	(9)	171	-5%	170	-	(8)	162	-5%	128	-	(11)	117	-8%
	Electrical Equipment (6)	1,771	8	(76)	1,702	-4%	1,413	(0)	(90)	1,323	-6%	1,224	2	(138)	1,087	-11%
	Industrial Conglomerates (4)	19,308	106	(785)	18,629	-4%	14,636	38	(929)	13,744	-6%	19,927	34	(895)	19,066	-4%
	Machinery (14)	5,936	54	(315)	5,675	-4%	3,938	11	(297)	3,652	-7%	3,216	16	(290)	2,943	-8%
	Road & Rail (4)	2,433	60	(155)	2,338	-4%	2,952	59	(158)	2,853	-3%	2,320	37	(104)	2,253	-3%
	Trading Companies & Distributors (1)	227	-	(14)	213	-6%	235	-	(15)	221	-6%	175	-	(12)	162	-7%
	Sector Total	47,315	1,284	(3,283)	45,316	-4%	39,333	1,041	(3,679)	36,695	-7%	39,009	1,002	(3,402)	36,609	-6%
Information Technology (82)	Communications Equipment (14)	2,796	109	(3,215)	(310)	-111%	(26,242)	217	(6,097)	(32,122)	N/M	(84,425)	255	(5,228)	(89,397)	N/M
	Computers & Peripherals (10)	9,991	156	(4,128)	6,019	-40%	6,112	238	(4,495)	1,855	-70%	10,071	261	(4,468)	5,863	-42%
	Electronic Equipment & Instruments (10)	(4,467)	22	(1,264)	(5,709)	N/M	(6,415)	(28)	(633)	(7,075)	N/M	214	(46)	(800)	(632)	-395%
	Internet Software & Services (1)	238	13	(216)	35	-85%	107	5	(488)	(376)	-452%	(93)	9	(900)	(983)	N/M
	IT Services (10)	4,093	53	(730)	3,416	-17%	5,132	63	(784)	4,411	-14%	4,122	83	(604)	3,601	-13%
	Office Electronics (1)	302	-	(85)	217	-28%	100	-	(83)	17	-83%	(145)	-	(93)	(238)	N/M
	Semiconductor & Semiconductor Equipment (19)	4,327	749	(5,062)	14	-100%	(5,338)	669	(5,522)	(10,192)	N/M	(1,675)	677	(4,819)	(5,817)	N/M
	Software (17)	13,389	80	(4,476)	8,994	-33%	9,039	143	(5,728)	3,454	-62%	9,748	207	(5,352)	4,602	-53%
	Sector Total	30,669	1,182	(19,176)	12,676	-59%	(17,505)	1,307	(23,830)	(40,028)	N/M	(62,182)	1,445	(22,264)	(83,001)	N/M
Materials (33)	Chemicals (14)	5,070	78	(397)	4,751	-6%	3,614	29	(482)	3,161	-13%	5,637	26	(442)	5,221	-7%
	Construction Materials (1)	223	3	(7)	219	-2%	197	1	(5)	192	-2%	242	0	(4)	238	-2%
	Containers & Packaging (5)	909	39	(62)	887	-2%	298	26	(48)	276	-7%	474	13	(33)	454	-4%
	Metals & Mining (8)	1,178	65	(136)	1,108	-6%	643	6	(163)	485	-25%	546	5	(217)	335	-39%
	Paper & Forest Products (5)	1,111	5	(90)	1,026	-8%	340	2	(103)	239	-30%	(1,317)	1	(112)	(1,429)	N/M
	Sector Total	8,492	191	(692)	7,991	-6%	5,091	64	(801)	4,353	-14%	5,582	45	(809)	4,819	-14%
Telecommunication Services (12)	Diversified Telecommunication Services (9)	15,333	369	(863)	14,839	-3%	(643)	502	(1,547)	(1,689)	N/M	4,027	466	(1,971)	2,521	-37%
	Wireless Telecommunication Services (3)	1,318	54	(583)	789	-40%	(1,397)	14	(839)	(2,222)	N/M	(3,681)	18	(742)	(4,405)	N/M
	Sector Total	16,651	423	(1,446)	15,628	-6%	(2,040)	516	(2,386)	(3,911)	N/M	346	484	(2,713)	(1,884)	-644%
Utilities (36)	Electric Utilities (22)	12,470	63	(244)	12,289	-1%	13,208	47	(270)	12,985	-2%	13,268	42	(232)	13,078	-1%
	Gas Utilities (6)	2,140	27	(62)	2,105	-2%	1,895	9	(47)	1,857	-2%	1,397	12	(48)	1,360	-3%
	Multi-Utilities & Unregulated Power (8)	310	55	(172)	193	-38%	(2,579)	43	(542)	(3,079)	N/M	5,043	26	(420)	4,649	-8%
	Sector Total	14,920	145	(478)	14,587	-2%	12,524	98	(859)	11,763	-6%	19,707	79	(700)	19,087	-3%
S&P 500 Total		**447,344**	**8,829**	**(45,147)**	**411,026**	**-8%**	**261,825**	**7,208**	**(53,969)**	**215,065**	**-18%**	**227,554**	**6,712**	**(51,047)**	**183,219**	**-19%**

Source: Company reports; FactSet Research Systems Inc.; Standard and Poor's; Bear Stearns estimates.

Note: This is an update to the original table published in our March 30, 2004 First Call. In the March 30th First Call we used estimates for several January yearend companies that had not yet released their annual results. This exhibit incorporates the fiscal yearend results for the companies that have since released their 10Ks.

APPENDIX B: Pro Forma Income From Continuing Operations of the S&P 500 By Sector and Industry Group ($ in Millions)

BEAR
STEARNS

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				2003							2002						
Company Name	Ticker	Fiscal Yearend	Method of Adoption of the Fair Value Method	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	Reported EPS from Cont. Oper.	Pro Forma EPS from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	Reported EPS from Cont. Oper.	Pro Forma EPS from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
Consumer Discretionary																	
Auto Components (6)																	
Cooper Tire & Rubber	CTB	Dec-03		73.8	-	(2.6)	71.3	1.00	0.96	-3%	111.8	-	(3.4)	108.4	1.51	1.46	-3%
Dana Corp.	DCN	Dec-03		175.0	2.0	(16.0)	161.0	1.17	1.08	-8%	6.0	3.0	(20.0)	(11.0)	0.04	(0.07)	-283%
Delphi Corporation	DPH	Dec-03		(56.0)	-	(17.0)	(73.0)	(0.10)	(0.13)	30%	342.0	-	(43.0)	299.0	0.61	0.53	-13%
Goodyear Tire & Rubber (b)	GT	Dec-02		-	-	-	-	-	-	N/M	(1,105.8)	(4.9)	(34.3)	(1,145.0)	(6.62)	(6.86)	4%
Johnson Controls	JCI	Sep-03	Prospective	682.9	5.5	(15.0)	673.4	7.20	7.10	-1%	600.5	-	(12.3)	588.2	6.35	6.22	-2%
Visteon Corp.	VC	Dec-03	Prospective	(1,184.0)	9.0	(18.0)	(1,193.0)	(9.65)	(9.71)	1%	(59.0)	4.0	(15.0)	(70.0)	(0.68)	(0.77)	19%
Total				**(308.3)**	**16.5**	**(68.6)**	**(360.3)**			**N/M**	**(104.5)**	**2.1**	**(128.0)**	**(230.4)**			**N/M**
Automobiles (3)																	
Ford Motor	F	Dec-03	Modified Prospective	549.1	112.0	(112.0)	549.1	0.50	0.50	0%	670.9	-	(179.0)	491.9	0.15	0.05	-27%
General Motors	GM	Dec-03	Prospective	2,862.0	142.0	(195.0)	2,809.0	5.03	4.93	-2%	1,975.0	44.0	(187.0)	1,832.0	3.51	3.26	-7%
Harley-Davidson	HDI	Dec-03		760.9	-	(13.4)	747.5	2.50	2.46	-2%	580.2	-	(12.2)	568.0	1.90	1.86	-2%
Total				**4,172.1**	**254.0**	**(320.4)**	**4,105.6**			**-2%**	**3,226.1**	**44.0**	**(378.2)**	**2,891.9**			**-10%**
Distributors (1)																	
Genuine Parts	GPC	Dec-03	Prospective	353.6	0.0	(5.7)	348.0	2.03	2.00	-2%	367.5	-	(3.4)	364.1	2.10	2.08	-1%
Total				**353.6**	**0.0**	**(5.7)**	**348.0**			**-2%**	**367.5**	**-**	**(3.4)**	**364.1**			**-1%**
Hotels Restaurants & Leisure (11)																	
Carnival Corp.	CCL	Nov-03		1,194.0	7.0	(36.0)	1,165.0	1.66	1.62	-2%	1,016.0	5.0	(30.0)	991.0	1.73	1.69	-2%
Darden Restaurants	DRI	May-03		232.3	2.6	(19.8)	215.1	1.31	1.22	-7%	237.8	2.7	(18.4)	222.1	1.30	1.21	-7%
Harrah's Entertainment	HET	Dec-03		292.0	-	(23.5)	268.4	2.64	2.43	-8%	323.2	-	(20.2)	303.0	2.85	2.67	-6%
Hilton Hotels	HLT	Dec-03		164.0	-	(17.0)	147.0	0.43	0.39	-10%	198.0	-	(20.0)	178.0	0.53	0.48	-10%
International Game Technology	IGT	Sep-03		375.3	2.7	(21.3)	356.7	1.07	1.02	-5%	254.7	2.1	(18.6)	238.2	0.74	0.69	-6%
Marriott Int'l.	MAR	Dec-03		476.0	19.0	(73.0)	422.0	1.94	1.73	-11%	439.0	9.0	(64.0)	384.0	1.74	1.54	-13%
McDonald's Corp.	MCD	Dec-03		1,508.2	4.4	(224.1)	1,288.5	1.18	1.01	-15%	992.1	-	(251.7)	740.4	0.77	0.57	-25%
Starbucks Corp.	SBUX	Sep-03		268.3	-	(37.4)	230.9	0.67	0.58	-14%	212.7	-	(37.4)	175.2	0.54	0.44	-18%
Starwood Hotels & Resorts	HOT	Dec-03		105.0	-	(65.0)	40.0	0.51	0.19	-62%	251.0	-	(73.0)	178.0	1.22	0.87	-29%
Wendy's International	WEN	Dec-03		236.0	0.4	(14.8)	221.6	2.05	1.95	-6%	218.8	-	(12.0)	206.8	1.89	1.80	-5%
Yum! Brands, Inc	YUM	Dec-03		618.0	-	(36.0)	582.0	2.02	1.91	-6%	583.0	-	(39.0)	544.0	1.88	1.76	-7%
Total				**5,469.0**	**36.2**	**(568.0)**	**4,937.2**			**-10%**	**4,726.3**	**18.8**	**(584.3)**	**4,160.8**			**-12%**
Household Durables (13)																	
American Greetings Class A	AM	Feb-03		121.1	-	(4.7)	116.4	1.85	1.79	-4%	(122.3)	-	(7.8)	(130.2)	(1.92)	(2.05)	6%
Black & Decker Corp.	BDK	Dec-03		287.2	2.6	(19.3)	270.5	3.68	3.48	-6%	228.5	-	(18.5)	210.0	2.83	2.61	-8%
Centex Corp.	CTX	Mar-03	Prospective	555.9	4.2	(24.5)	535.7	8.83	8.49	-4%	382.2	0.5	(25.0)	357.8	6.11	5.72	-6%
Fortune Brands, Inc.	FO	Dec-03		579.2	-	(18.2)	561.0	3.86	3.74	-3%	525.6	-	(16.3)	509.3	3.41	3.31	-3%
KB Home	KBH	Nov-03		370.8	-	(13.5)	357.3	8.80	8.69	-4%	314.4	-	(12.4)	301.9	7.15	7.00	-4%
Leggett & Platt	LEG	Dec-03	Prospective	205.9	7.5	(9.2)	204.2	1.05	1.04	-1%	233.1	4.9	(11.1)	226.9	1.17	1.14	-3%
Maytag Corp.	MYG	Dec-03		114.4	-	(4.6)	109.7	1.45	1.39	-4%	195.1	-	(8.8)	186.3	2.44	2.33	-5%
Newell Rubbermaid Co.	NWL	Dec-03		(46.6)	-	(19.0)	(65.6)	(0.17)	(0.24)	41%	311.5	-	(16.3)	295.2	1.16	1.10	-5%
Pulte Homes, Inc.	PHM	Dec-03	Prospective	617.3	9.0	(11.5)	614.8	4.91	4.89	0%	444.6	3.1	(12.0)	435.7	3.60	3.53	-2%
Snap-On Inc.	SNA	Dec-03		78.7	1.5	(5.6)	74.6	1.35	1.28	-5%	103.2	(0.4)	(7.3)	95.5	1.76	1.63	-7%
Stanley Works	SWK	Dec-03		96.7	-	(2.2)	94.5	1.14	1.12	-2%	170.3	-	(8.4)	161.9	1.93	1.83	-5%
Tupperware Corp.	TUP	Dec-03	Prospective	47.9	0.2	(6.3)	41.8	0.82	0.72	-13%	90.1	-	(7.0)	83.1	1.54	1.42	-8%
Whirlpool Corp.	WHR	Dec-03		424.0	13.0	(25.0)	412.0	5.91	5.74	-3%	302.0	12.0	(25.0)	289.0	3.78	3.59	-4%
Total				**3,452.5**	**38.0**	**(163.6)**	**3,326.9**			**-4%**	**3,178.3**	**20.1**	**(175.9)**	**3,022.5**			**-5%**
Internet & Catalog Retail (1)																	
eBay Inc.	EBAY	Dec-03		447.2	5.5	(201.8)	250.9	0.68	0.38	-44%	249.9	6.0	(192.9)	62.9	0.43	0.11	-75%
Total				**447.2**	**5.5**	**(201.8)**	**250.9**			**-44%**	**249.9**	**6.0**	**(192.9)**	**62.9**			**-75%**
Leisure Equipment & Products (4)																	
Brunswick Corp.	BC	Dec-03		135.2	-	(5.4)	129.8	1.47	1.41	-4%	103.5	-	(5.3)	98.2	1.14	1.08	-5%
Eastman Kodak	EK	Dec-03		238.0	-	(16.0)	222.0	0.83	0.78	-7%	793.0	-	(105.0)	688.0	2.72	2.36	-13%
Hasbro Inc.	HAS	Dec-03		175.0	0.1	(12.9)	162.2	0.98	0.91	-7%	75.1	1.2	(19.6)	56.6	0.43	0.32	-25%
Mattel, Inc.	MAT	Dec-03		537.6	-	(22.0)	515.6	1.22	1.17	-4%	455.0	-	(19.3)	435.7	1.03	0.99	-4%
Total				**1,085.8**	**0.1**	**(56.3)**	**1,029.6**			**-5%**	**1,426.6**	**1.2**	**(149.2)**	**1,278.6**			**-10%**
Media (15)																	
Clear Channel Communications	CCU	Dec-03		1,145.6	-	(43.8)	1,101.8	1.85	1.78	-4%	724.8	-	(52.6)	672.2	1.18	1.10	-7%
Comcast Corp.	CMCSA	Dec-03		(218.0)	10.0	(172.0)	(380.0)	(0.10)	(0.18)	74%	(469.0)	11.0	(145.0)	(603.0)	(0.42)	(0.54)	29%
Dow Jones & Co.	DJ	Dec-03		170.6	4.5	(20.2)	154.8	2.08	1.89	-9%	201.5	1.6	(18.2)	184.9	2.40	2.20	-8%
Gannett Co.	GCI	Dec-03		1,211.2	-	(64.0)	1,147.2	4.46	4.22	-5%	1,160.1	-	(52.8)	1,107.4	4.31	4.11	-5%
Interpublic Group	IPG	Dec-03		(552.9)	22.7	(57.4)	(587.6)	(1.43)	(1.52)	6%	68.0	28.9	(65.4)	31.5	0.18	0.08	-54%
Knight-Ridder Inc.	KRI	Dec-03		296.1	-	(14.6)	281.4	3.63	3.45	-5%	281.7	-	(15.0)	266.7	3.33	3.15	-5%
McGraw-Hill	MHP	Dec-03		687.8	9.2	(52.3)	644.7	3.58	3.35	-6%	572.0	13.0	(63.1)	521.8	2.94	2.69	-9%
Meredith Corp.	MDP	Jun-03		91.1	0.5	(6.9)	84.7	1.78	1.66	-7%	91.4	0.8	(6.5)	85.7	1.79	1.67	-6%
New York Times Cl. A	NYT	Dec-03		302.7	-	(48.4)	254.3	1.98	1.68	-16%	299.7	-	(49.0)	250.8	1.94	1.63	-16%
Omnicom Group	OMC	Dec-03	Retroactive Restatement	675.9	36.2	(81.1)	630.9	3.59	3.37	-7%	643.5	32.7	(105.7)	570.5	3.44	3.07	-11%
Time Warner Inc.	TWX	Dec-03		3,146.0	-	(548.0)	2,598.0	0.68	0.56	-17%	(43,449.0)	-	(1,034.0)	(44,483.0)	(9.75)	(9.99)	2%
Tribune Co.	TRB	Dec-03		891.4	-	(75.8)	815.6	2.61	2.38	-9%	608.6	-	(85.5)	523.1	1.80	1.54	-14%
Univision Communications	UVN	Dec-03		155.4	-	(32.1)	123.3	0.55	0.43	-21%	86.5	-	(35.5)	51.0	0.34	0.20	-41%
Viacom Inc.	VIA.B	Dec-03		1,435.4	-	(252.9)	1,182.5	0.82	0.68	-18%	2,206.6	-	(200.3)	2,006.3	1.24	1.13	-9%
Walt Disney Co.	DIS	Sep-03		1,338.0	-	(294.0)	1,044.0	0.65	0.51	-22%	1,236.0	-	(306.0)	930.0	0.60	0.45	-25%
Total				**10,776.2**	**83.0**	**(1,763.7)**	**9,095.6**			**-16%**	**(35,737.6)**	**88.0**	**(2,234.6)**	**(37,884.2)**			**N/M**

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Company Name	Ticker	Fiscal Yearend	Method of Adoption of the Fair Value Method	2003 Reported Net Income/ (Net Loss) from Cont. Oper.	2003 Stock-based Compensation Included in Reported NI from Cont. Oper.	2003 Total Stock-based Compensation	2003 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2003 Reported EPS from Cont. Oper.	2003 Pro Forma EPS from Cont. Oper.	2003 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	2002 Reported Net Income/ (Net Loss) from Cont. Oper.	2002 Stock-based Compensation Included in Reported NI from Cont. Oper.	2002 Total Stock-based Compensation	2002 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2002 Reported EPS from Cont. Oper.	2002 Pro Forma EPS from Cont. Oper.	2002 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
Multiline Retail (11)																	
Big Lots, Inc.	BLI	Jan-04		90.9	-	(6.0)	84.9	0.78	0.73	-7%	76.6	-	(5.1)	71.5	0.66	0.61	-7%
Dillard Inc.	DDS	Jan-04		9.3	-	(2.7)	6.6	0.11	0.08	-29%	131.9	-	(9.3)	122.7	1.55	1.44	-7%
Dollar General	DG	Jan-04		301.0	-	(7.9)	293.1	0.89	0.87	-3%	264.9	-	(15.2)	249.7	0.79	0.75	-6%
Family Dollar Stores	FDO	Aug-03		247.5	-	(6.0)	241.5	1.43	1.39	-2%	216.9	-	(4.3)	212.6	1.25	1.22	-2%
Federated Dept. Stores	FD	Jan-04		693.0	-	(46.0)	647.0	3.71	3.48	-7%	638.0	-	(42.0)	596.0	3.21	3.00	-7%
Kohl's Corp.	KSS	Jan-04		591.2	-	(34.4)	556.7	1.72	1.62	-6%	643.4	-	(34.9)	608.4	1.87	1.78	-5%
May Dept. Stores	MAY	Jan-04	Prospective	434.0	2.0	(22.0)	414.0	1.41	1.34	-5%	542.0	-	(23.0)	519.0	1.76	1.69	-4%
Nordstrom	JWN	Jan-04		242.8	9.9	(23.7)	229.0	1.76	1.67	-6%	103.6	2.2	(21.9)	83.9	0.76	0.62	-19%
Penney, J.C.	JCP	Jan-04		364.0	5.0	(26.0)	343.0	1.21	1.14	-6%	285.0	3.0	(23.0)	265.0	0.95	0.89	-7%
Sears, Roebuck & Co.	S	Dec-03		3,397.0	-	(44.0)	3,353.0	11.86	11.71	-1%	1,584.0	-	(49.0)	1,535.0	4.94	4.79	-3%
Target Corp.	TGT	Jan-04	Prospective	1,841.0	3.0	(35.0)	1,809.0	2.01	1.97	-2%	1,654.0	-	(31.0)	1,623.0	1.81	1.78	-2%
Total				**8,211.7**	**19.9**	**(253.8)**	**7,977.8**			**-3%**	**6,140.3**	**5.2**	**(258.7)**	**5,886.9**			**-4%**
Specialty Retail (17)																	
AutoNation, Inc.	AN	Dec-03		506.1	-	(17.4)	488.7	1.76	1.70	-3%	381.6	-	(19.3)	362.3	1.19	1.13	-5%
AutoZone Inc.	AZO	Aug-03		517.6	-	(14.5)	503.1	5.34	5.20	-3%	428.1	-	(9.0)	419.2	4.00	3.91	-2%
Bed Bath & Beyond	BBBY	Feb-03		302.2	-	(25.4)	276.7	1.00	0.92	-8%	219.6	-	(19.6)	200.0	0.74	0.67	-9%
Best Buy Co., Inc.	BBY	Feb-03		622.0	1.0	(85.0)	538.0	1.91	1.66	-14%	570.0	1.0	(59.0)	512.0	1.77	1.61	-10%
Boise Cascade	BCC	Dec-03	Prospective	17.1	4.2	(9.3)	12.0	0.07	(0.01)	-30%	11.3	0.2	(10.7)	0.8	(0.03)	(0.21)	-93%
Circuit City Group	CC	Feb-03		41.6	-	(16.6)	24.9	0.20	0.12	-40%	128.0	-	(16.5)	111.5	0.62	0.54	-13%
Gap (The)	GPS	Jan-04		1,030.0	1.0	(53.0)	978.0	1.09	1.03	-5%	477.0	4.0	(42.0)	439.0	0.54	0.50	-8%
Home Depot	HD	Jan-04	Prospective	4,304.0	42.0	(279.0)	4,067.0	1.88	1.78	-6%	3,664.0	10.0	(260.0)	3,414.0	1.56	1.46	-7%
Limited Brands, Inc.	LTD	Jan-04		717.0	12.0	(38.0)	691.0	1.36	1.32	-4%	496.0	58.0	(50.0)	504.0	0.95	0.98	2%
Lowe's Cos.	LOW	Jan-04	Prospective	1,862.0	-	(61.0)	1,801.0	2.32	2.25	-3%	1,459.0	-	(85.0)	1,374.0	1.83	1.71	-6%
Office Depot	ODP	Dec-03		302.0	-	(22.4)	279.6	0.96	0.89	-7%	311.5	-	(29.4)	282.1	0.98	0.89	-9%
RadioShack Corp	RSH	Dec-03		298.5	14.2	(51.1)	261.6	1.77	1.55	-12%	263.4	14.0	(60.5)	216.9	1.45	1.19	-18%
Sherwin-Williams	SHW	Dec-03		332.1	3.7	(12.1)	323.6	2.26	2.20	-3%	310.7	2.0	(11.5)	301.3	2.04	1.98	-3%
Staples Inc.	SPLS	Jan-04		490.2	-	(40.0)	450.2	0.99	0.91	-8%	446.1	-	(33.3)	412.8	0.94	0.87	-7%
Tiffany & Co.	TIF	Jan-04		215.5	-	(13.2)	202.3	1.45	1.36	-6%	189.9	-	(12.8)	177.1	1.28	1.19	-7%
TJX Companies Inc.	TJX	Jan-04		658.4	6.3	(55.2)	609.4	1.28	1.19	-7%	578.4	2.0	(41.7)	538.7	1.08	1.00	-7%
Toys R Us, Inc.	TOY	Jan-04		88.0	-	(34.0)	54.0	0.41	0.25	-39%	229.0	-	(39.0)	190.0	1.09	0.91	-17%
Total				**12,304.2**	**84.4**	**(827.4)**	**11,561.2**			**-6%**	**10,163.6**	**91.1**	**(799.2)**	**9,455.6**			**-7%**
Textiles, Apparel & Luxury Goods (5)																	
Jones Apparel Group	JNY	Dec-03	Prospective	328.6	7.5	(19.5)	316.6	2.48	2.39	-4%	332.3	8.0	(37.7)	302.6	2.46	2.24	-9%
Liz Claiborne, Inc.	LIZ	Dec-03		279.7	-	(19.9)	259.7	2.55	2.39	-7%	231.2	-	(16.8)	214.4	2.16	2.02	-7%
NIKE Inc.	NKE	May-03		740.1	-	(42.2)	697.9	2.77	2.62	-6%	668.3	-	(36.1)	632.2	2.46	2.32	-5%
Reebok International	RBK	Dec-03		157.3	-	(10.4)	146.8	2.43	2.32	-7%	131.5	-	(7.0)	124.5	2.04	1.98	-5%
V.F. Corp.	VFC	Dec-03		397.9	1.0	(13.6)	385.3	3.61	3.49	-3%	364.4	0.6	(15.5)	349.5	3.24	3.10	-4%
Total				**1,903.6**	**8.5**	**(105.7)**	**1,806.4**			**-5%**	**1,727.7**	**8.6**	**(113.1)**	**1,623.2**			**-6%**
Consumer Discretionary (87)																	
Total				**47,867.7**	**546.2**	**(4,335.0)**	**44,078.8**			**-8%**	**(4,635.6)**	**285.1**	**(5,017.5)**	**(9,368.0)**			**N/M**
Consumer Staples																	
Beverages (7)																	
Anheuser-Busch	BUD	Dec-03		2,075.9	-	(113.4)	1,962.5	2.48	2.34	-5%	1,933.8	-	(93.1)	1,840.7	2.20	2.09	-5%
Brown-Forman Corp.	BF.B	Apr-03		245.0	-	(4.0)	241.0	3.63	3.57	-2%	228.0	-	(4.0)	224.0	3.33	3.27	-2%
Coca Cola Co.	KO	Dec-03	Modified Prospective	4,347.0	308.0	(308.0)	4,347.0	1.77	1.77	0%	3,976.0	267.0	(267.0)	3,976.0	1.60	1.60	0%
Coca-Cola Enterprises	CCE	Dec-03		676.0	8.0	(69.0)	615.0	1.46	1.33	-9%	494.0	5.0	(52.0)	447.0	1.07	0.97	-10%
Coors (Adolph)	RKY	Dec-03		174.7	-	(10.3)	164.3	4.77	4.48	-6%	161.7	-	(12.1)	149.6	4.42	4.09	-7%
Pepsi Bottling Group	PBG	Dec-03		422.0	2.0	(42.0)	382.0	1.52	1.37	-9%	428.0	-	(40.0)	388.0	1.46	1.32	-9%
PepsiCo Inc.	PEP	Dec-03	Retroactive Restatement	3,568.0	293.0	(293.0)	3,568.0	2.05	2.05	0%	3,000.0	313.0	(313.0)	3,000.0	1.68	1.68	0%
Total				**11,508.6**	**611.0**	**(839.7)**	**11,279.8**			**-2%**	**10,221.5**	**585.0**	**(781.2)**	**10,025.3**			**-2%**
Food & Staples Retailing (10)																	
Albertson's	ABS	Jan-04		556.0	16.0	(45.0)	527.0	1.51	1.43	-5%	865.0	12.0	(44.0)	833.0	2.17	2.09	-4%
Costco Co.	COST	Aug-03	Prospective	721.0	7.5	(70.3)	658.3	1.53	1.40	-9%	700.0	-	(75.7)	624.2	1.48	1.32	-11%
CVS Corp.	CVS	Dec-03		847.3	-	(50.2)	797.1	2.06	1.95	-6%	716.6	-	(54.1)	662.5	1.75	1.62	-8%
Kroger Co.	KR	Jan-04		315.0	8.0	(48.0)	275.0	0.42	0.36	-13%	1,221.0	6.0	(47.0)	1,180.0	1.54	1.49	-3%
Safeway Inc.	SWY	Dec-03		(169.8)	-	(51.1)	(220.9)	(0.38)	(0.50)	30%	(128.1)	-	(49.6)	(177.7)	(0.27)	(0.38)	39%
Supervalu Inc.	SVU	Feb-03		257.0	-	(9.5)	247.5	1.91	1.84	-4%	198.3	-	(5.5)	192.8	1.48	1.44	-3%
Sysco Corp.	SYY	Jun-03		778.3	-	(51.9)	726.4	1.18	1.10	-7%	679.8	-	(37.3)	642.4	1.01	0.95	-5%
Walgreen Co.	WAG	Aug-03		1,175.7	0.7	(57.0)	1,119.4	1.14	1.09	-5%	1,019.2	6.9	(67.3)	958.8	0.99	0.93	-6%
Wal-Mart Stores (c)	WMT	Jan-04	Retroactive Restatement	9,075.0	102.0	(102.0)	9,075.0	2.03	2.03	0%	8,011.0	84.0	(84.0)	8,011.0	1.76	1.76	0%
Winn-Dixie	WIN	Jun-03	Prospective (g)	239.2	5.4	(5.4)	239.2	1.70	1.70	0%	187.2	4.5	(4.5)	187.2	1.33	0.62	0%
Total				**13,794.8**	**139.6**	**(490.3)**	**13,444.0**			**-3%**	**13,470.0**	**113.4**	**(469.1)**	**13,114.3**			**-3%**
Food Products (10)																	
Archer-Daniels-Midland	ADM	Jun-03		451.1	2.7	(8.1)	445.7	0.70	0.69	-1%	511.1	0.5	(6.0)	505.5	0.78	0.77	-1%
Campbell Soup	CPB	Jul-03		626.0	13.0	(37.0)	602.0	1.52	1.46	-4%	525.0	19.0	(34.0)	510.0	1.28	1.24	-3%
ConAgra Foods, Inc.	CAG	May-03		840.1	-	(20.2)	819.9	1.58	1.55	-2%	735.1	-	(17.6)	717.5	1.38	1.35	-2%
General Mills	GIS	May-03		917.0	13.0	(68.0)	862.0	2.43	2.29	-6%	461.0	10.0	(84.0)	387.0	1.35	1.14	-16%
Heinz (H.J.)	HNZ	Apr-03		555.4	-	(26.1)	529.3	1.57	1.49	-5%	675.2	-	(43.4)	631.8	1.91	1.79	-6%

APPENDIX B: Pro Forma Income From Continuing Operations of the S&P 500 By Sector and Industry Group ($ in Millions)

BEAR
STEARNS

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				2003							2002						
Company Name	Ticker	Fiscal Yearend	Method of Adoption of the Fair Value Method	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	Reported EPS from Cont. Oper.	Pro Forma EPS from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	Reported EPS from Cont. Oper.	Pro Forma EPS from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
Hershey Foods	HSY	Dec-03		465.0	-	(15.6)	449.3	3.52	3.40	-3%	403.6	-	(12.4)	391.2	2.93	2.84	-3%
Kellogg Co.	K	Dec-03		787.1	-	(29.6)	757.5	1.92	1.85	-4%	720.9	-	(42.1)	678.8	1.75	1.65	-6%
McCormick & Co.	MKC	Nov-03		199.2	1.2	(12.7)	187.7	1.40	1.32	-6%	173.8	-	(9.2)	164.6	1.22	1.16	-5%
Sara Lee Corp.	SLE	Jun-03		1,221.0	16.0	(49.0)	1,188.0	1.50	1.46	-3%	1,010.0	24.0	(80.0)	954.0	1.23	1.17	-6%
Wrigley (Wm) Jr.	WWY	Dec-03		445.9	11.9	(26.5)	431.4	1.98	1.92	-3%	401.5	7.8	(19.2)	390.1	1.78	1.73	-3%
Total				**6,507.8**	**57.8**	**(292.8)**	**6,272.8**			**-4%**	**5,617.2**	**61.3**	**(347.9)**	**5,330.5**			**-5%**
Household Products (4)																	
Clorox Co.	CLX	Jun-03		514.0	-	(21.0)	493.0	2.33	2.24	-4%	357.0	-	(26.0)	331.0	1.52	1.41	-7%
Colgate-Palmolive	CL	Dec-03		1,421.3	-	(44.2)	1,377.1	2.46	2.38	-3%	1,288.3	-	(39.5)	1,248.8	2.19	2.12	-3%
Kimberly-Clark	KMB	Dec-03		1,694.2	-	(55.6)	1,638.6	3.33	3.22	-3%	1,686.0	-	(70.2)	1,615.8	3.24	3.11	-4%
Procter & Gamble	PG	Jun-03		5,186.0	-	(398.0)	4,788.0	3.69	3.41	-8%	4,352.0	-	(442.0)	3,910.0	3.09	2.77	-10%
Total				**8,815.5**	**-**	**(518.8)**	**8,296.7**			**-6%**	**7,683.3**	**-**	**(577.7)**	**7,105.6**			**-8%**
Personal Products (3)																	
Alberto-Culver	ACV	Sep-03		162.2	0.9	(9.6)	153.5	2.70	2.56	-5%	137.7	1.0	(8.0)	130.7	2.32	2.21	-5%
Avon Products	AVP	Dec-03		674.6	-	(28.7)	645.9	2.78	2.66	-4%	543.3	-	(30.1)	513.2	2.22	2.10	-6%
Gillette Co.	G	Dec-03		1,375.0	-	(99.0)	1,276.0	1.34	1.25	-7%	1,209.0	-	(111.0)	1,098.0	1.14	1.04	-9%
Total				**2,211.8**	**0.9**	**(137.3)**	**2,075.4**			**-6%**	**1,890.0**	**1.0**	**(149.1)**	**1,741.9**			**-8%**
Tobacco (3)																	
Altria Group, Inc.	MO	Dec-03		9,609.0	-	(19.0)	9,590.0	4.52	4.51	0%	11,674.0	-	(137.0)	11,537.0	5.21	5.15	-1%
RJ Reynolds Tobacco	RJR	Dec-03	Prospective	(3,689.0)	10.0	(9.0)	(3,688.0)	(44.08)	(44.07)	0%	418.0	-	(8.0)	410.0	4.64	4.55	-2%
UST Inc.	UST	Dec-03		318.8	0.1	(3.8)	315.0	1.90	1.88	-1%	(271.5)	-	(4.4)	(275.9)	(1.61)	(1.63)	2%
Total				**6,238.8**	**10.1**	**(31.8)**	**6,217.0**			**0%**	**11,820.5**	**-**	**(149.4)**	**11,671.1**			**-1%**
Consumer Staples (37)																	
Total				**49,077.1**	**819.5**	**(2,310.8)**	**47,585.7**			**-3%**	**50,702.4**	**760.7**	**(2,474.4)**	**48,988.7**			**-3%**
Energy																	
Energy Equipment & Services (8)																	
Baker Hughes	BHI	Dec-03		180.1	1.9	(23.1)	158.9	0.54	0.48	-12%	229.6	2.1	(23.3)	208.4	0.68	0.62	-9%
BJ Services	BJS	Sep-03		188.2	-	(15.4)	172.8	1.17	1.07	-8%	166.5	-	(17.0)	149.5	1.04	0.93	-10%
Halliburton Co.	HAL	Dec-03		339.0	-	(30.0)	309.0	0.78	0.71	-9%	(346.0)	-	(26.0)	(372.0)	(0.80)	(0.86)	8%
Nabors Industries Ltd.	NBR	Dec-03		192.2	-	(13.6)	178.7	1.25	1.16	-7%	121.5	-	(31.0)	90.4	0.81	0.60	-26%
Noble Corporation	NE	Dec-03		166.4	3.0	(20.1)	149.3	1.25	1.12	-10%	209.5	3.2	(22.5)	190.2	1.57	1.43	-9%
Rowan Cos.	RDC	Dec-03		(7.8)	4.6	(9.0)	(12.2)	(0.08)	(0.13)	56%	86.3	4.7	(8.6)	82.3	0.90	0.86	-5%
Schlumberger Ltd.	SLB	Dec-03	Prospective	472.6	-	(91.0)	381.6	0.81	0.65	-19%	(2,417.2)	-	(156.0)	(2,573.2)	(4.18)	(4.45)	6%
Transocean Inc.	RIG	Dec-03	Prospective	18.4	4.6	(20.1)	2.9	0.06	0.01	-84%	(2,368.2)	2.8	(25.7)	(2,391.1)	(7.42)	(7.50)	1%
Total				**1,549.1**	**14.1**	**(222.2)**	**1,341.0**			**-13%**	**(4,318.0)**	**12.7**	**(310.1)**	**(4,615.4)**			**N/M**
Oil & Gas (15)																	
Amerada Hess	AHC	Dec-03		467.0	7.0	(8.0)	466.0	5.17	5.17	0%	(245.0)	5.0	(19.0)	(259.0)	(2.78)	(2.93)	6%
Anadarko Petroleum	APC	Dec-03	Prospective	1,245.0	12.0	(30.0)	1,227.0	4.91	4.84	-1%	831.0	9.0	(32.0)	808.0	3.21	3.13	-3%
Apache Corp.	APA	Dec-03	Prospective	1,095.3	2.5	(23.0)	1,074.8	3.35	3.29	-2%	554.3	1.1	(20.8)	534.6	1.80	1.72	-4%
Ashland Inc.	ASH	Sep-03	Modified Prospective	94.0	5.0	(5.0)	94.0	1.37	1.37	0%	115.0	-	(4.0)	111.0	1.64	1.58	-3%
Burlington Resources	BR	Dec-03		1,260.0	-	(10.0)	1,250.0	6.30	6.25	-1%	454.0	-	(11.0)	443.0	2.25	2.20	-2%
ChevronTexaco Corp.	CVX	Dec-03		7,426.0	1.0	(26.0)	7,401.0	7.14	7.11	0%	1,132.0	(1.0)	(48.0)	1,083.0	1.07	1.02	-4%
ConocoPhillips	COP	Dec-03	Prospective	4,593.0	50.0	(78.0)	4,565.0	6.70	6.66	-1%	698.0	74.0	(135.0)	637.0	1.44	1.32	-9%
Devon Energy Corp.	DVN	Dec-03		1,731.0	2.0	(23.0)	1,710.0	8.00	7.91	-1%	59.0	1.0	(17.0)	43.0	0.32	0.21	-27%
EOG Resources	EOG	Dec-03		437.3	-	(13.9)	423.4	3.66	3.54	-3%	87.2	-	(13.7)	73.5	0.65	0.53	-16%
Exxon Mobil Corp.	XOM	Dec-03	Prospective	20,960.0	86.0	(93.0)	20,953.0	3.15	3.15	0%	11,011.0	19.0	(180.0)	10,850.0	1.61	1.59	-1%
Kerr-McGee	KMG	Dec-03		254.0	-	(16.0)	238.0	2.48	2.34	-6%	(611.0)	-	(15.0)	(626.0)	(6.09)	(6.24)	2%
Marathon Oil Corp.	MRO	Dec-03	Prospective	1,012.0	23.0	(17.0)	1,018.0	3.26	3.28	1%	507.0	5.0	(16.0)	496.0	1.63	1.60	-2%
Occidental Petroleum	OXY	Dec-03		1,595.0	38.0	(56.0)	1,577.0	4.11	4.06	-1%	1,163.0	18.0	(37.0)	1,144.0	3.07	3.01	-2%
Sunoco., Inc.	SUN	Dec-03	Modified Prospective	312.0	13.0	(13.0)	312.0	4.03	4.03	0%	(47.0)	11.0	(11.0)	(47.0)	(0.62)	(0.62)	0%
Unocal Corp.	UCL	Dec-03	Prospective	710.0	17.0	(22.0)	705.0	2.70	2.68	-1%	330.0	26.0	(56.0)	300.0	1.34	1.21	-9%
Total				**43,191.5**	**256.5**	**(433.9)**	**43,014.2**			**0%**	**16,038.5**	**168.1**	**(615.5)**	**15,591.1**			**-3%**
Energy (23)																	
Total				**44,740.6**	**270.7**	**(656.1)**	**44,355.2**			**-1%**	**11,720.5**	**180.8**	**(925.6)**	**10,975.7**			**-6%**
Financials																	
Capital Markets (15)																	
Bank of New York	BK	Dec-03	Prospective	1,157.0	16.0	(81.0)	1,092.0	1.52	1.45	-6%	902.0	-	(87.0)	815.0	1.24	1.13	-10%
Bear Stearns Cos.	BSC	Nov-03	Prospective	1,156.4	306.4	(359.5)	1,103.3	8.52	8.16	-5%	878.3	216.7	(263.0)	832.0	6.47	6.15	-5%
Charles Schwab	SCH	Dec-03		472.0	6.0	(112.0)	366.0	0.35	0.27	-22%	135.0	6.0	(154.0)	(13.0)	0.10	(0.01)	-110%
Federated Investors Inc.	FII	Dec-03	Prospective	191.5	0.2	(4.7)	187.0	1.71	1.67	-2%	203.8	0.0	(6.9)	196.9	1.74	1.68	-3%
Franklin Resources	BEN	Sep-03		502.8	-	(65.3)	437.5	1.97	1.72	-13%	432.7	-	(59.3)	373.4	1.65	1.42	-14%
Goldman Sachs Group	GS	Nov-03	Prospective	3,005.0	458.0	(782.0)	2,681.0	5.87	5.24	-11%	2,114.0	416.0	(785.0)	1,745.0	4.03	3.32	-17%
J.P. Morgan Chase & Co.	JPM	Dec-03	Prospective	6,719.0	551.0	(863.0)	6,407.0	3.24	3.09	-5%	1,663.0	354.0	(1,232.0)	785.0	0.80	0.37	-53%
Janus Capital Group	JNS	Dec-03		955.8	48.5	(55.7)	948.6	4.17	4.14	-1%	94.5	76.0	(83.4)	87.1	0.43	0.40	-8%
Lehman Bros.	LEH	Nov-03	Prospective	1,699.0	362.0	(534.0)	1,527.0	6.35	5.77	-10%	975.0	330.0	(475.0)	830.0	3.47	2.95	-15%
Mellon Bank Corp.	MEL	Dec-03	Prospective	677.0	18.0	(52.0)	643.0	1.57	1.49	-5%	663.0	16.0	(56.0)	623.0	1.51	1.42	-6%

APPENDIX B: Pro Forma Income From Continuing Operations of the S&P 500 By Sector and Industry Group ($ in Millions)

BEAR
STEARNS

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Company Name	Ticker	Fiscal Yearend	Method of Adoption of the Fair Value Method	2003 Reported Net Income/ (Net Loss) from Cont. Oper.	2003 Stock-based Compensation Included in Reported NI from Cont. Oper.	2003 Total Stock-based Compensation	2003 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2003 Reported EPS from Cont. Oper.	2003 Pro Forma EPS from Cont. Oper.	2003 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	2002 Reported Net Income/ (Net Loss) from Cont. Oper.	2002 Stock-based Compensation Included in Reported NI from Cont. Oper.	2002 Total Stock-based Compensation	2002 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2002 Reported EPS from Cont. Oper.	2002 Pro Forma EPS from Cont. Oper.	2002 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
Merrill Lynch	MER	Dec-03	Retroactive Restatement	3,988.0	484.0	(638.0)	3,834.0	4.05	3.89	-4%	2,513.0	527.0	(1,331.0)	1,709.0	2.63	1.77	-32%
Morgan Stanley	MWD	Nov-03	Prospective	3,787.0	117.0	(117.0)	3,787.0	3.45	3.45	0%	2,988.0	-	(250.0)	2,738.0	2.69	2.45	-8%
Northern Trust Corp.	NTRS	Dec-03		423.3	12.7	(59.3)	376.7	1.89	1.68	-11%	447.1	16.2	(70.3)	393.0	1.97	1.73	-12%
State Street Corp.	STT	Dec-03	Prospective	722.0	22.0	(61.0)	683.0	2.15	2.04	-5%	1,015.0	-	(49.0)	966.0	3.10	2.95	-5%
T. Rowe Price Group	TROW	Dec-03		227.5	-	(25.8)	201.7	1.77	1.59	-11%	194.3	-	(27.4)	166.9	1.52	1.31	-14%
Total				**25,683.3**	**2,401.8**	**(3,810.3)**	**24,274.8**			**-5%**	**15,218.7**	**1,957.9**	**(4,929.3)**	**12,247.3**			**-20%**
Commercial Banks (25)																	
AmSouth Bancorporation	ASO	Dec-03		626.1	1.9	(27.0)	601.0	1.77	1.70	-4%	609.1	2.1	(26.6)	584.6	1.68	1.62	-4%
Bank of America Corp.	BAC	Dec-03	Prospective	10,810.0	78.0	(225.0)	10,663.0	7.13	7.05	-1%	9,249.0	-	(413.0)	8,836.0	5.91	5.64	-4%
Bank One Corp.	ONE	Dec-03	Prospective	3,125.0	115.0	(147.0)	3,093.0	2.75	2.73	-1%	3,256.0	75.0	(138.0)	3,193.0	2.77	2.73	-2%
BB&T Corporation	BBT	Dec-03		1,064.9	0.6	(29.0)	1,036.5	2.07	2.02	-3%	1,293.2	1.6	(31.5)	1,263.3	2.70	2.64	-2%
Charter One Financial	CF	Dec-03		630.9	-	(30.1)	600.8	2.74	2.61	-5%	577.7	-	(28.4)	549.3	2.45	2.33	-5%
Comerica Inc.	CMA	Dec-03	Prospective	661.0	18.0	(26.0)	653.0	3.75	3.70	-1%	601.0	17.0	(30.0)	588.0	3.40	3.32	-2%
Fifth Third Bancorp	FITB	Dec-03	Retroactive Restatement	1,742.0	-	(90.0)	1,652.0	2.97	2.81	-5%	1,669.0	-	(105.0)	1,564.0	2.75	2.57	-6%
First Tennessee National	FTN	Dec-03		473.3	6.4	(27.1)	452.6	3.62	3.46	-4%	376.5	7.5	(22.1)	361.9	2.89	2.78	-4%
Fleet Boston Financial Group	FBF	Dec-03	Prospective	2,555.0	46.0	(103.0)	2,498.0	2.41	2.35	-2%	1,524.0	37.0	(134.0)	1,427.0	1.44	1.34	-6%
Huntington Bancshares	HBAN	Dec-03		385.7	-	(12.7)	373.0	1.67	1.61	-3%	323.7	-	(12.7)	311.0	1.33	1.27	-4%
KeyCorp	KEY	Dec-03	Prospective	903.0	15.0	(26.0)	892.0	2.12	2.10	-1%	976.0	5.0	(28.0)	953.0	2.27	2.22	-2%
M&T Bank Corp.	MTB	Dec-03	Retroactive Restatement	573.9	32.0	(32.0)	573.9	4.95	4.95	0%	456.8	28.0	(28.0)	456.8	4.78	4.78	0%
Marshall & Ilsley Corp.	MI	Dec-03		544.1	-	(22.3)	521.8	2.38	2.29	-4%	480.3	-	(22.1)	458.2	2.16	2.07	-5%
National City Corp.	NCC	Dec-03	Prospective	2,117.1	8.7	(46.6)	2,079.1	3.43	3.37	-2%	1,446.6	-	(51.1)	1,395.5	2.35	2.26	-4%
North Fork Bancorporation	NFB	Dec-03		396.4	6.8	(9.3)	393.9	2.60	2.58	-1%	416.9	5.5	(11.7)	410.7	2.58	2.54	-1%
PNC Bank Corp.	PNC	Dec-03	Prospective	1,029.0	21.0	(54.0)	996.0	3.65	3.53	-3%	1,200.0	-	(47.0)	1,153.0	4.20	4.04	-4%
Regions Financial Corp.	RF	Dec-03		651.8	-	(9.3)	642.6	2.90	2.85	-1%	619.9	-	(13.9)	606.0	2.72	2.66	-2%
SouthTrust Corp.	SOTR	Dec-03		705.2	-	(10.5)	694.7	2.06	2.03	-1%	649.9	-	(9.3)	640.5	1.85	1.83	-1%
SunTrust Banks	STI	Dec-03	Prospective	1,332.3	5.3	(14.5)	1,323.1	4.73	4.70	-1%	1,331.8	0.5	(19.3)	1,313.0	4.66	4.59	-1%
Synovus Financial	SNV	Dec-03		388.9	-	(13.9)	375.1	1.28	1.23	-4%	365.3	-	(14.4)	350.9	1.21	1.17	-4%
U.S. Bancorp	USB	Dec-03	Retroactive Restatement	3,710.1	123.4	(123.4)	3,710.1	1.92	1.92	0%	3,228.0	113.3	(113.3)	3,228.0	1.68	1.68	0%
Union Planters Corporation	UPC	Dec-03		498.1	-	(14.6)	483.5	2.52	2.45	-3%	529.0	-	(13.9)	515.1	2.59	2.52	-3%
Wachovia Corp.	WB	Dec-03	Prospective	4,247.0	66.0	(133.0)	4,180.0	3.17	3.12	-2%	3,579.0	38.0	(106.0)	3,511.0	2.60	2.55	-2%
Wells Fargo	WFC	Dec-03		6,202.0	3.0	(198.0)	6,007.0	3.65	3.53	-3%	5,710.0	3.0	(190.0)	5,523.0	3.32	3.21	-3%
Zions Bancorp	ZION	Dec-03		339.6	-	(15.4)	324.2	3.74	3.57	-5%	317.1	-	(17.2)	299.9	3.44	3.26	-5%
Total				**45,712.4**	**547.1**	**(1,439.6)**	**44,819.9**			**-2%**	**40,785.9**	**333.6**	**(1,626.7)**	**39,492.7**			**-3%**
Consumer Finance (5)																	
American Express	AXP	Dec-03	Prospective	3,000.0	79.0	(349.0)	2,730.0	2.31	2.10	-9%	2,671.0	26.0	(355.0)	2,342.0	2.01	1.76	-12%
Capital One Financial	COF	Dec-03	Prospective	1,150.9	31.8	(173.7)	1,009.0	4.92	4.40	-12%	899.6	17.2	(174.4)	742.4	3.93	3.37	-17%
MBNA Corp.	KRB	Dec-03		2,338.1	56.3	(130.2)	2,264.2	1.79	1.74	-3%	1,766.0	59.7	(134.1)	1,691.5	1.34	1.29	-4%
Providian Financial Corp.	PVN	Dec-03		196.2	4.9	(28.3)	172.8	0.67	0.59	-12%	151.0	7.2	(47.2)	111.0	0.52	0.39	-26%
SLM Corporation	SLM	Dec-03		1,403.6	-	(85.5)	1,318.1	3.01	2.82	-6%	792.0	-	(104.1)	687.9	1.64	1.43	-13%
Total				**8,088.8**	**172.0**	**(766.7)**	**7,494.1**			**-7%**	**6,279.6**	**110.2**	**(814.9)**	**5,574.9**			**-11%**
Diversified Financial Services (3)																	
Citigroup Inc.	C	Dec-03	Prospective	17,853.0	110.0	(365.0)	17,598.0	3.42	3.37	-1%	13,448.0	-	(434.0)	13,014.0	2.59	2.51	-3%
Moody's Corp	MCO	Dec-03	Prospective	363.9	6.6	(20.0)	350.5	2.39	2.30	-4%	288.9	0.1	(14.3)	274.7	1.83	1.75	-5%
Principal Financial Group	PFG	Dec-03	Prospective	727.9	20.1	(23.4)	724.6	2.23	2.22	0%	619.9	11.8	(15.1)	616.6	1.77	1.76	-1%
Total				**18,944.8**	**136.7**	**(408.4)**	**18,673.1**			**-1%**	**14,356.8**	**11.9**	**(463.4)**	**13,905.3**			**-3%**
Insurance (24)																	
ACE Limited	ACE	Dec-03		1,417.5	31.5	(64.1)	1,385.0	5.01	4.90	-2%	76.5	22.6	(56.2)	42.9	0.19	0.06	-44%
AFLAC Corporation	AFL	Dec-03		795.0	-	(27.0)	768.0	1.52	1.47	-3%	821.0	-	(36.0)	785.0	1.55	1.48	-4%
Allstate Corp.	ALL	Dec-03	Prospective	2,725.0	9.0	(40.0)	2,694.0	3.85	3.81	-1%	1,475.0	-	(40.0)	1,435.0	2.07	2.01	-3%
Ambac Financial Group	ABK	Dec-03	Prospective	628.1	4.5	(15.5)	617.1	5.74	5.64	-2%	431.9	-	(12.6)	419.3	3.96	3.84	-3%
American Int'l. Group	AIG	Dec-03	Prospective	9,644.0	16.0	(72.0)	9,588.0	3.53	3.51	-1%	5,814.0	-	(55.0)	5,759.0	2.10	2.07	-1%
Aon Corp.	AOC	Dec-03		633.0	31.0	(55.0)	609.0	2.08	2.00	-4%	486.0	14.0	(37.0)	463.0	1.71	1.63	-5%
Chubb Corp.	CB	Dec-03	Modified Prospective	808.8	59.1	(59.1)	808.8	4.46	4.46	0%	222.9	14.5	(69.0)	168.4	1.29	0.97	-24%
Cincinnati Financial	CINF	Dec-03		374.0	-	(10.0)	364.0	2.31	2.25	-3%	238.0	-	(10.0)	228.0	1.46	1.40	-4%
Hartford Financial Svc.Gp.	HIG	Dec-03	Prospective	(91.0)	20.0	(50.0)	(121.0)	(0.33)	(0.44)	33%	1,000.0	6.0	(59.0)	947.0	3.97	3.76	-5%
Jefferson-Pilot	JP	Dec-03		492.0	-	(6.0)	486.0	3.44	3.40	-1%	450.0	-	(11.0)	439.0	3.04	2.96	-2%
John Hancock Financial	JHF	Dec-03	Prospective	972.2	14.4	(42.3)	944.3	3.37	3.27	-3%	499.5	3.5	(60.2)	442.8	1.70	1.51	-11%
Lincoln National (c)	LNC	Dec-03	Retroactive Restatement	767.2	35.6	(35.6)	767.2	4.27	4.27	0%	48.8	36.1	(36.1)	48.8	0.26	0.26	0%
Loews Corp.	LTR	Dec-03		(781.3)	-	(5.5)	(786.8)	(4.21)	(4.24)	1%	837.9	-	(3.8)	834.1	4.46	4.44	0%
Marsh & McLennan	MMC	Dec-03		1,540.0	-	(171.0)	1,369.0	2.81	2.50	-11%	1,365.0	-	(152.0)	1,213.0	2.45	2.18	-11%
MBIA Inc.	MBI	Dec-03	Modified Prospective	813.6	8.0	(8.0)	813.6	5.61	5.61	0%	586.8	7.2	(7.2)	586.8	3.98	3.98	0%
MetLife Inc.	MET	Dec-03	Prospective	1,943.0	13.0	(42.0)	1,914.0	2.57	2.53	-1%	1,134.0	1.0	(33.0)	1,102.0	1.56	1.51	-3%
Progressive Corp.	PGR	Dec-03	Prospective	1,255.4	-	(12.8)	1,242.6	5.69	5.65	-1%	667.3	-	(16.9)	650.4	2.99	2.92	-3%
Prudential Financial	PRU	Dec-03	Prospective	1,069.0	10.0	(45.0)	1,034.0	2.06	1.99	-3%	754.0	-	(30.0)	724.0	1.38	1.33	-4%
SAFECO Corp.	SAFC	Dec-03	Prospective	339.2	5.7	(13.5)	331.4	2.44	2.39	-2%	301.1	-	(14.0)	287.1	2.33	2.22	-5%
St. Paul Cos.	SPC	Dec-03		699.0	-	(39.0)	660.0	2.88	2.75	-6%	249.0	-	(37.0)	212.0	1.06	0.91	-15%
Torchmark Corp.	TMK	Dec-03		430.1	0.4	(8.1)	422.4	3.73	3.67	-2%	383.4	0.5	(8.2)	375.7	3.18	3.12	-2%
Travelers Property Casualty Corp.	TAP.B	Dec-03	Prospective	1,696.0	18.2	(73.2)	1,641.0	1.68	1.63	-3%	215.6	17.0	(96.1)	136.5	0.23	0.15	-37%
UnumProvident Corp.	UNM	Dec-03		(264.6)	0.6	(12.8)	(276.8)	(0.96)	(1.00)	5%	396.9	-	(15.5)	381.4	1.63	1.57	-4%
XL Capital	XL	Dec-03	Prospective	412.0	5.6	(49.5)	368.1	2.69	2.37	-11%	405.6	-	(54.3)	351.2	2.88	2.49	-13%
Total				**28,317.1**	**282.6**	**(956.9)**	**27,642.8**			**-2%**	**18,860.3**	**122.3**	**(950.1)**	**18,032.6**			**-4%**

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				2003							2002						
Company Name	Ticker	Fiscal Yearend	Method of Adoption of the Fair Value Method	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	Reported EPS from Cont. Oper.	Pro Forma EPS from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	Reported EPS from Cont. Oper.	Pro Forma EPS from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
Real Estate (6)																	
Apartment Investment & Mgmt'A'	AIV	Dec-03	Prospective	70.7	5.8	(12.2)	64.3	(0.25)	(0.32)	-9%	160.0	5.4	(13.0)	152.4	0.77	0.68	-5%
Equity Office Properties	EOP	Dec-03	Prospective	549.1	3.8	(10.9)	542.0	1.26	1.24	-1%	670.9	2.5	(12.1)	661.3	1.49	1.47	-1%
Equity Residential	EQR	Dec-03	Prospective	211.6	14.9	(19.0)	207.4	0.43	0.42	-2%	246.8	25.8	(33.5)	239.2	0.59	0.56	-3%
Plum Creek Timber Co.	PCL	Dec-03	Prospective	192.0	4.0	(4.0)	192.0	1.04	1.04	0%	233.0	5.0	(5.0)	233.0	1.26	1.26	0%
ProLogis	PLD	Dec-03		250.7	-	(4.1)	246.5	1.16	1.14	-2%	248.9	-	(5.8)	243.1	1.20	1.17	-2%
Simon Property Group, Inc (f)	SPG	Dec-03	Prospective	449.9	6.2	(6.2)	449.9	1.53	1.53	0%	541.6	5.4	(5.4)	541.6	1.92	1.92	0%
Total				**1,724.0**	**34.7**	**(56.5)**	**1,702.2**			**-1%**	**2,101.2**	**44.1**	**(74.7)**	**2,070.6**			**-1%**
Thrifts & Mortgage Finance (6)																	
Countrywide Financial Corp.	CFC	Dec-03		2,373.0	-	(28.2)	2,344.8	12.47	12.32	-1%	841.8	-	(25.9)	815.8	4.87	4.72	-3%
Fannie Mae	FNM	Dec-03	Prospective	7,720.0	64.0	(116.0)	7,668.0	7.72	7.66	-1%	4,619.0	25.0	(105.0)	4,539.0	4.52	4.44	-2%
Federal Home Loan Mtg. (b) (f)	FRE	Dec-02	Retroactive Restatement	-	-	-	-	-	-	N/M	10,090.0	39.4	(39.4)	10,090.0	14.18	14.18	0%
Golden West Financial	GDW	Dec-03		1,106.1	-	(8.2)	1,097.9	7.14	7.10	-1%	958.3	-	(3.5)	954.8	6.12	6.09	0%
MGIC Investment	MTG	Dec-03		493.9	4.1	(10.5)	487.5	4.99	4.92	-1%	629.2	2.6	(12.4)	619.4	6.04	5.94	-2%
Washington Mutual	WM	Dec-03	Prospective	3,793.0	56.0	(127.0)	3,722.0	4.12	4.04	-2%	3,789.0	28.0	(87.0)	3,730.0	3.94	3.88	-2%
Total				**15,485.9**	**124.1**	**(289.9)**	**15,320.2**			**-1%**	**20,927.2**	**95.0**	**(273.2)**	**20,749.0**			**-1%**
Financials (84)																	
Total				**143,956.3**	**3,699.0**	**(7,728.3)**	**139,927.1**			**-3%**	**118,529.7**	**2,675.0**	**(9,132.4)**	**112,072.3**			**-5%**
Health Care																	
Biotechnology (5)																	
Amgen	AMGN	Dec-03		2,259.5	-	(198.0)	2,061.5	1.69	1.55	-9%	(1,391.9)	-	(189.8)	(1,581.7)	(1.21)	(1.37)	14%
BIOGEN IDEC Inc.	BIIB	Dec-03		(875.1)	-	(51.9)	(926.9)	(4.92)	(5.21)	6%	148.1	-	(54.7)	93.4	0.85	0.54	-37%
Chiron Corp.	CHIR	Dec-03		220.3	5.6	(100.8)	125.1	1.15	0.65	-43%	181.1	3.2	(67.1)	117.2	0.94	0.61	-35%
Genzyme Corp.	GENZ	Dec-03		(67.6)	0.4	(80.0)	(147.3)	0.42	0.08	118%	85.2	0.8	(69.7)	16.3	0.81	0.55	-81%
MedImmune Inc.	MEDI	Dec-03		183.2	2.5	(87.5)	98.2	0.72	0.39	-46%	(1,098.0)	12.1	(96.3)	(1,182.2)	(4.40)	(4.74)	8%
Total				**1,720.4**	**8.4**	**(518.2)**	**1,210.6**			**-30%**	**(2,075.5)**	**16.1**	**(477.6)**	**(2,537.0)**			**N/M**
Health Care Equipment & Supplies (13)																	
Applera Corp-Applied Biosystems Group	ABI	Jun-03		199.6	0.7	(118.8)	81.5	0.95	0.39	-59%	168.5	2.1	(101.1)	69.5	0.78	0.32	-59%
Bard (C.R.) Inc.	BCR	Dec-03		168.5	-	(17.2)	151.3	3.20	2.88	-10%	155.0	-	(11.8)	143.2	2.94	2.71	-8%
Bausch & Lomb	BOL	Dec-03		130.0	4.6	(15.7)	118.9	2.36	2.16	-9%	89.8	4.7	(19.1)	75.4	1.34	1.07	-16%
Baxter International Inc.	BAX	Dec-03		922.0	1.0	(157.0)	766.0	1.52	1.27	-17%	1,033.0	2.0	(159.0)	876.0	1.67	1.43	-15%
Becton, Dickinson	BDX	Sep-03		547.1	-	(35.9)	511.1	2.07	1.95	-7%	480.0	-	(34.9)	445.1	1.79	1.66	-7%
Biomet, Inc.	BMET	May-03		286.7	-	(5.5)	281.2	1.10	1.08	-2%	239.7	-	(5.3)	234.5	0.88	0.86	-2%
Boston Scientific	BSX	Dec-03		472.0	1.0	(62.0)	411.0	0.56	0.49	-13%	373.0	6.0	(48.0)	331.0	0.45	0.40	-11%
Guidant Corp.	GDT	Dec-03		425.5	-	(64.3)	361.2	1.36	1.15	-15%	668.1	-	(94.8)	573.3	2.18	1.87	-14%
Medtronic Inc.	MDT	Apr-03		1,599.8	-	(179.3)	1,420.5	1.30	1.16	-11%	984.0	-	(159.6)	824.4	0.80	0.67	-16%
Millipore Corp.	MIL	Dec-03		100.8	0.6	(19.1)	82.4	2.06	1.68	-18%	80.8	1.3	(15.9)	66.3	1.67	1.37	-18%
St Jude Medical	STJ	Dec-03		339.4	-	(38.0)	301.4	1.83	1.63	-11%	276.3	-	(33.2)	243.1	1.51	1.33	-12%
Stryker Corp.	SYK	Dec-03		453.5	-	(19.1)	434.4	2.23	2.14	-4%	345.6	-	(17.1)	328.5	1.70	1.61	-5%
Zimmer Holdings	ZMH	Dec-03		291.2	-	(14.3)	276.9	1.38	1.31	-5%	257.8	-	(12.7)	245.1	1.31	1.25	-5%
Total				**5,936.1**	**7.9**	**(746.3)**	**5,197.7**			**-12%**	**5,151.6**	**16.1**	**(712.4)**	**4,455.3**			**-14%**
Health Care Providers & Services (17)																	
Aetna Inc.	AET	Dec-03		933.8	40.1	(81.0)	892.9	5.91	5.64	-4%	393.2	27.4	(59.4)	361.2	2.57	2.37	-8%
AmerisourceBergen Corp.	ABC	Sep-03		441.2	0.6	(19.6)	422.3	3.89	3.73	-4%	344.9	1.5	(12.3)	334.1	3.16	3.06	-3%
Anthem, Inc.	ATH	Dec-03		774.3	1.7	(24.6)	751.4	5.45	5.29	-3%	549.1	1.0	(14.1)	536.0	4.51	4.42	-2%
Cardinal Health, Inc.	CAH	Jun-03		1,411.9	1.8	(85.4)	1,328.3	3.12	2.93	-6%	1,126.3	2.7	(74.3)	1,054.7	2.45	2.29	-6%
CIGNA Corp.	CI	Dec-03		620.0	11.0	(47.0)	584.0	4.41	4.16	-6%	(397.0)	14.0	(63.0)	(446.0)	(2.83)	(3.18)	12%
Express Scripts	ESRX	Dec-03		250.6	4.4	(16.3)	238.8	3.17	3.01	-5%	202.8	5.1	(16.5)	191.5	2.55	2.39	-6%
HCA Inc.	HCA	Dec-03		1,332.0	-	(89.0)	1,243.0	2.61	2.43	-7%	833.0	-	(151.0)	682.0	1.59	1.30	-18%
Health Management Assoc.	HMA	Sep-03		283.4	-	(10.2)	273.2	1.13	1.08	-4%	246.4	-	(11.2)	235.3	0.97	0.91	-5%
Humana Inc.	HUM	Dec-03		228.9	3.9	(8.9)	223.9	1.41	1.38	-2%	142.8	5.8	(9.8)	138.8	0.85	0.83	-3%
IMS Health Inc.	RX	Dec-03		139.3	2.4	(23.2)	118.5	0.56	0.48	-15%	236.8	2.4	(26.7)	212.5	0.83	0.74	-10%
Manor Care Inc.	HCR	Dec-03		119.0	-	(9.5)	109.5	1.31	1.20	-8%	131.9	-	(7.0)	124.9	1.33	1.27	-5%
McKesson Corp.	MCK	Mar-03		562.1	3.2	(159.5)	405.8	1.90	1.38	-28%	421.8	6.9	(168.6)	260.1	1.44	0.89	-38%
Medco Health Solutions Inc.	MHS	Dec-03		425.8	-	(141.4)	284.4	1.57	1.05	-33%	361.6	-	(72.7)	288.9	1.34	1.07	-20%
Quest Diagnostics	DGX	Dec-03		436.7	5.3	(52.4)	389.7	4.12	3.72	-11%	322.2	9.0	(47.4)	283.8	3.23	2.87	-12%
Tenet Healthcare Corp. (a)	THC	Dec-03	Retroactive Restatement	(1,404.0)	86.0	(86.0)	(1,404.0)	(3.01)	(3.01)	0%	744.0	90.0	(90.0)	744.0	1.49	1.49	0%
United Health Group Inc.	UNH	Dec-03		1,825.0	-	(122.0)	1,703.0	2.96	2.76	-7%	1,352.0	-	(101.0)	1,251.0	2.13	1.97	-7%
WellPoint Health Networks	WLP	Dec-03		935.2	0.5	(72.0)	863.7	6.16	5.69	-8%	694.1	1.9	(55.0)	641.0	4.61	4.26	-8%
Total				**9,315.3**	**160.9**	**(1,047.9)**	**8,428.4**			**-10%**	**7,705.9**	**167.7**	**(979.9)**	**6,893.7**			**-11%**
Pharmaceuticals (12)																	
Abbott Labs	ABT	Dec-03		2,753.2	-	(300.0)	2,453.2	1.75	1.62	-11%	2,793.7	-	(200.0)	2,593.7	1.78	1.65	-7%
Allergan, Inc.	AGN	Dec-03		(52.5)	7.2	(43.6)	(88.9)	(0.40)	(0.68)	69%	64.0	7.8	(41.4)	30.4	0.49	0.24	-53%
Bristol-Myers Squibb	BMY	Dec-03		3,106.0	-	(183.0)	2,923.0	1.59	1.50	-6%	2,067.0	-	(247.0)	1,820.0	1.06	0.93	-12%
Forest Laboratories	FRX	Mar-03		622.0	-	(32.6)	589.4	1.66	1.58	-5%	338.0	-	(65.7)	272.3	0.91	0.73	-19%
Johnson & Johnson	JNJ	Dec-03		7,197.0	-	(349.0)	6,848.0	2.40	2.29	-5%	6,597.0	-	(320.0)	6,277.0	2.16	2.06	-5%
King Pharmaceuticals	KG	Dec-03		105.9	-	(1.5)	104.4	0.44	0.87	-1%	182.5	-	(8.1)	174.4	0.74	0.71	-4%
Lilly (Eli) & Co.	LLY	Dec-03		2,560.8	-	(220.8)	2,340.0	2.37	2.16	-9%	2,707.9	-	(322.1)	2,385.8	2.50	2.20	-12%
Merck & Co.	MRK	Dec-03		6,589.6	4.9	(559.4)	6,035.1	2.92	2.68	-8%	6,794.8	1.2	(487.9)	6,308.1	2.98	2.77	-7%
Pfizer, Inc.	PFE	Dec-03		1,639.0	-	(541.0)	1,098.0	0.22	0.14	-33%	9,181.0	-	(518.0)	8,663.0	1.47	1.39	-6%
Schering-Plough	SGP	Dec-03		(92.0)	66.0	(143.0)	(169.0)	(0.06)	(0.12)	84%	1,974.0	69.0	(150.0)	1,893.0	1.34	1.29	-4%

APPENDIX B: Pro Forma Income From Continuing Operations of the S&P 500 By Sector and Industry Group ($ in Millions)

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Company Name	Ticker	Fiscal Yearend	Method of Adoption of the Fair Value Method	2003 Reported Net Income/ (Net Loss) from Cont. Oper.	2003 Stock-based Compensation Included in Reported NI from Cont. Oper.	2003 Total Stock-based Compensation	2003 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2003 Reported EPS from Cont. Oper.	2003 Pro Forma EPS from Cont. Oper.	2003 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	2002 Reported Net Income/ (Net Loss) from Cont. Oper.	2002 Stock-based Compensation Included in Reported NI from Cont. Oper.	2002 Total Stock-based Compensation	2002 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2002 Reported EPS from Cont. Oper.	2002 Pro Forma EPS from Cont. Oper.	2002 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
Watson Pharmaceuticals	WPI	Dec-03		202.9	-	(20.9)	182.0	1.86	1.67	-10%	175.8	-	(30.8)	145.0	1.64	1.35	-18%
Wyeth	WYE	Dec-03		2,051.2	13.4	(335.1)	1,729.5	1.54	1.29	-16%	4,447.2	4.0	(302.0)	4,149.2	3.33	3.11	-7%
Total				**26,683.0**	**91.5**	**(2,729.8)**	**24,044.7**			**-10%**	**37,322.9**	**82.0**	**(2,693.0)**	**34,711.9**			**-7%**
Health Care (47)																	
Total				**43,654.8**	**268.8**	**(5,042.2)**	**38,881.4**			**-11%**	**48,104.9**	**281.9**	**(4,862.9)**	**43,523.9**			**-10%**
Industrials																	
Aerospace & Defense (9)																	
Boeing Company	BA	Dec-03	Prospective (g)	718.0	456.0	(456.0)	718.0	0.89	0.89	0%	2,319.0	447.0	(447.0)	2,319.0	2.87	2.87	0%
General Dynamics	GD	Dec-03		997.0	14.0	(42.0)	969.0	5.00	4.86	-3%	1,051.0	15.0	(43.0)	1,023.0	5.18	5.04	-3%
Goodrich Corporation	GR	Dec-03		38.5	-	(18.9)	19.6	0.33	0.17	-49%	164.2	-	(17.5)	146.7	1.56	1.39	-11%
Honeywell Int'l Inc.	HON	Dec-03		1,344.0	-	(48.0)	1,296.0	1.56	1.50	-4%	(220.0)	-	(64.0)	(284.0)	(0.27)	(0.35)	29%
Lockheed Martin Corp.	LMT	Dec-03		1,053.0	-	(61.0)	992.0	2.34	2.20	-6%	533.0	-	(67.0)	466.0	1.18	1.03	-13%
Northrop Grumman Corp.	NOC	Dec-03		808.0	64.0	(82.0)	790.0	4.32	4.22	-2%	697.0	45.0	(65.0)	677.0	5.72	5.55	-3%
Raytheon Co.	RTN	Dec-03		535.0	5.0	(73.0)	467.0	1.29	1.13	-13%	756.0	4.0	(63.0)	697.0	1.85	1.71	-8%
Rockwell Collins	COL	Sep-03		258.0	-	(15.0)	243.0	1.43	1.35	-6%	236.0	-	(18.0)	218.0	1.28	1.18	-8%
United Technologies	UTX	Dec-03		2,361.0	8.0	(133.0)	2,236.0	4.69	4.44	-5%	2,236.0	3.0	(121.0)	2,118.0	4.42	4.19	-5%
Total				**8,112.5**	**547.0**	**(928.9)**	**7,730.6**			**-5%**	**7,772.2**	**514.0**	**(905.5)**	**7,380.7**			**-5%**
Air Freight & Logistics (3)																	
FedEx Corporation	FDX	May-03		830.0	-	(34.0)	796.0	2.74	2.63	-4%	725.0	-	(37.0)	688.0	2.39	2.27	-5%
Ryder System	R	Dec-03		135.6	0.5	(5.7)	130.4	2.12	2.04	-4%	112.6	0.9	(8.2)	105.3	1.80	1.68	-6%
United Parcel Service	UPS	Dec-03	Prospective	2,898.0	456.0	(507.0)	2,847.0	2.55	2.50	-2%	3,254.0	391.0	(459.0)	3,186.0	2.87	2.81	-2%
Total				**3,863.6**	**456.5**	**(546.7)**	**3,773.4**			**-2%**	**4,091.6**	**391.9**	**(504.2)**	**3,979.3**			**-3%**
Airlines (2)																	
Delta Air Lines	DAL	Dec-03		(773.0)	-	(33.0)	(806.0)	(6.40)	(6.66)	4%	(1,272.0)	-	(47.0)	(1,319.0)	(10.44)	(10.82)	4%
Southwest Airlines	LUV	Dec-03		442.0	-	(57.0)	385.0	0.54	0.48	-13%	241.0	-	(53.0)	188.0	0.30	0.23	-22%
Total				**(331.0)**	**-**	**(90.0)**	**(421.0)**			**N/M**	**(1,031.0)**	**-**	**(100.0)**	**(1,131.0)**			**N/M**
Building Products (2)																	
American Standard	ASD	Dec-03		405.2	-	(19.9)	385.3	5.50	5.23	-5%	371.0	-	(22.4)	348.6	5.04	4.74	-6%
Masco Corp.	MAS	Dec-03	Prospective	740.0	41.0	(53.0)	728.0	1.51	1.49	-2%	664.0	21.0	(38.0)	647.0	1.29	1.26	-3%
Total				**1,145.2**	**41.0**	**(72.9)**	**1,113.3**			**-3%**	**1,035.0**	**21.0**	**(60.4)**	**995.6**			**-4%**
Commercial Services & Supplies (13)																	
Allied Waste Industries	AW	Dec-03		111.2	-	(9.5)	101.7	(2.36)	(2.41)	-9%	198.3	-	(13.6)	184.7	0.62	0.55	-7%
Apollo Group	APOL	Aug-03		247.0	-	(14.1)	232.9	1.30	1.22	-6%	161.2	-	(13.4)	147.7	0.87	0.79	-8%
Avery Dennison Corp.	AVY	Dec-03		242.8	-	(19.4)	223.4	2.43	2.24	-8%	249.8	-	(16.5)	233.3	2.51	2.34	-7%
Block H&R	HRB	Apr-03	Prospective	580.1	-	(19.8)	560.2	3.15	3.06	-3%	434.4	-	(34.0)	400.4	2.31	2.13	-8%
Cendant Corporation	CD	Dec-03	Prospective	1,465.0	10.0	(50.0)	1,425.0	1.41	1.37	-3%	1,051.0	2.0	(297.0)	756.0	1.01	0.73	-28%
Cintas Corporation	CTAS	May-03		249.3	-	(3.8)	245.5	1.45	1.43	-2%	234.3	-	(4.8)	229.5	1.36	1.33	-2%
Deluxe Corp.	DLX	Dec-03	Modified Prospective	192.5	0.6	(5.1)	188.0	3.49	3.42	-2%	214.3	2.0	(5.2)	211.0	3.36	3.32	-2%
Donnelley (R.R.) & Sons	RRD	Dec-03		176.5	1.7	(11.2)	167.0	1.54	1.46	-5%	142.2	1.5	(11.7)	132.0	1.24	1.15	-7%
Equifax Inc.	EFX	Dec-03		178.5	-	(12.1)	166.4	1.31	1.22	-7%	191.3	-	(14.1)	177.2	1.38	1.27	-7%
Monster Worldwide	MNST	Dec-03		7.3	-	(31.3)	(24.0)	0.06	(0.23)	-427%	(15.0)	-	(62.1)	(77.1)	(0.13)	(0.69)	413%
Pitney-Bowes	PBI	Dec-03		494.8	-	(21.3)	473.5	2.10	2.01	-4%	437.7	-	(22.1)	415.6	1.81	1.72	-5%
Robert Half International	RHI	Dec-03		6.4	-	(24.8)	(18.4)	0.04	(0.11)	-388%	2.2	-	(32.3)	(30.2)	0.01	(0.17)	-1491%
Waste Management Inc.	WMI	Dec-03		719.0	-	(68.0)	651.0	1.21	1.10	-9%	820.0	-	(85.0)	735.0	1.33	1.19	-10%
Total				**4,670.4**	**12.3**	**(290.4)**	**4,392.3**			**-6%**	**4,121.6**	**5.5**	**(611.9)**	**3,515.1**			**-15%**
Construction & Engineering (1)																	
Fluor Corp.	FLR	Dec-03		179.5	-	(8.6)	170.9	2.23	2.12	-5%	170.0	-	(8.3)	161.6	2.13	2.02	-5%
Total				**179.5**	**-**	**(8.6)**	**170.9**			**-5%**	**170.0**	**-**	**(8.3)**	**161.6**			**-5%**
Electrical Equipment (6)																	
American Power Conversion	APCC	Dec-03		176.9	-	(23.2)	153.8	0.88	0.76	-13%	116.5	-	(25.1)	91.4	0.59	0.46	-22%
Cooper Industries, Ltd.	CBE	Dec-03	Prospective	274.3	6.3	(12.6)	268.0	2.92	2.86	-2%	213.7	(1.0)	(12.9)	199.8	2.28	2.14	-7%
Emerson Electric	EMR	Sep-03	Prospective	1,013.0	-	(7.0)	1,006.0	2.41	2.39	-1%	1,076.0	-	(17.0)	1,059.0	2.56	2.52	-2%
Power-One Inc.	PWER	Dec-03		(18.2)	1.2	(23.5)	(40.5)	(0.22)	(0.49)	123%	(211.0)	0.9	(24.6)	(234.7)	(2.62)	(2.91)	11%
Rockwell Automation, Inc.	ROK	Sep-03		282.0	-	(5.0)	277.0	1.49	1.46	-2%	226.0	-	(6.0)	220.0	1.20	1.17	-3%
Thomas & Betts	TNB	Dec-03		42.8	-	(5.0)	37.8	0.73	0.65	-12%	(8.2)	-	(4.5)	(12.7)	(0.14)	(0.22)	54%
Total				**1,770.8**	**7.5**	**(76.3)**	**1,702.1**			**-4%**	**1,413.0**	**(0.1)**	**(90.1)**	**1,322.8**			**-6%**
Industrial Conglomerates (4)																	
3M Company	MMM	Dec-03		2,403.0	3.0	(120.0)	2,286.0	3.02	2.88	-5%	1,974.0	2.0	(144.0)	1,832.0	2.50	2.32	-7%
General Electric	GE	Dec-03	Prospective	15,589.0	81.0	(315.0)	15,355.0	1.55	1.53	-2%	15,133.0	27.0	(330.0)	14,830.0	1.51	1.48	-2%
Textron Inc.	TXT	Dec-03		281.0	14.0	(29.0)	266.0	2.05	1.94	-5%	367.0	9.0	(40.0)	336.0	2.62	2.40	-8%
Tyco International	TYC	Sep-03		1,034.7	8.1	(320.8)	722.0	0.52	0.36	-30%	(2,838.2)	-	(415.4)	(3,253.6)	(1.43)	(1.64)	15%
Total				**19,307.7**	**106.1**	**(784.8)**	**18,629.0**			**-4%**	**14,635.8**	**38.0**	**(929.4)**	**13,744.4**			**-6%**
Machinery (14)																	
Caterpillar Inc.	CAT	Dec-03		1,099.0	-	(69.0)	1,030.0	3.13	2.93	-6%	798.0	-	(65.0)	733.0	2.30	2.13	-8%
Crane Company	CR	Dec-03		104.3	-	(4.6)	99.7	1.75	1.67	-4%	16.6	-	(5.2)	11.5	0.28	0.19	-31%
Cummins Inc.	CMI	Dec-03	Prospective	54.0	3.0	(4.0)	53.0	1.36	1.34	-2%	79.0	4.0	(17.0)	66.0	2.06	1.72	-16%
Danaher Corp.	DHR	Dec-03		536.8	-	(26.8)	510.1	3.37	3.21	-5%	434.1	-	(21.0)	413.2	2.79	2.66	-5%
Deere & Co.	DE	Oct-03		634.4	3.0	(32.0)	605.4	2.64	2.53	-5%	344.4	2.0	(37.0)	309.4	1.33	1.19	-10%

APPENDIX B: Pro Forma Income From Continuing Operations of the S&P 500 By Sector and Industry Group ($ in Millions)

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				2003							2002						
Company Name	Ticker	Fiscal Yearend	Method of Adoption of the Fair Value Method	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	Reported EPS from Cont. Oper.	Pro Forma EPS from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	Reported EPS from Cont. Oper.	Pro Forma EPS from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
Dover Corp.	DOV	Dec-03		285.2	-	(17.8)	267.4	1.40	1.31	-6%	207.8	-	(15.4)	192.4	1.02	0.95	-7%
Eaton Corp.	ETN	Dec-03		386.0	-	(11.0)	375.0	2.56	2.48	-3%	281.0	-	(14.0)	267.0	1.96	1.86	-5%
Illinois Tool Works	ITW	Dec-03		1,040.2	11.8	(35.6)	1,016.4	3.37	3.29	-2%	931.8	-	(25.2)	906.6	3.02	2.94	-3%
Ingersoll-Rand Co. Ltd.	IR	Dec-03		593.5	34.4	(60.5)	567.4	3.44	3.28	-4%	365.6	4.8	(32.7)	337.7	2.15	1.98	-8%
ITT Industries, Inc.	ITT	Dec-03		390.9	-	(6.0)	384.9	4.15	4.09	-2%	379.9	-	(21.4)	358.5	4.06	3.83	-6%
Navistar International Corp.	NAV	Oct-03		(14.0)	-	(11.0)	(25.0)	(0.21)	(0.37)	79%	(476.0)	-	(11.0)	(487.0)	(7.88)	(8.07)	2%
PACCAR Inc.	PCAR	Dec-03	Prospective	526.5	1.7	(4.7)	523.5	2.99	2.97	-1%	372.0	-	(5.5)	366.5	2.13	2.10	-1%
Pall Corp.	PLL	Jul-03		103.2	-	(13.7)	89.5	0.83	0.72	-13%	73.2	-	(11.0)	62.3	0.59	0.50	-15%
Parker-Hannifin	PH	Jun-03		196.3	(0.3)	(18.5)	177.4	1.68	1.51	-10%	130.2	0.6	(15.4)	115.3	1.12	0.99	-11%
Total				**5,936.3**	**53.6**	**(315.1)**	**5,674.8**			**-4%**	**3,937.7**	**11.4**	**(296.7)**	**3,652.4**			**-7%**
Road & Rail (4)																	
Burlington Northern Santa Fe C	BNI	Dec-03		777.0	11.0	(36.0)	752.0	2.09	2.03	-3%	760.0	10.0	(32.0)	738.0	2.00	1.94	-3%
CSX Corp.	CSX	Dec-03	Prospective	189.0	3.0	(34.0)	158.0	0.88	0.74	-16%	467.0	4.0	(29.0)	442.0	2.19	2.06	-5%
Norfolk Southern Corp.	NSC	Dec-03		411.0	18.0	(35.0)	394.0	1.05	1.01	-4%	460.0	14.0	(45.0)	429.0	1.18	1.10	-7%
Union Pacific	UNP	Dec-03		1,056.0	28.0	(50.0)	1,034.0	4.07	3.99	-2%	1,265.0	31.0	(52.0)	1,244.0	4.78	4.71	-2%
Total				**2,433.0**	**60.0**	**(155.0)**	**2,338.0**			**-4%**	**2,952.0**	**59.0**	**(158.0)**	**2,853.0**			**-3%**
Trading Companies & Distributors (1)																	
Grainger (W.W.) Inc.	GWW	Dec-03		227.0	-	(14.3)	212.7	2.46	2.31	-6%	235.5	-	(14.7)	220.8	2.50	2.36	-6%
Total				**227.0**	**-**	**(14.3)**	**212.7**			**-6%**	**235.5**	**-**	**(14.7)**	**220.8**			**-6%**
Industrials (59)																	
Total				**47,314.9**	**1,284.0**	**(3,282.9)**	**45,316.0**			**-4%**	**39,333.3**	**1,040.6**	**(3,679.3)**	**36,694.7**			**-7%**
Information Technology																	
Communications Equipment (14)																	
ADC Telecommunications	ADCT	Oct-03		(76.7)	-	(42.3)	(119.0)	(0.10)	(0.15)	55%	(1,145.0)	-	(114.4)	(1,259.4)	(1.44)	(1.58)	10%
Andrew Corp.	ANDW	Sep-03		18.7	-	(7.2)	11.5	0.11	0.05	-39%	10.5	-	(6.9)	3.6	0.12	0.04	-66%
Avaya Inc.	AV	Sep-03		(88.0)	-	39.0	(49.0)	(0.23)	(0.13)	-44%	(666.0)	-	(35.0)	(701.0)	(2.44)	(2.54)	5%
CIENA Corp.	CIEN	Oct-03		(386.5)	-	(22.8)	(409.3)	(0.87)	(0.92)	6%	(1,597.5)	-	40.1	(1,557.4)	(4.37)	(4.26)	-3%
Cisco Systems	CSCO	Jul-03		3,578.0	-	(1,259.0)	2,319.0	0.50	0.32	-35%	1,893.0	-	(1,520.0)	373.0	0.25	0.05	-80%
Comverse Technology	CMVT	Jan-04		(5.4)	-	(122.5)	(127.9)	(0.03)	(0.67)	2275%	(129.5)	-	(149.8)	(279.3)	(0.69)	(1.49)	116%
Corning Inc.	GLW	Dec-03		(223.0)	1.0	(162.0)	(384.0)	(0.18)	(0.30)	72%	(1,780.0)	1.0	(278.0)	(2,057.0)	(1.85)	(2.12)	16%
JDS Uniphase Corp	JDSU	Jun-03		(933.8)	50.9	(685.2)	(1,568.1)	(0.66)	(1.10)	68%	(8,738.3)	124.9	(688.9)	(9,302.3)	(6.50)	(6.92)	6%
Lucent Technologies	LU	Sep-03		(770.0)	17.0	(285.0)	(1,038.0)	(0.29)	(0.36)	35%	(11,826.0)	50.0	(2,562.0)	(14,338.0)	(3.51)	(4.24)	21%
Motorola Inc.	MOT	Dec-03		893.0	27.0	(249.0)	671.0	0.38	0.29	-25%	(2,485.0)	28.0	(319.0)	(2,776.0)	(1.09)	(1.22)	12%
QLogic Corp.	QLGC	Mar-03		103.5	1.2	(37.6)	67.1	1.09	0.70	-35%	70.7	1.4	(30.0)	42.1	0.74	0.44	-40%
QUALCOMM Inc.	QCOM	Sep-03		827.4	0.6	(260.4)	567.7	1.01	0.69	-31%	359.7	1.3	(235.2)	125.8	0.44	0.16	-65%
Scientific-Atlanta	SFA	Jun-03		100.3	-	(58.7)	41.7	0.65	0.27	-58%	104.4	-	(68.8)	35.6	0.66	0.22	-66%
Tellabs, Inc.	TLAB	Dec-03		(241.6)	11.2	(62.6)	(293.0)	(0.58)	(0.71)	21%	(313.1)	10.5	(129.6)	(432.2)	(0.76)	(1.05)	38%
Total				**2,796.0**	**109.0**	**(3,215.3)**	**(310.3)**			**-111%**	**(26,242.1)**	**217.0**	**(6,097.4)**	**(32,122.5)**			**N/M**
Computers & Peripherals (10)																	
Apple Computer	AAPL	Sep-03		68.0	15.0	(181.0)	(98.0)	0.19	(0.27)	-244%	65.0	5.0	(234.0)	(164.0)	0.18	(0.46)	-352%
Dell Inc.	DELL	Jan-04		2,645.0	-	(829.0)	1,816.0	1.01	0.68	-31%	2,122.0	-	(723.0)	1,399.0	0.80	0.51	-34%
EMC Corp.	EMC	Dec-03		496.1	9.3	(382.3)	123.1	0.22	0.06	-75%	(118.7)	8.4	(364.8)	(475.1)	(0.05)	(0.22)	300%
Gateway Inc.	GTW	Dec-03		(514.8)	-	(27.4)	(542.3)	(1.62)	(1.71)	5%	(297.7)	-	(35.3)	(333.1)	(0.95)	(1.06)	12%
Hewlett-Packard	HPQ	Oct-03		2,539.0	29.0	(762.0)	1,806.0	0.83	0.59	-29%	(903.0)	73.0	(787.0)	(1,617.0)	(0.36)	(0.65)	79%
International Bus. Machines	IBM	Dec-03		7,613.0	76.0	(1,101.0)	6,588.0	4.34	3.76	-13%	5,334.0	112.0	(1,315.0)	4,131.0	3.07	2.40	-23%
Lexmark Int'l Inc	LXK	Dec-03		439.2	-	(39.8)	399.4	3.34	3.04	-9%	366.7	-	(32.8)	333.9	2.79	2.54	-9%
NCR Corp.	NCR	Dec-03		58.0	3.0	(54.0)	7.0	0.61	0.07	-88%	128.0	4.0	(58.0)	74.0	1.27	0.74	-42%
Network Appliance	NTAP	Apr-03		76.5	1.2	(173.7)	(96.1)	0.22	(0.28)	-226%	3.0	2.5	(264.9)	(259.4)	0.01	(0.78)	-8651%
Sun Microsystems	SUNW	Jun-03		(3,429.0)	23.0	(578.0)	(3,984.0)	(1.07)	(1.25)	16%	(587.0)	33.0	(680.0)	(1,234.0)	(0.18)	(0.38)	110%
Total				**9,991.0**	**156.5**	**(4,128.3)**	**6,019.2**			**-40%**	**6,112.3**	**237.9**	**(4,494.9)**	**1,855.4**			**-70%**
Electronic Equipment & Instruments (10)																	
Agilent Technologies	A	Oct-03		(1,790.0)	-	(941.0)	(2,731.0)	(3.78)	(5.77)	53%	(1,022.0)	-	(311.0)	(1,333.0)	(2.20)	(2.87)	30%
Jabil Circuit	JBL	Aug-03		43.0	-	(34.2)	8.8	0.21	0.04	-79%	34.7	-	(33.0)	1.8	0.17	0.01	-95%
Molex Inc.	MOLX	Jun-03		85.3	9.9	(17.4)	77.8	0.44	0.40	-9%	76.5	9.1	(14.8)	70.8	0.39	0.36	-7%
PerkinElmer	PKI	Dec-03		55.0	1.8	(20.2)	36.6	0.43	0.29	-33%	(4.1)	1.6	(21.4)	(24.0)	(0.03)	(0.19)	481%
Sanmina-SCI Corp.	SANM	Sep-03		(137.2)	1.7	(55.4)	(190.8)	(0.27)	(0.37)	39%	(2,696.8)	-	(66.9)	(2,763.7)	(5.60)	(5.73)	2%
Solectron	SLR	Aug-03		(3,104.9)	-	(107.0)	(3,211.9)	(3.75)	(3.88)	3%	(3,138.1)	-	(94.7)	(3,232.8)	(4.02)	(4.14)	3%
Symbol Technologies	SBL	Dec-03		3.3	6.7	(20.5)	(10.5)	0.01	(0.05)	-419%	(44.9)	(41.9)	(21.0)	(107.8)	(0.20)	(0.47)	140%
Tektronix Inc.	TEK	May-03		35.1	0.6	(20.9)	14.8	0.40	0.17	-58%	33.6	0.3	(19.2)	14.6	0.36	0.16	-56%
Thermo Electron	TMO	Dec-03		172.7	1.7	(21.6)	152.8	1.04	0.92	-12%	194.4	3.1	(25.7)	171.8	1.12	1.01	-12%
Waters Corporation	WAT	Dec-03		170.9	-	(26.0)	144.9	1.34	1.14	-15%	152.2	-	(25.2)	127.0	1.12	0.93	-17%
Total				**(4,466.7)**	**22.4**	**(1,264.2)**	**(5,708.5)**			**N/M**	**(6,414.5)**	**(27.8)**	**(633.0)**	**(7,075.3)**			**N/M**
Internet Software & Services (1)																	
Yahoo Inc.	YHOO	Dec-03		237.9	13.0	(216.0)	34.8	0.37	0.05	-85%	106.9	5.0	(488.0)	(376.0)	0.18	(0.63)	-452%
Total				**237.9**	**13.0**	**(216.0)**	**34.8**			**-85%**	**106.9**	**5.0**	**(488.0)**	**(376.0)**			**-452%**

APPENDIX B: Pro Forma Income From Continuing Operations of the S&P 500 By Sector and Industry Group ($ in Millions)

BEAR
STEARNS

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Company Name	Ticker	Fiscal Yearend	Method of Adoption of the Fair Value Method	2003 Reported Net Income/ (Net Loss) from Cont. Oper.	2003 Stock-based Compensation Included in Reported NI from Cont. Oper.	2003 Total Stock-based Compensation	2003 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2003 Reported EPS from Cont. Oper.	2003 Pro Forma EPS from Cont. Oper.	2003 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	2002 Reported Net Income/ (Net Loss) from Cont. Oper.	2002 Stock-based Compensation Included in Reported NI from Cont. Oper.	2002 Total Stock-based Compensation	2002 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2002 Reported EPS from Cont. Oper.	2002 Pro Forma EPS from Cont. Oper.	2002 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
IT Services (10)																	
Automatic Data Processing Inc.	ADP	Jun-03		1,018.2	-	(123.1)	895.1	1.68	1.48	-12%	1,100.8	-	(120.0)	980.8	1.75	1.56	-11%
Computer Sciences Corp.	CSC	Mar-03		440.2	5.1	(53.2)	392.1	2.54	2.26	-11%	344.1	3.8	(20.8)	327.1	2.01	1.91	-5%
Convergys Corp.	CVG	Dec-03		171.6	-	(38.5)	133.1	1.15	0.90	-22%	145.9	-	(45.2)	100.7	0.88	0.61	-31%
Electronic Data Systems	EDS	Dec-03		(252.0)	40.0	(209.0)	(421.0)	(0.53)	(0.88)	67%	1,006.0	39.0	(312.0)	733.0	2.06	1.51	-27%
First Data	FDC	Dec-03		1,394.0	-	(114.0)	1,280.0	1.86	1.71	-8%	1,232.2	-	(109.5)	1,122.7	1.60	1.45	-9%
Fiserv Inc.	FISV	Dec-03		315.0	-	(17.0)	298.0	1.61	1.52	-5%	266.1	-	(18.2)	247.9	1.37	1.27	-7%
Paychex Inc.	PAYX	May-03		293.5	-	(10.0)	283.5	0.78	0.75	-3%	274.5	-	(12.6)	261.9	0.73	0.69	-5%
Sabre Holding Corp.	TSG	Dec-03		83.3	7.5	(48.1)	42.8	0.58	0.30	-49%	214.1	19.8	(41.9)	192.0	1.50	1.35	-10%
SunGard Data Systems	SDS	Dec-03		370.3	-	(69.1)	301.2	1.27	1.03	-19%	325.6	-	(54.4)	271.3	1.12	0.94	-17%
Unisys Corp.	UIS	Dec-03		258.7	-	(47.7)	211.0	0.78	0.63	-18%	223.0	-	(49.0)	174.0	0.69	0.54	-22%
Total				**4,092.7**	**52.6**	**(729.7)**	**3,415.7**			**-17%**	**5,132.4**	**62.6**	**(783.6)**	**4,411.4**			**-14%**
Office Electronics (1)																	
Xerox Corp.	XRX	Dec-03		302.0	-	(85.0)	217.0	0.36	0.25	-28%	100.0	-	(83.0)	17.0	0.10	(0.01)	-83%
Total				**302.0**	**-**	**(85.0)**	**217.0**			**-28%**	**100.0**	**-**	**(83.0)**	**17.0**			**-83%**
Semiconductor & Semiconductor Equipment (19)																	
Advanced Micro Devices	AMD	Dec-03		(274.5)	1.9	(80.5)	(353.0)	(0.79)	(1.02)	29%	(1,303.0)	2.9	(149.8)	(1,449.9)	(3.81)	(1.24)	11%
Altera Corp.	ALTR	Dec-03		155.1	7.6	(94.0)	68.7	0.40	0.18	-56%	91.3	8.2	(96.4)	3.0	0.23	0.01	-97%
Analog Devices	ADI	Oct-03		298.3	5.7	(229.4)	74.6	0.78	0.20	-75%	105.3	10.0	(235.0)	(119.6)	0.28	(0.33)	-214%
Applied Materials	AMAT	Oct-03		(149.1)	-	(389.1)	(538.2)	(0.09)	(0.32)	261%	269.0	-	(316.7)	(47.7)	0.16	(0.03)	-118%
Applied Micro Circuits	AMCC	Mar-03		(643.3)	131.9	(435.9)	(947.4)	(2.14)	(3.15)	47%	(3,605.7)	147.1	(314.8)	(3,773.4)	(12.08)	(12.64)	5%
Broadcom Corporation	BRCM	Dec-03		(959.9)	577.5	(1,025.9)	(1,408.3)	(3.29)	(4.82)	47%	(2,236.6)	419.7	(1,068.3)	(2,885.2)	(8.35)	(10.77)	29%
Intel Corp.	INTC	Dec-03		5,641.0	-	(991.0)	4,650.0	0.85	0.71	-18%	3,117.0	-	(1,170.0)	1,947.0	0.46	0.29	-38%
KLA-Tencor Corp.	KLAC	Jun-03		137.2	-	(90.9)	46.3	0.70	0.24	-66%	216.2	-	(123.8)	92.4	1.10	0.47	-57%
Linear Technology Corp.	LLTC	Jun-03		236.6	-	(75.9)	160.7	0.74	0.50	-32%	197.6	-	(65.7)	131.9	0.60	0.40	-33%
LSI Logic	LSI	Dec-03		(308.5)	9.2	(200.5)	(499.8)	(0.82)	(1.32)	62%	(292.4)	30.6	(253.6)	(515.5)	(0.79)	(1.39)	76%
Maxim Integrated Prod	MXIM	Jun-03		309.6	-	(139.7)	169.9	0.91	0.50	-45%	259.2	-	(171.7)	87.5	0.73	0.25	-66%
Micron Technology	MU	Aug-03		(1,273.2)	0.4	(295.2)	(1,568.0)	(2.11)	(2.59)	23%	(907.0)	1.4	(378.3)	(1,283.9)	(1.51)	(2.14)	42%
National Semiconductor	NSM	May-03		(33.3)	1.9	(180.9)	(212.3)	(0.18)	(1.17)	538%	(121.9)	3.4	(161.9)	(280.4)	(0.69)	(1.58)	130%
Novellus Systems	NVLS	Dec-03		(5.0)	2.2	(66.1)	(68.9)	(0.03)	(0.45)	1269%	22.9	1.2	(70.2)	(46.1)	0.15	(0.32)	-301%
NVIDIA Corp.	NVDA	Jan-04		74.4	0.5	(74.5)	0.4	0.43	-	-99%	90.8	37.3	(205.4)	(77.3)	0.54	(0.50)	-185%
PMC-Sierra Inc.	PMCS	Dec-03		(8.0)	-	(59.9)	(67.8)	(0.05)	(0.39)	749%	(65.0)	-	(101.1)	(166.1)	(0.38)	(0.98)	156%
Teradyne Inc.	TER	Dec-03		(194.0)	-	(85.1)	(279.1)	(1.03)	(1.49)	44%	(718.5)	-	(110.3)	(828.8)	(3.93)	(4.53)	15%
Texas Instruments	TXN	Dec-03		1,198.0	10.0	(433.0)	775.0	0.68	0.44	-35%	(344.0)	7.0	(415.0)	(752.0)	(0.20)	(0.43)	119%
Xilinx, Inc	XLNX	Mar-03		125.7	-	(114.3)	11.4	0.36	0.03	-91%	(113.6)	-	(114.3)	(227.9)	(0.34)	(0.68)	101%
Total				**4,327.0**	**748.9**	**(5,061.7)**	**14.2**			**-100%**	**(5,338.4)**	**668.7**	**(5,522.3)**	**(10,192.1)**			**N/M**
Software (17)																	
Adobe Systems	ADBE	Nov-03		266.3	1.8	(188.4)	79.8	1.10	0.33	-70%	191.4	4.4	(189.2)	6.6	0.79	0.03	-97%
Autodesk, Inc.	ADSK	Jan-04		120.3	1.2	(45.4)	76.2	1.04	0.67	-37%	31.9	1.9	(48.9)	(15.1)	0.28	(0.13)	-147%
BMC Software	BMC	Mar-03		48.0	2.3	(64.7)	(14.4)	0.20	(0.06)	-130%	(184.1)	15.0	(99.0)	(268.1)	(0.75)	(1.09)	46%
Citrix Systems	CTXS	Dec-03		126.9	-	(87.6)	39.3	0.74	0.23	-69%	93.9	-	(137.6)	(43.7)	0.52	(0.25)	-147%
Computer Associates Intl.	CA	Mar-03	Prospective	(267.0)	1.0	(94.0)	(360.0)	(0.46)	(0.63)	35%	(1,102.0)	2.0	(85.0)	(1,185.0)	(1.91)	(2.05)	8%
Compuware Corp.	CPWR	Mar-03		103.1	-	(51.9)	51.2	0.27	0.14	-50%	(245.3)	-	(61.9)	(307.2)	(0.66)	(0.83)	25%
Electronic Arts	ERTS	Mar-03		317.1	-	(83.9)	233.2	2.17	1.62	-26%	101.5	-	(73.6)	27.9	0.71	0.20	-73%
Intuit, Inc.	INTU	Jul-03		263.2	0.8	(84.4)	179.6	1.25	0.85	-32%	53.6	5.2	(94.7)	(35.9)	0.24	(0.17)	-167%
Mercury Interactive	MERQ	Dec-03		41.5	5.9	(141.7)	(94.3)	0.45	(1.08)	-327%	65.2	1.2	(122.2)	(55.8)	0.74	(0.67)	-186%
Microsoft Corp.	MSFT	Jun-03	Retroactive Restatement	9,993.0	52.0	(2,514.0)	7,531.0	0.92	0.69	-25%	7,829.0	99.0	(2,573.0)	5,355.0	0.70	0.48	-32%
Novell Inc.	NOVL	Oct-03		(161.9)	3.4	(28.8)	(187.2)	(0.44)	(0.51)	16%	(103.1)	7.5	(63.1)	(158.7)	(0.28)	(0.43)	54%
Oracle Corp.	ORCL	May-03		2,307.0	-	(330.0)	1,977.0	0.43	0.36	-14%	2,224.0	-	(460.0)	1,764.0	0.39	0.31	-21%
Parametric Technology	PMTC	Sep-03		(98.3)	0.5	(51.7)	(149.5)	(0.37)	(0.57)	52%	(93.6)	0.2	(101.1)	(194.5)	(0.36)	(0.75)	108%
PeopleSoft Inc.	PSFT	Dec-03		85.0	10.5	(171.0)	(75.5)	0.25	(0.22)	-189%	182.6	6.8	(198.4)	(9.0)	0.57	(0.03)	-105%
Siebel Systems Inc	SEBL	Dec-03		(3.4)	-	(449.1)	(452.5)	(0.01)	(0.92)	13223%	(35.7)	-	(1,046.2)	(1,081.9)	(0.08)	(2.27)	2930%
Symantec Corp.	SYMC	Mar-03		248.4	0.3	(89.0)	159.7	1.54	1.06	-36%	(28.2)	-	(79.1)	(107.3)	(0.20)	(0.75)	281%
Veritas Software	VRTSE	Dec-03		-	-	-	-	-	-	N/M	57.4	-	(294.8)	(237.4)	0.14	(0.58)	-514%
Total				**13,389.4**	**79.7**	**(4,475.6)**	**8,993.5**			**-33%**	**9,038.6**	**143.2**	**(5,727.8)**	**3,454.0**			**-62%**
Information Technology (82)																	
Total				**30,669.3**	**1,182.1**	**(19,175.7)**	**12,675.7**			**-59%**	**(17,504.8)**	**1,306.8**	**(23,830.1)**	**(40,028.1)**			**N/M**
Materials																	
Chemicals (14)																	
Air Products & Chemicals	APD	Sep-03		400.2	-	(37.9)	362.3	1.79	1.62	-9%	525.4	-	(40.9)	484.5	2.36	2.18	-8%
Dow Chemical	DOW	Dec-03	Prospective	1,739.0	33.0	(80.0)	1,692.0	1.88	1.83	-3%	(405.0)	16.0	(89.0)	(478.0)	(0.44)	(0.52)	18%
Du Pont (E.I.)	DD	Dec-03	Prospective	1,002.0	31.0	(125.0)	908.0	0.99	0.90	-9%	1,841.0	3.0	(171.0)	1,673.0	1.84	1.67	-9%
Eastman Chemical	EMN	Dec-03		(273.0)	-	(10.0)	(283.0)	(3.54)	(3.66)	4%	79.0	-	(11.0)	68.0	1.02	0.88	-14%
Ecolab Inc.	ECL	Dec-03		277.3	0.9	(17.7)	260.6	1.06	0.99	-6%	211.9	1.7	(15.1)	198.4	0.81	0.76	-6%
Engelhard Corp.	EC	Dec-03		236.5	-	(5.8)	230.7	1.86	1.81	-2%	171.4	-	(6.3)	165.1	1.31	1.27	-4%
Great Lakes Chemical	GLK	Dec-03		(33.9)	0.4	(4.2)	(37.7)	(0.67)	(0.75)	11%	47.4	0.6	(4.6)	43.4	0.94	0.87	-8%
Hercules, Inc.	HPC	Dec-03	Prospective	74.0	5.0	(12.0)	67.0	0.69	0.62	-9%	(47.0)	5.0	(17.0)	(59.0)	(0.44)	(0.56)	26%
International Flav/Frag	IFF	Dec-03		172.6	-	(15.4)	157.2	1.83	1.66	-9%	175.9	-	(16.0)	159.9	1.84	1.67	-9%
Monsanto Co. (e)	MON	Aug-03		(88.0)	1.0	(7.0)	(94.0)	(0.34)	(0.36)	7%	129.0	1.0	(29.0)	101.0	0.49	0.38	-22%

APPENDIX B: Pro Forma Income From Continuing Operations of the S&P 500 By Sector and Industry Group ($ in Millions)

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Company Name	Ticker	Fiscal Yearend	Method of Adoption of the Fair Value Method	2003 Reported Net Income/ (Net Loss) from Cont. Oper.	2003 Stock-based Compensation Included in Reported NI from Cont. Oper.	2003 Total Stock-based Compensation	2003 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2003 Reported EPS from Cont. Oper.	2003 Pro Forma EPS from Cont. Oper.	2003 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	2002 Reported Net Income/ (Net Loss) from Cont. Oper.	2002 Stock-based Compensation Included in Reported NI from Cont. Oper.	2002 Total Stock-based Compensation	2002 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2002 Reported EPS from Cont. Oper.	2002 Pro Forma EPS from Cont. Oper.	2002 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
PPG Industries	PPG	Dec-03	Modified Prospective	500.0	-	(18.0)	482.0	2.92	2.81	-4%	(60.0)	-	(24.0)	(84.0)	(0.36)	(0.50)	40%
Praxair, Inc.	PX	Dec-03		585.0	-	(27.0)	558.0	1.77	1.69	-5%	548.0	-	(25.0)	523.0	1.66	1.59	-5%
Rohm & Haas	ROH	Dec-03	Prospective	288.0	7.0	(26.0)	269.0	1.30	1.21	-7%	210.0	2.0	(23.0)	189.0	0.95	0.86	-10%
Sigma-Aldrich	SIAL	Dec-03		190.4	-	(11.1)	179.3	2.68	2.53	-6%	186.7	-	(10.0)	176.8	2.54	2.40	-5%
Total				**5,070.2**	**78.3**	**(397.1)**	**4,751.4**			**-6%**	**3,613.8**	**29.3**	**(481.9)**	**3,161.2**			**-13%**
Construction Materials (1)																	
Vulcan Materials	VMC	Dec-03		223.5	2.6	(7.1)	219.0	2.18	2.13	-2%	196.7	0.6	(5.4)	191.8	1.92	1.87	-2%
Total				**223.5**	**2.6**	**(7.1)**	**219.0**			**-2%**	**196.7**	**0.6**	**(5.4)**	**191.8**			**-2%**
Containers & Packaging (5)																	
Ball Corp.	BLL	Dec-03		229.9	7.6	(8.8)	228.7	4.02	4.00	-1%	156.1	4.2	(8.0)	152.3	2.71	2.64	-2%
Bemis Company	BMS	Dec-03		147.1	6.6	(8.0)	145.7	1.37	1.35	-1%	165.5	9.4	(10.5)	164.4	1.54	1.53	-1%
Pactiv Corp.	PTV	Dec-03		195.0	4.0	(14.0)	185.0	1.21	1.15	-5%	220.0	4.0	(13.0)	211.0	1.37	1.31	-4%
Sealed Air Corp.	SEE	Dec-03		240.4	-	-	240.4	2.00	2.00	0%	(309.1)	-	-	(309.1)	(4.30)	(4.30)	0%
Temple-Inland	TIN	Dec-03	Prospective	97.0	21.0	(31.0)	87.0	1.78	1.60	-10%	65.0	8.0	(16.0)	57.0	1.25	1.09	-12%
Total				**909.4**	**39.2**	**(61.8)**	**886.8**			**-2%**	**297.5**	**25.6**	**(47.5)**	**275.6**			**-7%**
Metals & Mining (8)																	
Alcoa Inc	AA	Dec-03		1,034.0	-	(30.0)	1,004.0	1.20	1.18	-3%	476.0	-	(113.0)	363.0	0.56	0.43	-24%
Allegheny Technologies Inc	ATI	Dec-03		(313.3)	7.9	(11.2)	(316.6)	(3.87)	(3.91)	1%	(65.8)	0.5	(4.3)	(69.6)	(0.82)	(0.86)	6%
Freeport-McMoran Cp & Gld	FCX	Dec-03		197.3	9.5	(14.2)	192.5	1.07	1.02	-2%	167.7	2.3	(8.8)	161.2	0.89	0.82	-4%
Newmont Mining Corp. (Hldg. Co.)	NEM	Dec-03		510.2	-	(15.3)	494.9	1.23	1.19	-3%	150.4	-	(9.8)	140.6	0.39	0.36	-7%
Nucor Corp.	NUE	Dec-03		62.8	-	(7.4)	55.4	0.80	0.71	-12%	162.1	-	(5.2)	156.9	2.07	2.01	-3%
Phelps Dodge	PD	Dec-03		18.1	-	(11.2)	6.9	0.06	(0.06)	-62%	(315.2)	-	(13.8)	(329.0)	(3.86)	(4.02)	4%
United States Steel Corp.	X	Dec-03		(406.0)	48.0	(45.0)	(403.0)	(4.09)	(4.06)	-1%	61.0	3.0	(7.0)	57.0	0.62	0.58	-7%
Worthington Ind.	WOR	May-03		75.2	-	(1.5)	73.7	0.87	0.86	-2%	6.5	-	(1.4)	5.1	0.08	0.06	-22%
Total				**1,178.2**	**65.4**	**(135.8)**	**1,107.9**			**-6%**	**642.6**	**5.8**	**(163.3)**	**485.1**			**-25%**
Paper & Forest Products (5)																	
Georgia-Pacific Group	GP	Dec-03	Prospective	226.0	-	(8.0)	218.0	0.90	0.87	-4%	(190.0)	-	(25.0)	(215.0)	(0.80)	(0.91)	13%
International Paper	IP	Dec-03		315.0	-	(44.0)	271.0	0.66	0.57	-14%	295.0	-	(41.0)	254.0	0.61	0.52	-14%
Louisiana Pacific	LPX	Dec-03		284.0	5.2	(8.4)	280.8	2.67	2.64	-1%	(2.9)	2.2	(4.2)	(4.9)	(0.03)	(0.05)	69%
MeadWestvaco Corporation (d)	MWV	Dec-03		(2.0)	-	(5.0)	(7.0)	(0.01)	(0.04)	250%	(3.0)	-	(2.0)	(5.0)	(0.01)	(0.02)	67%
Weyerhaeuser Corp.	WY	Dec-03		288.0	-	(25.0)	263.0	1.30	1.18	-9%	241.0	-	(31.0)	210.0	1.09	0.95	-13%
Total				**1,111.0**	**5.2**	**(90.4)**	**1,025.8**			**-8%**	**340.1**	**2.2**	**(103.2)**	**239.1**			**-30%**
Materials (33)																	
Total				**8,492.3**	**190.7**	**(692.3)**	**7,990.7**			**-6%**	**5,090.7**	**63.5**	**(801.4)**	**4,352.8**			**-14%**
Telecommunication Services																	
Diversified Telecommunication Services (9)																	
ALLTEL Corp.	AT	Dec-03		953.5	-	(24.6)	928.9	3.05	2.97	-3%	850.1	-	(31.1)	819.0	2.72	2.62	-4%
AT&T Corp.	T	Dec-03	Prospective	1,863.0	75.0	(225.0)	1,713.0	2.36	2.17	-8%	963.0	99.0	(401.0)	661.0	1.26	0.87	-31%
BellSouth	BLS	Dec-03	Retroactive Restatement	3,589.0	72.0	(72.0)	3,589.0	1.94	1.90	0%	2,608.0	100.0	(100.0)	2,608.0	1.39	1.34	0%
Century Telephone	CTL	Dec-03		344.7	-	(13.2)	331.5	2.38	2.29	-4%	193.5	-	(15.0)	178.5	1.35	1.25	-8%
Citizens Communications	CZN	Dec-03		122.1	6.3	(16.3)	112.1	0.42	0.39	-8%	(823.0)	5.1	(17.2)	(835.1)	(2.93)	(2.98)	1%
Qwest Communications Int	Q	Dec-03		(1,313.0)	6.0	(104.0)	(1,411.0)	(0.76)	(0.82)	7%	(17,618.0)	71.0	(201.0)	(17,748.0)	(10.48)	(10.56)	1%
SBC Communications Inc. (c)	SBC	Dec-03	Retroactive Restatement	5,971.0	146.4	(146.4)	5,971.0	1.80	1.80	0%	7,473.0	223.8	(223.8)	7,473.0	2.23	2.23	0%
Sprint Corp. FON	FON	Dec-03	Prospective	294.0	19.0	(47.0)	266.0	0.33	0.29	-10%	1,049.0	3.0	(91.0)	961.0	1.18	1.08	-8%
Verizon Communications	VZ	Dec-03	Prospective	3,509.0	44.0	(215.0)	3,338.0	1.27	1.21	-5%	4,661.0	-	(467.0)	4,194.0	1.70	1.53	-10%
Total				**15,333.3**	**368.7**	**(863.4)**	**14,838.5**			**-3%**	**(643.3)**	**501.9**	**(1,547.1)**	**(1,688.5)**			**N/M**
Wireless Telecommunication Services (3)																	
AT&T Wireless Services	AWE	Dec-03		442.0	5.0	(164.0)	283.0	0.16	0.10	-36%	(2,205.0)	4.0	(362.0)	(2,563.0)	(0.82)	(0.95)	16%
Nextel Communications	NXTL	Dec-03		1,537.0	35.0	(360.0)	1,212.0	1.36	1.07	-21%	1,386.0	8.0	(350.0)	1,044.0	1.78	1.43	-25%
Sprint Corp. PCS	PCS	Dec-03	Prospective	(661.0)	14.0	(59.0)	(706.0)	(0.66)	(0.70)	7%	(578.0)	2.0	(127.0)	(703.0)	(0.58)	(0.71)	22%
Total				**1,318.0**	**54.0**	**(583.0)**	**789.0**			**-40%**	**(1,397.0)**	**14.0**	**(839.0)**	**(2,222.0)**			**N/M**
Telecommunication Services (12)																	
Total				**16,651.3**	**422.7**	**(1,446.4)**	**15,627.5**			**-6%**	**(2,040.3)**	**515.9**	**(2,386.1)**	**(3,910.5)**			**N/M**
Utilities																	
Electric Utilities (22)																	
Allegheny Energy	AYE	Dec-03		(334.2)	6.4	(7.8)	(335.6)	(2.64)	(2.65)	0%	(502.2)	-	(4.1)	(506.3)	(4.00)	(4.03)	1%
Ameren Corporation	AEE	Dec-03	Prospective	506.0	3.0	(3.0)	506.0	3.14	3.14	0%	382.0	1.2	(3.0)	380.2	2.60	2.60	0%
American Electric Power	AEP	Dec-03		522.0	2.0	(7.0)	517.0	1.35	1.33	-1%	485.0	(5.0)	(4.0)	476.0	1.46	1.44	-2%
CenterPoint Energy	CNP	Dec-03		419.7	-	(10.0)	409.7	1.37	1.34	-2%	368.8	-	(9.0)	359.8	1.23	1.23	-2%
CINergy Corp.	CIN	Dec-03	Prospective	434.4	17.0	(18.0)	433.4	2.43	2.43	0%	396.6	24.0	(23.0)	397.6	2.34	2.35	0%
CMS Energy	CMS	Dec-03	Prospective	(43.0)	5.0	(5.0)	(43.0)	(0.30)	(0.30)	0%	(394.0)	4.0	(4.0)	(394.0)	(2.84)	(2.84)	0%
Consolidated Edison	ED	Dec-03		536.0	3.0	(8.0)	531.0	2.36	2.34	-1%	680.0	6.0	(13.0)	673.0	3.13	3.10	-1%
Dominion Resources	D	Dec-03		949.0	10.0	(36.0)	923.0	2.98	2.90	-3%	1,362.0	5.0	(52.0)	1,315.0	4.82	4.65	-3%
DTE Energy Co.	DTE	Dec-03		480.0	-	(7.0)	473.0	2.85	2.81	-1%	586.0	-	(7.0)	579.0	3.55	3.51	-1%
Edison Int'l	EIX	Dec-03		820.7	7.0	(9.0)	818.7	2.37	2.36	0%	1,077.4	8.0	(5.0)	1,080.4	3.46	3.47	0%

APPENDIX B: Pro Forma Income From Continuing Operations of the S&P 500 By Sector and Industry Group ($ in Millions)

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Entergy Corp.	ETR	Dec-03	Prospective	813.4	2.8	(24.5)	791.7	3.42	3.33	-3%	623.1	-	(28.1)	595.0	2.64	2.51	-5%
Exelon Corp.	EXC	Dec-03		793.0	-	(20.0)	773.0	2.41	2.35	-3%	1,670.0	-	(33.0)	1,637.0	5.15	5.04	-2%
FirstEnergy Corp.	FE	Dec-03		422.0	0.2	(12.4)	409.8	1.39	1.35	-3%	632.7	0.2	(8.8)	624.0	2.15	2.12	-1%
FPL Group	FPL	Dec-03		893.0	-	(7.0)	886.0	5.02	4.98	-1%	695.0	-	(7.0)	688.0	4.01	3.97	-1%
PG&E Corp.	PCG	Dec-03		791.0	-	(19.0)	772.0	1.96	1.91	-2%	1,723.0	-	(20.0)	1,703.0	4.50	4.44	-1%
Pinnacle West Capital	PNW	Dec-03	Prospective	230.6	1.3	(3.0)	228.9	2.52	2.50	-1%	206.2	0.3	(1.7)	204.8	2.43	2.41	-1%
PPL Corp.	PPL	Dec-03	Prospective	719.0	5.0	(9.0)	715.0	4.15	4.13	-1%	360.0	3.0	(8.0)	355.0	2.36	2.33	-1%
Progress Energy, Inc.	PGN	Dec-03		811.0	-	(11.0)	800.0	3.40	3.36	-1%	552.0	-	(8.0)	544.0	2.53	2.50	-1%
Southern Co.	SO	Dec-03		1,474.0	-	(18.0)	1,456.0	2.02	1.99	-1%	1,318.0	-	(19.0)	1,299.0	1.85	1.82	-1%
TECO Energy	TE	Dec-03		(14.7)	-	(2.7)	(17.4)	(0.08)	(0.10)	18%	277.2	-	(5.1)	272.1	1.81	1.78	-2%
TXU Corp.	TXU	Dec-03		737.0	-	-	737.0	2.03	2.03	0%	182.0	-	-	182.0	0.58	0.58	0%
Xcel Energy Inc	XEL	Dec-03		510.0	-	(6.2)	503.8	1.23	1.22	-1%	527.7	-	(7.0)	520.7	1.37	1.35	-1%
Total				**12,469.9**	**62.7**	**(243.6)**	**12,289.0**			**-1%**	**13,208.5**	**46.7**	**(269.8)**	**12,985.4**			**-2%**
Gas Utilities (6)																	
Keyspan Energy	KSE	Dec-03	Prospective	424.2	3.7	(9.4)	418.5	2.62	2.59	-1%	397.4	0.2	(7.5)	390.0	2.75	2.70	-2%
Kinder Morgan	KMI	Dec-03		381.7	2.1	(16.5)	367.3	3.08	2.97	-4%	307.7	0.9	(15.4)	293.2	2.49	2.37	-5%
NICOR Inc.	GAS	Dec-03		109.8	-	(0.7)	109.1	2.48	2.47	-1%	128.0	-	(0.6)	127.4	2.88	2.87	0%
NiSource Inc.	NI	Dec-03		425.7	8.3	(15.0)	419.0	1.63	1.60	-2%	398.1	4.5	(11.0)	391.6	1.87	1.84	-2%
Peoples Energy	PGL	Sep-03		103.9	-	(0.8)	103.1	2.87	2.85	-1%	89.1	-	(1.6)	87.5	2.51	2.46	-2%
Sempra Energy	SRE	Dec-03		695.0	13.0	(20.0)	688.0	3.24	3.20	-1%	575.0	3.0	(11.0)	567.0	2.87	2.83	-1%
Total				**2,140.3**	**27.1**	**(62.4)**	**2,105.0**			**-2%**	**1,895.2**	**8.6**	**(47.1)**	**1,856.7**			**-2%**
Multi-Utilities & Unregulated Power (8)																	
AES Corp.	AES	Dec-03	Prospective	336.0	7.0	(7.0)	336.0	0.56	0.56	0%	(1,609.0)	-	(148.0)	(1,757.0)	(2.99)	(3.27)	9%
Calpine Corp.	CPN	Dec-03	Prospective	109.8	9.7	(21.3)	98.1	0.28	0.25	-11%	53.7	-	(35.6)	18.1	0.15	0.05	-66%
Constellation Energy Group	CEG	Dec-03		475.7	12.0	(20.7)	467.0	2.85	2.80	-2%	525.6	6.4	(17.1)	514.9	3.20	3.13	-2%
Duke Energy	DUK	Dec-03		(1,005.0)	6.0	(30.0)	(1,029.0)	(1.13)	(1.16)	2%	1,295.0	9.0	(70.0)	1,234.0	1.53	1.46	-5%
Dynegy Inc. Class A	DYN	Dec-03	Prospective	(474.0)	2.0	(53.0)	(525.0)	1.30	1.18	11%	(1,349.0)	8.0	(84.0)	(1,425.0)	(4.59)	(4.80)	6%
El Paso Corp. (b)	EP	Dec-02		-	-	-	-	-	-	N/M	(1,289.0)	-	(143.0)	(1,432.0)	(2.30)	(2.56)	11%
Public Serv. Enterprise Inc.	PEG	Dec-03		852.0	-	(8.0)	844.0	3.72	3.68	-1%	405.0	-	(10.0)	395.0	1.94	1.89	-2%
Williams Cos.	WMB	Dec-03		15.2	18.7	(31.6)	2.3	(0.03)	(0.05)	-85%	(611.7)	19.1	(34.5)	(627.1)	(1.35)	(1.38)	3%
Total				**309.7**	**55.4**	**(171.6)**	**193.4**			**-38%**	**(2,579.4)**	**42.5**	**(542.2)**	**(3,079.1)**			**N/M**
Utilities (36)																	
Total				**14,919.9**	**145.2**	**(477.6)**	**14,587.5**			**-2%**	**12,524.3**	**97.8**	**(859.1)**	**11,763.0**			**-6%**

Source: Company reports; FactSet Research Systems Inc.; Standard and Poor's; Bear Stearns estimates.

The S&P 500 as of March 19, 2004

N/A Not available.
N/M Not meaningful.

(a) In 2002, Tenet Healthcare changed from a May yearend to a December, as a result, 2001 information is not comparable. Tenet does not explicitly state whether the stock option expense stated is pre or post tax. Tenet does not disclose stock option expense on a post-tax basis, therefore, we estimated post-tax stock-based compensation expense
(b) El Paso, Federal Home Loan, and Goodyear Tire & Rubber are December yearend companies that have not yet released their 2003 10Ks.
(c) Lincoln National, SBC, and Wal-Mart adopted the retroactive restatement method and presents stock-based compensation as a pre-tax expense rather than a post-tax expense. To estimate the post-tax expense we applied a 40% tax rate.
(d) In 2001, MeadWestvaco Corporation switched from an October to a December fiscal yearend.
(e) In 2003, Monsanto changed from a December 31 yearend to an August 31 yearend. To estimate an expense that was comparable to 2001 and 2002, 2003 information represents eleven months including the eight month period from January 1, 2003 to August 31, 2003, as well as, first quarter of fiscal 2004.
(f) Simon Property Group and Federal Home Loan Mtg.presented its stock-based compensation as a pre-tax figure. To estimate the post-tax expense we applied a 40% tax rate.
(g) 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.

APPENDIX C: Pro Forma Income From Continuing Operations of the NASDAQ 100 By Sector and Industry Group ($ in Millions)

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		2003					2002					2001				
Sector (# of Companies)	Industry Group Name (# of Companies)	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
Consumer Discretionary (12)	Auto Components (1)	107	-	(11)	96	-10%	86	-	(8)	78	-9%	65	-	(7)	58	-11%
	Hotels Restaurants & Leisure (1)	268	-	(37)	231	-14%	213	-	(37)	175	-18%	180	-	(41)	140	-22%
	Internet & Catalog Retail (1)	447	5	(202)	251	-44%	250	6	(193)	63	-75%	90	3	(212)	(118)	-230%
	Media (2)	(253)	10	(175)	(419)	N/M	(505)	11	(152)	(646)	N/M	(105)	10	(144)	(238)	N/M
	Multiline Retail (1)	178	-	(13)	164	-7%	155	-	(13)	142	-8%	123	-	(11)	112	-9%
	Specialty Retail (6)	1,244	170	(335)	1,080	-13%	712	84	(379)	418	-41%	(162)	14	(564)	(712)	N/M
	Sector Total	1,991	186	(773)	1,404	-30%	910	101	(782)	230	-75%	193	27	(978)	(759)	-494%
Consumer Staples (2)	Food & Staples Retailing (2)	825	8	(88)	744	-10%	784	-	(90)	695	-11%	654	-	(77)	576	-12%
	Sector Total	825	8	(88)	744	-10%	784	-	(90)	695	-11%	654	-	(77)	576	-12%
Energy (1)	Energy Equipment & Services (1)	56	-	(11)	45	-19%	2	-	(5)	(3)	-244%	164	-	(7)	157	-4%
	Sector Total	56	-	(11)	45	-19%	2	-	(5)	(3)	-244%	164	-	(7)	157	-4%
Health Care (17)	Biotechnology (9)	1,309	13	(716)	606	-54%	(2,371)	19	(759)	(3,111)	N/M	1,085	17	(756)	346	-68%
	Health Care Equipment & Supplies (2)	457	-	(17)	440	-4%	383	-	(15)	369	-4%	315	-	(10)	305	-3%
	Health Care Providers & Services (5)	891	5	(55)	841	-6%	739	5	(57)	687	-7%	526	6	(48)	484	-8%
	Pharmaceuticals (1)	691	1	(55)	637	-8%	410	0	(59)	352	-14%	278	1	(29)	250	-10%
	Sector Total	3,348	18	(842)	2,523	-25%	(838)	24	(890)	(1,703)	N/M	2,205	23	(843)	1,385	-37%
Industrials (9)	Air Freight & Logistics (2)	236	-	(30)	206	-13%	209	-	(26)	183	-12%	181	-	(17)	164	-10%
	Airlines (1)	242	-	(15)	227	-6%	156	-	(2)	153	-1%	112	-	(9)	104	-8%
	Commercial Services & Supplies (3)	615	-	(30)	585	-5%	463	-	(27)	436	-6%	369	-	(22)	346	-6%
	Electrical Equipment (1)	177	-	(23)	154	-13%	117	-	(25)	91	-22%	113	-	(48)	66	-42%
	Machinery (1)	527	2	(5)	524	-1%	372	-	(6)	367	-1%	174	-	(6)	168	-3%
	Trading Companies & Distributors (1)	84	-	(2)	82	-2%	76	-	(3)	73	-4%	70	-	(3)	68	-4%
	Sector Total	1,881	2	(105)	1,777	-6%	1,391	-	(89)	1,303	-6%	1,019	-	(104)	915	-10%
Information Technology (55)	Communications Equipment (11)	2,901	120	(2,619)	402	-86%	(8,575)	258	(2,999)	(11,316)	N/M	(62,249)	309	(3,131)	(65,071)	N/M
	Computers & Peripherals (6)	(458)	65	(1,773)	(2,167)	N/M	1,591	40	(1,942)	(311)	-120%	1,949	32	(1,896)	84	-96%
	Electronic Equipment & Instruments (4)	40	12	(154)	(102)	-356%	(2,589)	10	(175)	(2,754)	N/M	(33)	9	(246)	(270)	N/M
	Internet Software & Services (1)	238	13	(216)	35	-85%	107	5	(488)	(376)	-452%	(93)	9	(900)	(983)	N/M
	IT Services (2)	608	-	(27)	581	-4%	541	-	(31)	510	-6%	463	-	(24)	439	-5%
	Semiconductor & Semiconductor Equipment (14)	5,644	620	(3,302)	2,962	-48%	1,480	498	(3,593)	(1,614)	-209%	921	537	(3,209)	(1,751)	-290%
	Software (17)	14,091	88	(4,722)	9,457	-33%	5,638	138	(5,934)	(159)	-103%	(2,446)	178	(5,498)	(7,767)	N/M
	Sector Total	23,063	918	(12,812)	11,168	-52%	(1,807)	949	(15,162)	(16,020)	N/M	(61,488)	1,074	(14,905)	(75,319)	N/M
Materials (2)	Chemicals (1)	190	-	(11)	179	-6%	187	-	(10)	177	-5%	153	-	(12)	141	-8%
	Containers & Packaging (1)	(198)	2	(12)	(208)	N/M	59	-	(13)	46	-22%	53	-	(11)	42	-21%
	Sector Total	(8)	2	(23)	(29)	N/M	246	-	(23)	223	-9%	206	-	(23)	183	-11%
Telecommunication Services (2)	Diversified Telecommunication Services (1)	100	1	(9)	92	-8%	85	-	(9)	76	-11%	31	-	(17)	14	-56%
	Wireless Telecommunication Services (1)	1,537	35	(360)	1,212	-21%	1,386	8	(350)	1,044	-25%	(2,625)	15	(344)	(2,954)	N/M
	Sector Total	1,637	36	(369)	1,304	-20%	1,471	8	(359)	1,120	-24%	(2,594)	15	(361)	(2,940)	N/M
NASDAQ 100 Total		**32,792**	**1,169**	**(15,024)**	**18,937**	**-42%**	**2,160**	**1,082**	**(17,399)**	**(14,157)**	**-755%**	**(59,642)**	**1,139**	**(17,298)**	**(75,801)**	**N/M**

Source: Company reports; FactSet Research Systems Inc.; Standard and Poor's; NASDAQ; Bear Stearns estimates.

Note: This is an update to the original table published in our March 30, 2004 First Call. In the March 30th First Call we used estimates for several January yearend companies that had not yet released their annual results. This exhibit incorporates the fiscal yearend results for the companies that have since released their 10Ks.

APPENDIX C: Pro Forma Income From Continuing Operations of the NASDAQ 100 By Sector and Industry Group ($ in Millions)

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Dane Mott (212) 272-4080

				2003							2002						
Company Name	Ticker	Fiscal Yearend	Method of Adoption of the Fair Value Method	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	Reported EPS from Cont. Oper.	Pro Forma EPS from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	Reported Net Income/ (Net Loss) from Cont. Oper.	Stock-based Compensation Included in Reported NI from Cont. Oper.	Total Stock-based Compensation	Pro Forma Net Income/ (Net Loss) from Cont. Oper.	Reported EPS from Cont. Oper.	Pro Forma EPS from Cont. Oper.	(Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
Consumer Discretionary																	
Auto Components (1)																	
Gentex Corporation	GNTX	Dec-03		106.8	-	(10.5)	96.3	1.37	1.25	-10%	85.8	-	(8.1)	77.7	1.12	1.01	-9%
Total				**106.8**	**-**	**(10.5)**	**96.3**			**-10%**	**85.8**	**-**	**(8.1)**	**77.7**			**-9%**
Hotels Restaurants & Leisure (1)																	
Starbucks Corp.	SBUX	Sep-03		268.3	-	(37.4)	230.9	0.67	0.58	-14%	212.7	-	(37.4)	175.2	0.54	0.44	-18%
Total				**268.3**	**-**	**(37.4)**	**230.9**			**-14%**	**212.7**	**-**	**(37.4)**	**175.2**			**-18%**
Internet & Catalog Retail (1)																	
eBay Inc.	EBAY	Dec-03		447.2	5.5	(201.8)	250.9	0.68	0.38	-44%	249.9	6.0	(192.9)	62.9	0.43	0.11	-75%
Total				**447.2**	**5.5**	**(201.8)**	**250.9**			**-44%**	**249.9**	**6.0**	**(192.9)**	**62.9**			**-75%**
Media (2)																	
Comcast Corp.	CMCSA	Dec-03		(218.0)	10.0	(172.0)	(380.0)	(0.10)	(0.18)	74%	(469.0)	11.0	(145.0)	(603.0)	(0.42)	(0.54)	29%
Lamar Advertising Company	LAMR	Dec-03		(35.2)	-	(3.5)	(38.6)	(0.35)	(0.38)	10%	(36.3)	-	(6.6)	(42.9)	(0.36)	(0.43)	18%
Total				**(253.2)**	**10.0**	**(175.5)**	**(418.6)**			**N/M**	**(505.3)**	**11.0**	**(151.6)**	**(645.9)**			**N/M**
Multiline Retail (1)																	
Dollar Tree Stores, Inc.	DLTR	Jan-04		177.6	-	(13.2)	164.4	1.54	1.43	-7%	154.6	-	(12.6)	142.0	1.35	1.24	-8%
Total				**177.6**	**-**	**(13.2)**	**164.4**			**-7%**	**154.6**	**-**	**(12.6)**	**142.0**			**-8%**
Specialty Retail (6)																	
Amazon.com, Inc.	AMZN	Dec-03	(b)	35.3	87.8	(94.5)	28.5	0.08	0.07	-19%	(149.9)	68.9	(148.1)	(229.1)	(0.40)	(0.61)	53%
Bed Bath & Beyond Inc.	BBBY	Feb-03		302.2	-	(25.4)	276.7	1.00	0.92	-8%	219.6	-	(19.6)	200.0	0.74	0.67	-9%
InterActiveCorp	IACI	Dec-03		126.7	75.2	(151.4)	50.5	0.17	0.05	-60%	2.0	8.2	(158.1)	(147.9)	(0.04)	(0.39)	-7507%
PETsMART, Inc.	PETM	Jan-04		88.9	-	(8.0)	80.8	0.63	0.58	-9%	39.6	-	(6.8)	32.7	0.35	0.29	-17%
Ross Stores, Inc.	ROST	Jan-04		201.2	7.5	(15.5)	193.1	2.52	2.44	-4%	155.0	7.2	(13.3)	149.0	1.91	1.84	-4%
Staples, Inc.	SPLS	Jan-04		490.2	-	(40.0)	450.2	0.99	0.91	-8%	446.1	-	(33.3)	412.8	0.94	0.87	-7%
Total				**1,244.4**	**170.4**	**(334.9)**	**1,079.9**			**-13%**	**712.4**	**84.3**	**(379.1)**	**417.6**			**-41%**
Consumer Discretionary (12)																	
Total				**1,991.1**	**185.9**	**(773.3)**	**1,403.7**			**-30%**	**910.0**	**101.3**	**(781.8)**	**229.5**			**-75%**
Consumer Staples																	
Food & Staples Retailing (2)																	
Costco Wholesale Corporation	COST	Aug-03	Prospective	721.0	7.5	(70.3)	658.3	1.53	1.40	-9%	700.0	-	(75.7)	624.2	1.48	1.32	-11%
Whole Foods Market, Inc.	WFMI	Sep-03		103.7	-	(17.7)	86.0	1.66	1.41	-17%	84.5	-	(14.1)	70.4	1.40	1.19	-17%
Total				**824.7**	**7.5**	**(87.9)**	**744.3**			**-10%**	**784.5**	**-**	**(89.8)**	**694.7**			**-11%**
Consumer Staples (2)																	
Total				**824.7**	**7.5**	**(87.9)**	**744.3**			**-10%**	**784.5**	**-**	**(89.8)**	**694.7**			**-11%**
Energy																	
Energy Equipment & Services (1)																	
Patterson-UTI Energy, Inc.	PTEN	Dec-03		55.8	-	(10.5)	45.3	0.68	0.55	-19%	2.2	-	(5.3)	(3.1)	0.03	(0.04)	-244%
Total				**55.8**	**-**	**(10.5)**	**45.3**			**-19%**	**2.2**	**-**	**(5.3)**	**(3.1)**			**-244%**
Energy (1)																	
Total				**55.8**	**-**	**(10.5)**	**45.3**			**-19%**	**2.2**	**-**	**(5.3)**	**(3.1)**			**-244%**
Health Care																	
Biotechnology (9)																	
Amgen Inc.	AMGN	Dec-03		2,259.5	-	(198.0)	2,061.5	1.69	1.55	-9%	(1,391.9)	-	(189.8)	(1,581.7)	(1.21)	(1.37)	14%
Biogen Idec Inc	BIIB	Dec-03		(875.1)	-	(51.9)	(926.9)	(4.92)	(5.21)	6%	148.1	-	(54.7)	93.4	0.85	0.54	-37%
Cephalon, Inc.	CEPH	Dec-03		83.9	-	(33.9)	50.0	1.44	0.88	-40%	175.1	-	(34.7)	140.4	2.84	2.32	-20%
Chiron Corporation	CHIR	Dec-03		220.3	5.6	(100.8)	125.1	1.15	0.65	-43%	181.1	3.2	(67.1)	117.2	0.94	0.61	-35%
Genzyme General	GENZ	Dec-03		(67.6)	0.4	(80.0)	(147.3)	0.42	0.08	118%	85.2	0.8	(69.7)	16.3	0.81	0.55	-81%
Gilead Sciences, Inc.	GILD	Dec-03		(72.0)	1.2	(61.4)	(132.2)	(0.36)	(0.66)	84%	72.1	0.0	(72.1)	0.0	0.35	-	-100%
Invitrogen Corporation	IVGN	Dec-03		60.1	1.0	(33.8)	27.4	1.17	0.53	-54%	47.7	0.2	(33.8)	14.1	0.90	0.27	-71%
MedImmune, Inc.	MEDI	Dec-03		183.2	2.5	(87.5)	98.2	0.72	0.39	-46%	(1,098.0)	12.1	(96.3)	(1,182.2)	(4.40)	(4.74)	8%
Millennium Pharmaceuticals, Inc.	MLNM	Dec-03		(483.7)	2.5	(68.8)	(550.0)	(1.63)	(1.85)	14%	(590.2)	2.6	(141.0)	(728.6)	(2.13)	(2.62)	23%
Total				**1,308.7**	**13.2**	**(716.1)**	**605.7**			**-54%**	**(2,370.9)**	**18.9**	**(759.2)**	**(3,111.1)**			**N/M**
Health Care Equipment & Supplies (2)																	
Biomet, Inc.	BMET	May-03		286.7	-	(5.5)	281.2	1.10	1.08	-2%	239.7	-	(5.3)	234.5	0.88	0.86	-2%
DENTSPLY International Inc.	XRAY	Dec-03		169.9	-	(11.1)	158.8	2.11	1.97	-7%	143.6	-	(9.6)	134.1	1.80	1.68	-7%
Total				**456.6**	**-**	**(16.6)**	**440.0**			**-4%**	**383.4**	**-**	**(14.8)**	**368.5**			**-4%**

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Company Name	Ticker	Fiscal Yearend	Method of Adoption of the Fair Value Method	2003 Reported Net Income/ (Net Loss) from Cont. Oper.	2003 Stock-based Compensation Included in Reported NI from Cont. Oper.	2003 Total Stock-based Compensation	2003 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2003 Reported EPS from Cont. Oper.	2003 Pro Forma EPS from Cont. Oper.	2003 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	2002 Reported Net Income/ (Net Loss) from Cont. Oper.	2002 Stock-based Compensation Included in Reported NI from Cont. Oper.	2002 Total Stock-based Compensation	2002 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2002 Reported EPS from Cont. Oper.	2002 Pro Forma EPS from Cont. Oper.	2002 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
Health Care Providers & Services (5)																	
Express Scripts, Inc.	ESRX	Dec-03		250.6	4.4	(16.3)	238.8	3.17	3.01	-5%	202.8	5.1	(16.5)	191.5	2.55	2.39	-6%
First Health Group Corp.	FHCC	Dec-03		152.7	0.1	(12.7)	140.1	1.57	1.44	-8%	132.9	-	(15.2)	117.8	1.28	1.13	-11%
Henry Schein, Inc.	HSIC	Dec-03		139.5	-	(7.4)	132.1	3.10	2.93	-5%	118.0	-	(5.7)	112.3	2.63	2.50	-5%
Lincare Holdings Inc.	LNCR	Dec-03		232.1	-	(17.1)	215.0	2.22	2.06	-7%	190.4	-	(18.9)	171.6	1.73	1.56	-10%
Patterson Dental Company	PDCO	Apr-03		116.3	-	(1.5)	114.8	1.70	1.68	-1%	95.3	-	(1.1)	94.2	1.40	1.39	-1%
Total				**891.3**	**4.5**	**(55.0)**	**840.9**			**-6%**	**739.5**	**5.1**	**(57.3)**	**687.3**			**-7%**
Pharmaceuticals (1)																	
Teva Pharmaceutical Industries Limited	TEVA	Dec-03		691.0	0.5	(54.7)	636.8	2.39	2.21	-8%	410.3	0.1	(58.6)	351.8	1.52	1.30	-14%
Total				**691.0**	**0.5**	**(54.7)**	**636.8**			**-8%**	**410.3**	**0.1**	**(58.6)**	**351.8**			**-14%**
Health Care (17)																	
Total				**3,347.5**	**18.2**	**(842.4)**	**2,523.3**			**-25%**	**(837.7)**	**24.1**	**(889.9)**	**(1,703.5)**			**N/M**
Industrials																	
Air Freight & Logistics (2)																	
C.H. Robinson Worldwide, Inc.	CHRW	Dec-03		114.1	-	(6.8)	107.4	1.33	1.25	-6%	96.3	-	(6.5)	89.8	1.12	1.05	-7%
Expeditors International of Washington, Inc.	EXPD	Dec-03		122.0	-	(23.6)	98.4	1.12	0.91	-19%	112.5	-	(19.6)	93.0	1.03	0.87	-17%
Total				**236.1**	**-**	**(30.3)**	**205.8**			**-13%**	**208.9**	**-**	**(26.1)**	**182.8**			**-12%**
Airlines (1)																	
Ryanair Holdings plc	RYAAY	Mar-03		241.8	-	(15.1)	226.7	0.31	0.29	-6%	155.5	-	(2.2)	153.3	0.20	0.20	-1%
Total				**241.8**	**-**	**(15.1)**	**226.7**			**-6%**	**155.5**	**-**	**(2.2)**	**153.3**			**-1%**
Commercial Services & Supplies (3)																	
Apollo Group, Inc.	APOL	Aug-03		247.0	-	(14.1)	232.9	1.30	1.22	-6%	161.2	-	(13.4)	147.7	0.87	0.79	-8%
Career Education Corporation	CECO	Dec-03		119.2	-	(12.4)	106.7	1.19	1.06	-10%	67.5	-	(8.8)	58.7	0.71	0.62	-13%
Cintas Corporation	CTAS	May-03		249.3	-	(3.8)	245.5	1.45	1.43	-2%	234.3	-	(4.8)	229.5	1.36	1.33	-2%
Total				**615.4**	**-**	**(30.4)**	**585.1**			**-5%**	**462.9**	**-**	**(27.0)**	**435.9**			**-6%**
Electrical Equipment (1)																	
American Power Conversion Corporation	APCC	Dec-03		176.9	-	(23.2)	153.8	0.88	0.76	-13%	116.5	-	(25.1)	91.4	0.59	0.46	-22%
Total				**176.9**	**-**	**(23.2)**	**153.8**			**-13%**	**116.5**	**-**	**(25.1)**	**91.4**			**-22%**
Machinery (1)																	
PACCAR Inc.	PCAR	Dec-03	Prospective	526.5	1.7	(4.7)	523.5	2.99	2.97	-1%	372.0	-	(5.5)	366.5	2.13	2.10	-1%
Total				**526.5**	**1.7**	**(4.7)**	**523.5**			**-1%**	**372.0**	**-**	**(5.5)**	**366.5**			**-1%**
Trading Companies & Distributors (1)																	
Fastenal Company	FAST	Dec-03		84.1	-	(1.8)	82.4	1.11	1.09	-2%	75.5	-	(2.7)	72.9	1.00	0.96	-4%
Total				**84.1**	**-**	**(1.8)**	**82.4**			**-2%**	**75.5**	**-**	**(2.7)**	**72.9**			**-4%**
Industrials (9)																	
Total				**1,880.9**	**1.7**	**(105.4)**	**1,777.2**			**-6%**	**1,391.3**	**-**	**(88.6)**	**1,302.7**			**-6%**
Information Technology																	
Communications Equipment (11)																	
Cisco Systems, Inc.	CSCO	Jul-03		3,578.0	-	(1,259.0)	2,319.0	0.50	0.32	-35%	1,893.0	-	(1,520.0)	373.0	0.25	0.05	-80%
Comverse Technology, Inc.	CMVT	Jan-03		(5.4)	-	(152.5)	(157.9)	(0.03)	(0.88)	2831%	(129.5)	-	(149.8)	(279.3)	(0.69)	(1.49)	116%
EchoStar Communications Corporation	DISH	Dec-03		224.5	3.4	(26.1)	201.8	0.46	0.41	-10%	(852.0)	10.9	(24.4)	(865.6)	(0.86)	(0.89)	2%
Garmin Ltd.	GRMN	Dec-03		178.6	-	(3.0)	175.6	1.64	1.60	-2%	142.8	-	(1.9)	140.8	1.32	1.30	-1%
JDS Uniphase Corporation	JDSU	Jun-03		(933.8)	50.9	(685.2)	(1,568.1)	(0.66)	(1.10)	68%	(8,738.3)	124.9	(688.9)	(9,302.3)	(6.50)	(6.92)	6%
Juniper Networks, Inc.	JNPR	Dec-03		39.2	1.3	(60.3)	(19.9)	0.10	(0.05)	-151%	(119.7)	0.3	(91.0)	(210.4)	(0.34)	(0.60)	76%
Level 3 Communications, Inc.	LVLT	Dec-03	Prospective (a)	(721.0)	51.6	(51.6)	(721.0)	(1.28)	(1.28)	0%	(860.0)	108.6	(108.6)	(860.0)	(2.11)	(2.11)	0%
QLogic Corporation	QLGC	Mar-03		103.5	1.2	(37.6)	67.1	1.09	0.70	-35%	70.7	1.4	(30.0)	42.1	0.74	0.44	-40%
QUALCOMM Incorporated	QCOM	Sep-03		827.4	0.6	(260.4)	567.7	1.01	0.69	-31%	359.7	1.3	(235.2)	125.8	0.44	0.16	-65%
Research in Motion Limited	RIMM	Feb-03		(148.7)	-	(20.3)	(169.0)	(1.91)	(2.17)	14%	(28.5)	-	(19.8)	(48.3)	(0.36)	(0.61)	69%
Tellabs, Inc.	TLAB	Dec-03		(241.6)	11.2	(62.6)	(293.0)	(0.58)	(0.71)	21%	(313.1)	10.5	(129.6)	(432.2)	(0.76)	(1.05)	38%
Total				**2,900.8**	**120.3**	**(2,618.7)**	**402.4**			**-86%**	**(8,574.8)**	**257.8**	**(2,999.2)**	**(11,316.2)**			**N/M**
Computers & Peripherals (6)																	
Apple Computer, Inc.	AAPL	Sep-03		68.0	15.0	(181.0)	(98.0)	0.19	(0.27)	-244%	65.0	5.0	(234.0)	(164.0)	0.18	(0.46)	-352%
ATI Technologies Inc.	ATYT	Aug-03		12.2	25.5	(16.7)	21.0	0.05	0.09	72%	(47.8)	(1.0)	(17.0)	(65.8)	(0.20)	(0.28)	38%
Dell Inc.	DELL	Jan-03		2,645.0	-	(794.0)	1,851.0	1.01	0.71	-30%	2,122.0	-	(723.0)	1,399.0	0.80	0.51	-34%
Network Appliance, Inc.	NTAP	Apr-03		76.5	1.2	(173.7)	(96.1)	0.22	(0.28)	-226%	3.0	2.5	(264.9)	(259.4)	0.01	(0.78)	-8651%
SanDisk Corporation	SNDK	Dec-03		168.9	-	(29.8)	139.1	1.02	0.84	-18%	36.2	-	(23.0)	13.3	0.25	0.10	-63%
Sun Microsystems, Inc.	SUNW	Jun-03		(3,429.0)	23.0	(578.0)	(3,984.0)	(1.07)	(1.25)	16%	(587.0)	33.0	(680.0)	(1,234.0)	(0.18)	(0.38)	110%
Total				**(458.5)**	**64.7**	**(1,773.2)**	**(2,167.1)**			**N/M**	**1,591.5**	**39.5**	**(1,941.9)**	**(310.9)**			**-120%**
Electronic Equipment & Instruments (4)																	
CDW Corporation	CDWC	Dec-03		175.2	0.3	(24.7)	150.8	2.03	1.75	-14%	185.2	0.6	(26.1)	159.8	2.10	1.81	-14%
Flextronics International Ltd.	FLEX	Mar-03		(83.5)	-	(56.3)	(139.7)	(0.16)	(0.27)	67%	(153.7)	-	(67.2)	(220.9)	(0.31)	(0.45)	44%
Molex Incorporated	MOLX	Jun-03		85.3	9.9	(17.4)	77.8	0.44	0.40	-9%	76.5	9.1	(14.8)	70.8	0.39	0.36	-7%
Sanmina-SCI Corporation	SANM	Sep-03		(137.2)	1.7	(55.4)	(190.8)	(0.27)	(0.37)	39%	(2,696.8)	-	(66.9)	(2,763.7)	(5.60)	(5.73)	2%
Total				**39.9**	**12.0**	**(153.8)**	**(101.9)**			**-356%**	**(2,588.7)**	**9.8**	**(175.1)**	**(2,754.0)**			**N/M**

APPENDIX C: Pro Forma Income From Continuing Operations of the NASDAQ 100 By Sector and Industry Group ($ in Millions)

BEAR STEARNS

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Company Name	Ticker	Fiscal Yearend	Method of Adoption of the Fair Value Method	2003 Reported Net Income/ (Net Loss) from Cont. Oper.	2003 Stock-based Compensation Included in Reported NI from Cont. Oper.	2003 Total Stock-based Compensation	2003 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2003 Reported EPS from Cont. Oper.	2003 Pro Forma EPS from Cont. Oper.	2003 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.	2002 Reported Net Income/ (Net Loss) from Cont. Oper.	2002 Stock-based Compensation Included in Reported NI from Cont. Oper.	2002 Total Stock-based Compensation	2002 Pro Forma Net Income/ (Net Loss) from Cont. Oper.	2002 Reported EPS from Cont. Oper.	2002 Pro Forma EPS from Cont. Oper.	2002 (Decrease in Net Income) / Increase in Net Loss from Cont. Oper.
Internet Software & Services (1)																	
Yahoo Inc.	YHOO	Dec-03		237.9	13.0	(216.0)	34.8	0.37	0.05	-85%	106.9	5.0	(488.0)	(376.0)	0.18	(0.63)	-452%
Total				**237.9**	**13.0**	**(216.0)**	**34.8**			**-85%**	**106.9**	**5.0**	**(488.0)**	**(376.0)**			**-452%**
IT Services (2)																	
Fiserv, Inc.	FISV	Dec-03		315.0	-	(17.0)	298.0	1.61	1.52	-5%	266.1	-	(18.2)	247.9	1.37	1.27	-7%
Paychex, Inc.	PAYX	May-03		293.5	-	(10.0)	283.5	0.78	0.75	-3%	274.5	-	(12.6)	261.9	0.73	0.69	-5%
Total				**608.5**	**-**	**(27.0)**	**581.5**			**-4%**	**540.7**	**-**	**(30.8)**	**509.8**			**-6%**
Semiconductor & Semiconductor Equipment (14)																	
Altera Corporation	ALTR	Dec-03		155.1	7.6	(94.0)	68.7	0.40	0.18	-56%	91.3	8.2	(96.4)	3.0	0.23	0.01	-97%
Applied Materials, Inc.	AMAT	Oct-03		(149.1)	-	(389.1)	(538.2)	(0.09)	(0.32)	261%	269.0	-	(316.7)	(47.7)	0.16	(0.03)	-118%
Broadcom Corporation	BRCM	Dec-03		(959.9)	577.5	(1,025.9)	(1,408.3)	(3.29)	(4.82)	47%	(2,236.6)	419.7	(1,068.3)	(2,885.2)	(8.35)	(10.77)	29%
Intel Corporation	INTC	Dec-03		5,641.0	-	(991.0)	4,650.0	0.85	0.71	-18%	3,117.0	-	(1,170.0)	1,947.0	0.46	0.29	-38%
Intersil Corporation	ISIL	Dec-03		58.5	23.7	(82.9)	(0.7)	0.41	(0.01)	-101%	(23.3)	15.3	(58.4)	(66.4)	(0.19)	(0.53)	185%
KLA-Tencor Corporation	KLAC	Jun-03		137.2	-	(90.9)	46.3	0.70	0.24	-66%	216.2	-	(123.8)	92.4	1.10	0.47	-57%
Lam Research Corporation	LRCX	Jun-03		(7.7)	0.6	(43.2)	(50.3)	(0.06)	(0.40)	551%	(90.1)	1.7	(34.5)	(122.9)	(0.71)	(0.97)	36%
Linear Technology Corporation	LLTC	Jun-03		236.6	-	(75.9)	160.7	0.74	0.50	-32%	197.6	-	(65.7)	131.9	0.60	0.40	-33%
Marvell Technology Group, Ltd.	MRVL	Jan-04		(72.2)	7.5	(77.9)	(142.6)	(0.61)	(1.20)	98%	(415.2)	15.0	(67.7)	(467.9)	(3.63)	(4.09)	13%
Maxim Integrated Products, Inc.	MXIM	Jun-03		309.6	-	(139.7)	169.9	0.91	0.50	-45%	259.2	-	(171.7)	87.5	0.73	0.25	-66%
Microchip Technology Incorporated	MCHP	Mar-03		99.7	-	(36.2)	63.5	0.47	0.30	-36%	94.8	-	(29.4)	65.4	0.45	0.31	-31%
Novellus Systems, Inc.	NVLS	Dec-03		(5.0)	2.2	(66.1)	(68.9)	(0.03)	(0.45)	1269%	22.9	1.2	(70.2)	(46.1)	0.15	(0.32)	-301%
NVIDIA Corporation	NVDA	Jan-04		74.4	0.5	(74.5)	0.4	0.43	-	-99%	90.8	37.3	(205.4)	(77.3)	0.54	(0.50)	-185%
Xilinx, Inc.	XLNX	Mar-03		125.7	-	(114.3)	11.4	0.36	0.03	-91%	(113.6)	-	(114.3)	(227.9)	(0.34)	(0.68)	101%
Total				**5,643.8**	**619.6**	**(3,301.6)**	**2,961.8**			**-48%**	**1,480.1**	**498.4**	**(3,592.6)**	**(1,614.1)**			**-209%**
Software (17)																	
Adobe Systems Incorporated	ADBE	Nov-03		266.3	1.8	(188.4)	79.8	1.10	0.33	-70%	191.4	4.4	(189.2)	6.6	0.79	0.03	-97%
BEA Systems, Inc.	BEAS	Jan-04		83.9	4.5	(154.2)	(65.9)	0.20	(0.16)	-179%	(35.7)	1.1	(202.2)	(236.9)	(0.09)	(0.60)	564%
Check Point Software Technologies Ltd.	CHKP	Dec-03		243.9	-	(37.3)	206.6	0.96	0.82	-15%	255.1	-	(61.5)	193.6	1.00	0.76	-24%
Citrix Systems, Inc.	CTXS	Dec-03		126.9	-	(87.6)	39.3	0.74	0.23	-69%	93.9	-	(137.6)	(43.7)	0.52	(0.25)	-147%
Compuware Corporation	CPWR	Mar-03		103.1	-	(51.9)	51.2	0.27	0.14	-50%	(245.3)	-	(61.9)	(307.2)	(0.66)	(0.83)	25%
Electronic Arts Inc.	ERTS	Mar-03		317.1	-	(83.9)	233.2	2.17	1.62	-26%	101.5	-	(73.6)	27.9	0.71	0.20	-73%
Intuit Inc.	INTU	Jul-03		263.2	0.8	(84.4)	179.6	1.25	0.85	-32%	53.6	5.2	(94.7)	(35.9)	0.24	(0.17)	-167%
Mercury Interactive Corporation	MERQ	Dec-03		41.5	5.9	(141.7)	(94.3)	0.45	(1.08)	-327%	65.2	1.2	(122.2)	(55.8)	0.74	(0.67)	-186%
Microsoft Corporation	MSFT	Jun-03	Retroactive Restatement	9,993.0	52.0	(2,514.0)	7,531.0	0.92	0.69	-25%	7,829.0	99.0	(2,573.0)	5,355.0	0.70	0.48	-32%
Oracle Corporation	ORCL	May-03		2,307.0	-	(330.0)	1,977.0	0.43	0.36	-14%	2,224.0	-	(460.0)	1,764.0	0.39	0.31	-21%
PeopleSoft, Inc.	PSFT	Dec-03		85.0	10.5	(171.0)	(75.5)	0.25	(0.22)	-189%	182.6	6.8	(198.4)	(9.0)	0.57	(0.03)	-105%
Pixar	PIXR	Dec-03		124.8	-	(16.9)	107.9	2.17	1.93	-14%	90.0	-	(13.2)	76.8	1.68	1.49	-15%
Siebel Systems, Inc.	SEBL	Dec-03		(3.4)	-	(449.1)	(452.5)	(0.01)	(0.92)	13223%	(35.7)	-	(1,046.2)	(1,081.9)	(0.08)	(2.27)	2930%
Symantec Corporation	SYMC	Mar-03		248.4	0.3	(89.0)	159.7	1.54	1.06	-36%	(28.2)	-	(79.1)	(107.3)	(0.20)	(0.75)	281%
Synopsys, Inc.	SNPS	Oct-03		149.7	5.0	(99.5)	55.2	0.95	0.36	-63%	(200.0)	1.5	(86.0)	(284.4)	(1.50)	(2.13)	42%
VeriSign, Inc.	VRSN	Dec-03		(259.9)	7.4	(223.3)	(475.8)	(1.08)	(1.98)	83%	(4,961.3)	19.0	(240.7)	(5,183.1)	(20.97)	(21.91)	4%
VERITAS Software Corporation	VRTSE	Dec-03		-	-	-	-	-	-	N/M	57.4	-	(294.8)	(237.4)	0.14	(0.58)	-514%
Total				**14,090.7**	**88.1**	**(4,722.2)**	**9,456.6**			**-33%**	**5,637.6**	**138.1**	**(5,934.4)**	**(158.7)**			**-103%**
Information Technology (55)																	
Total				**23,063.0**	**917.6**	**(12,812.4)**	**11,168.1**			**-52%**	**(1,806.8)**	**948.6**	**(15,161.9)**	**(16,020.1)**			**N/M**
Materials																	
Chemicals (1)																	
Sigma-Aldrich	SIAL	Dec-03		190.4	-	(11.1)	179.3	2.68	2.53	-6%	186.7	-	(10.0)	176.8	2.54	2.40	-5%
Total				**190.4**	**-**	**(11.1)**	**179.3**			**-6%**	**186.7**	**-**	**(10.0)**	**176.8**			**-5%**
Containers & Packaging (1)																	
Smurfit-Stone Container Corporation	SSCC	Dec-03	Prospective	(198.0)	2.0	(12.0)	(208.0)	(0.85)	(0.89)	5%	59.0	-	(13.0)	46.0	0.20	0.15	-22%
Total				**(198.0)**	**2.0**	**(12.0)**	**(208.0)**			**N/M**	**59.0**	**-**	**(13.0)**	**46.0**			**-22%**
Materials (2)																	
Total				**(7.6)**	**2.0**	**(23.1)**	**(28.7)**			**N/M**	**245.7**	**-**	**(23.0)**	**222.8**			**-9%**
Telecommunication Services																	
Diversified Telecommunication Services (1)																	
PanAmSat Corporation	SPOT	Dec-03	Prospective	99.5	1.2	(8.9)	91.8	0.66	0.61	-8%	85.0	-	(9.2)	75.9	0.57	0.51	-11%
Total				**99.5**	**1.2**	**(8.9)**	**91.8**			**-8%**	**85.0**	**-**	**(9.2)**	**75.9**			**-11%**
Wireless Telecommunication Services (1)																	
Nextel Communications, Inc.	NXTL	Dec-03		1,537.0	35.0	(360.0)	1,212.0	1.36	1.07	-21%	1,386.0	8.0	(350.0)	1,044.0	1.78	1.43	-25%
Total				**1,537.0**	**35.0**	**(360.0)**	**1,212.0**			**-21%**	**1,386.0**	**8.0**	**(350.0)**	**1,044.0**			**-25%**
Telecommunication Services (2)																	
Total				**1,636.5**	**36.2**	**(368.9)**	**1,303.8**			**-20%**	**1,471.0**	**8.0**	**(359.2)**	**1,119.9**			**-24%**

Source: Company reports; FactSet Research Systems Inc.; Standard and Poor's; NASDAQ; Bear Stearns estimates.

APPENDIX C: Pro Forma Income From Continuing Operations of the NASDAQ 100 By Sector and Industry Group ($ in Millions)

BEAR
STEARNS

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The NASDAQ 100 as of March 19, 2004

N/A Not available.
N/M Not meaningful.

(a) 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.
(b) 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.*

ANALYST CERTIFICATION

The Research Analyst(s) who prepared the research report hereby certify that the views expressed in this research report accurately reflect the analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.
Pat McConnell/Janet Pegg

IMPORTANT DISCLOSURES

<u>Bear, Stearns & Co. Equity Research Rating System:</u>
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Outperform (O) - Stock is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (P) - Stock is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
Underperform (U) - Stock is projected to underperform analyst's industry coverage universe over the next 12 months.

<u>Ratings for Sectors (vs. regional broader market index):</u>
Market Overweight (MO) - Expect the industry to perform better than the primary market index for the region over the next 12 months.
Market Weight (MW) - Expect the industry to perform approximately in line with the primary market index for the region over the next 12 months.
Market Underweight (MU) - Expect the industry to underperform the primary market index for the region over the next 12 months.

FOR INDUSTRY COVERAGE DATA, PLEASE CONTACT YOUR ACCOUNT EXECUTIVE OR VISIT www.BEARSTEARNS.com

<u>Bear, Stearns & Co. Ratings Distribution as of March 31, 2004:</u>
Percentage of BSC universe with this rating / Percentage of these companies which were BSC investment banking clients in the last 12 months.
Outperform (Buy): 36.6 / 7.1
Peer Perform (Neutral): 48.0 / 4.6
Underperform (Sell): 15.5 / 1.3

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Testimony of
Robert H. Herz
Chairman
And
George J. Batavick
Board Member
Financial Accounting Standards Board
before the
Capital Markets, Insurance and Government Sponsored Enterprises
Subcommittee of the Committee on Financial Services
May 4, 2004

Attachment 4

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

NO. 1102-100 | MARCH 31, 2004

Financial Accounting Series

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, 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:

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Financial Accounting Standards Board
of the Financial Accounting Foundation
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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.

[*]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.[†]

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

[†]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
and
George J. Batavick
Board Member
Financial Accounting Standards Board
before the
Capital Markets, Insurance and Government Sponsored Enterprises
Subcommittee of the Committee on Financial Services
May 4, 2004

Attachment 5

Excerpts from Recent Materials about the Proposal and the U.S. Economy and Jobs

Excerpts from Recent Materials about the Proposal and the U.S. Economy and Jobs

Many new and growing companies genuinely need to be able to grant options to attract talent. I have no problem with that, and I think it is a great way to build a company. Nonetheless, these companies must take the cost of doing so on the chin, and not hide it in the footnotes.

If they take the risk of paying too much for talent, they need to account for the cost of that risk in the financial statements. Options should be treated like any other business expense.

Rick Ashburn, La Jolla Light, April 8, 2004

Financial statements must faithfully report economic reality. They must not be distorted to more easily attract employees or increase their pay. That is not their function.

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

It's hard to argue against more accurate reporting of earnings, particularly when a recent analysis by the Congressional Budget Office cast doubt on the assertion that expensing options would hurt the overall economy or startup firms' ability to raise capital. Stock prices of companies that recently began treating options as an expense have tended not to take hits.

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

The Baltimore Sun, April 16, 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

But do we really want to preserve the practices that led to the internet-stock bubble? How many of those pie-in-the-sky start ups attracted employees with visions of options-based fortunes that never materialized? We should not be using accounting gimmicks to encourage the formation of companies that have virtually no hope of success.

Jeff Brown, The Philadelphia Inquirer, April 4, 2004

I am deeply troubled by . . . assertion[s] that the proposed FASB standard on equity-based compensation imposes great costs on small businesses. I have a hard time seeing just how this could be true. The vast majority of small, privately-held businesses– . . . should be totally unaffected by this pronouncement for the simple fact that they <u>do not usually issue stock options</u>. There may be facts available from the Bureau of Labor Statistics that bear this out; but in my experience, stock option plans simply do not exist in these kinds of firms.

Jack T. Ciesielski, President, R.G. Associates, Inc., April 21, 2004

ARGUMENT 4: THE ECONOMIC CONSEQUENCES OF MANDATORY EXPENSING WILL ADVERSELY AFFECT SMALL FIRMS AND INNOVATIVE FIRMS. . . . We agree that the expensing of stock options could cause a change in capital allocation, but the role of accounting is to report the underlying economic substance of transactions. Once investors understand the economic substance of a firm's transactions, they can decide how to efficiently allocate their capital. Not only could the mandatory expensing of ESOs affect the allocation of capital among firms, but it could also affect capital structure. We believe these potential changes in capital allocation and capital structure will be improvements as long as they are based on a more transparent view of a firm's underlying economics.

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

But again, if the options defenders are right, what sort of case do they think they have? . . . "'If we had to report our true earnings, nobody would invest in us' is not a reason to grant an exemption from reality. In fact, it's insulting." Indeed, if this is the rationale, why confine the distortion to options? Why not let technology companies record their expenses only every other month?

Philip Coggan, Financial Times, April 3, 2004

Congress has heard testimony from many parties that a requirement to expense the fair value of stock-based compensation granted to employees will stifle innovation; make it more difficult for companies to recruit and retain employees; and increase the outsourcing of jobs overseas – all of which will damage the economy.

We respectfully disagree with those who have made these arguments.

. . . [T]he objective of every business is to generate net cash from operations. The expensing of stock options will have no more impact on the ability of a business to generate cash flows than does the recognition of periodic depreciation expense.

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

. . . [T]he expensing of stock options is an important step towards restoring accuracy, transparency and, thus, *credibility* to the American economy . . . .

Stephen F. Diamond, Visiting Assistant Professor of Law, Cornell Law School, Assistant Professor of Law, Santa Clara University School of Law, April 28, 2004

. . . [A] study by Towers Perrin, a consulting firm, found that the share prices of 300 firms that had chosen to treat stock options as an expense were not affected by the change—a sign that the stockmarket may weigh options efficiently. Venture capitalists, who make their living from financing start-up companies, might also be expected to see past the cost of stock options.

The Economist, April 10, 2004

Silicon Valley is about the joy of innovation, and we will survive closing the stock option loophole just fine. So, fellow CEOs: Let's move on to important things – like enhancing free trade, creating jobs and improving our education system.

Reed Hastings, CEO, Netflix, April 5, 2004

Such dynamics reflect the fact that improved information and valuation would tend to divert new investment from firms with less productive opportunities toward others with more productive ones. That is, a potential economic benefit for the economy as a whole from the proposed accounting standard would be to increase the flow of capital to those businesses that could use it more productively, as indicated by their higher net income.

Douglas Holtz-Eakin, Director, Congressional Budget Office, April 28, 2004

Some opponents claim that expensing stock options will hurt the economy by dampening innovation. But many of the 500 companies expensing options are successful, high tech innovators like Microsoft, Netflix, and Amazon. They also include such diverse companies as General Motors, Dow Chemical, Boeing, BankOne, UPS, and Coca-Cola, each of which relies on technical innovation for business success. The CEO of Netflix, a high tech company that began expensing stock options last year, has stated: "[I]nnovation continues unabated. . . . We innovate because it thrills us, not because of some accounting treatment."

Another claim of some opponents is that stock option expensing will force high tech companies to outsource more jobs in order to cut costs. But a number of high tech companies, like Cisco, Dell Computers, IBM, and Intel, have already sent hundreds or thousands of jobs offshore, without expensing their stock operations. Intel began outsourcing software research and development operations to India several years ago; in 2003, its CEO was quoted by the Indian press as saying, "I can tell you that the headcount in India will continue to grow and a lot of back office work is also coming." Cisco Systems announced in 2003 that it was "going to increase outsourcing to India in all areas" including software development, and in October announced a "China-based staffing solution" for Cisco's Global Technical Response Center.

The Honorable Carl Levin, United States Senate, April 28, 2004

Despite this factual evidence, some opponents go even farther and warn that expensing will not only depress the share prices of individual companies, but also damage the stock market or the U.S. economy as a whole. Well-respected financial analysts disagree.

. . . .

Honest accounting, in other words, doesn't hurt the economy.

The Honorable Carl Levin, United States Senate, April 20, 2004

Smith [Chairman of Taser], just like a long line of folks who oppose expensing, is using the argument that a change in measurement is going to change his (and thousands of start-up companies') behaviors. Isn't it a sign of what this is really about that a noneconomic change will alter their behavior? If options are so valuable to companies, if they are so necessary to attract talent, then why in the world would they *dare* change their behavior unless there is a real, tangible economic impact?

We're just talking about measurement, folks. Not taking food out of the mouths of babies, not ending entrepreneurship as we know it. Not stealing from the working class. Measurement, and making accounting fair.

Bill Mann, The Motley Fool, April 21, 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 measured, they'll make economic sense when they're measured more robustly. End of story.

Bill Mann, The Motley Fool, April 2, 2004

The big debate in the academic world on the options explosion is between those who think executives are too stupid to see that a form of pay with no direct cash cost or accounting charge has a real economic cost and those who think executives are so greedy they crookedly but legally engineered an opaque transfer of value from shareholders into their own pockets. Saying top executives' percentage of the total option grant is tiny, as at Intel, conveniently helps legitimize in the public perception transfers whose absolute value is huge.

So in reality the FASB is doing its bit for workers and shareholders, if not for greedy bosses. The claims of the high-tech brigade should be taken with a fistful of salt.

John Plender, Financial Times, April 5, 2004

Fiction: Expensing will depress the earnings of start-up companies, make it difficult for high-tech companies to raise capital, and hurt the economy.

. . .

Economic studies show that there is no effect on stock value of firms that voluntary switch to expensing of employee stock options. There is no evidence to support the notion that start-up companies and high-tech firms need to misrepresent themselves in order to raise capital. Capital markets are highly sophisticated and already factor in stock option expense in their valuations. This is particularly true for venture capitalists who supply funding for start-ups.

The Honorable Pete Stark, Ranking Member, Joint Economic Committee, United States Congress, April 20, 2004

I'm not quite sure what [Intel CEO Craig] Barrett's babbling about . . . but I know fear-mongering when I see it. Reading between the lines, he appears to be saying that at precisely the time we're planning to give up our secret competitive weapon – expense-free stock options – those devious Chinese are adopting it so they can steal even more American jobs. What nonsense!

And you gotta love how clever he thinks the Chinese are. They're only "promoting the use of options" in domestic industries that compete against U.S. companies which give options to a broad range of employees such as "high-tech companies like Intel and Cisco." Starbucks, watch out!

Finally, Barrett essentially argues that those who disagree with his job-loss scenario are naïve buffoons who haven't "run a company in high tech and competed with the rest of the world." He must be forgetting about Microsoft's Bill Gates and Berkshire Hathaway's Warren Buffett. Microsoft shifted away from options toward restricted stock (and expenses both); Buffett, who runs a global company, has written persuasively in favor of expensing options.

. . .

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, Motley Fool, April 2, 2004

Investor needs are best served when financial reporting provides information that is reliable and representationally faithful to the underlying economics of events and transactions that have occurred. Of necessity, achieving that objective requires that the Board be neutral with respect to the economic consequences of its standards. More specifically, accounting standards cannot and should not be developed with the objective of achieving a desired economic result. Rather, the information provided in accordance with standards should assist investors in making rational decisions about how capital should be allocated among competing investment opportunities.

Kim R. Wallin, CMA, CFM, CPA, Chair, Institute of Management Accountants (the largest organization in the 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

Opponents of expensing, led by high-tech firms that rely heavily on stock options to attract employees, contend that requiring expensing would be unwieldy and inaccurate, ultimately stifling innovation (because options wouldn't be available) and costing U.S. jobs. But their arguments are belied by the 500 or so U.S. companies, including some of the largest, that now expense stock options, without dire consequences. The International Accounting Standards Board recently issued rules that would require companies to treat options as expenses. Federal Reserve Chairman Alan Greenspan supports expensing. So do Securities and Exchange Commission Chairman William H. Donaldson and Treasury Secretary John W. Snow.

The Washington Post, April 2, 2004

Testimony of
Robert H. Herz
Chairman
and
George J. Batavick
Board Member
Financial Accounting Standards Board
before the
Capital Markets, Insurance and Government Sponsored Enterprises Subcommittee of the Committee on Financial Services
May 4, 2004

Attachment 6

Materials Excerpted in Attachments 2 and 5

Materials Excerpted in Attachments 2 and 5

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2. Statement of Douglas Holtz-Eakin, Director, Congressional Budget Office, CBO Testimony, "Accounting for Stock Options," Before the Committee on Small Business and Entrepreneurship, United States Senate, April 28, 2004

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