

Frederic W. Cook & Co., Inc.

New York • Chicago • Los Angeles

April 15, 2005

**SEC Delays Effective  
Date for Statement 123R**

The Securities and Exchange Commission (SEC) on April 14 voted unanimously to adopt a staff recommendation to delay the effective date of Financial Accounting Standards Board (FASB) Statement No. 123(R) (Statement 123R) for many public companies. Specifically, the new rule states that public companies do not have to begin complying with Statement 123R until the first quarter of the first *fiscal year* beginning after June 15, 2005 (December 15, 2005 for “small business issuers”), rather than the first *quarterly or annual* period beginning after that date, as originally prescribed by Statement 123R. This means that calendar year public companies now must begin complying with Statement 123R for their first quarterly period beginning in 2006, not the third quarter of 2005 (a 6-month deferral). Non-small business issuers with fiscal years beginning July through December of 2005 do not benefit from the effective date deferral. The new SEC rule does not affect the initial compliance date for nonpublic companies, which remains for fiscal years beginning after December 15, 2005. Notwithstanding the delay in effective dates, early adoption of Statement 123R is "encouraged" by the FASB and SEC. Summarized below are the various effective dates and transition methods for adopting Statement 123R, as amended by the new SEC rule:

	Required Effective Date (Periods Beginning After) <sup>(1)</sup>	First Applicable Reporting Period		Required Transition Method	Optional Transition Method (Modified Retrospective)	
		As Originally Required by Statement 123R	As Revised by the SEC		All Periods <sup>(2)</sup>	Year of Adoption <sup>(3)</sup>
Public Companies	6/15/05	<i>First quarter</i> beginning after effective date	First quarter of <i>first fiscal year</i> beginning after effective date	Modified Prospective	Yes	Yes
Small Business Issuers <sup>(4)</sup>	12/15/05	<i>First quarter</i> beginning after effective date	First quarter of <i>first fiscal year</i> beginning after effective date	Modified Prospective	Yes	Yes
Nonpublic Companies - Fair Value <sup>(5)</sup>	12/15/05	First quarter of <i>first fiscal year</i> beginning after effective date	First quarter of <i>first fiscal year</i> beginning after effective date	Modified Prospective	Yes	Not Applicable
Nonpublic Companies - Minimum Value <sup>(5)</sup>	12/15/05	First quarter of <i>first fiscal year</i> beginning after effective date	First quarter of <i>first fiscal year</i> beginning after effective date	Prospective	Not Applicable	Not Applicable

<sup>(1)</sup> Early adoption of Statement 123R is encouraged for quarterly or annual financial statements that are not issued before the required effective date

<sup>(2)</sup> Modified retrospective application to all prior years beginning after the original December 15, 1994 effective date of Statement 123

<sup>(3)</sup> Modified retrospective application only for the annual period in which Statement 123R is initially adopted (for early adopters)

<sup>(4)</sup> Generally, a public company with revenues of less than \$25 million

<sup>(5)</sup> Nonpublic company that previously adopted the “fair value” or “minimum value” provisions of Statement 123 for recognition or pro forma footnote disclosures

Modified Prospective Application – Modified prospective application means that Statement 123R applies to all equity compensation granted, modified, repurchased, or canceled after the applicable effective date. Statement 123R also applies to the nonvested portion of equity compensation outstanding as of the effective date, provided the awards were granted, modified, or settled in cash during fiscal years beginning after the original December 15, 1994 effective date of Statement 123. Compensation cost for outstanding nonvested awards is based on previously estimated grant date fair values and attribution methods used for recognition or pro forma footnote disclosures under Statement 123, except that the method of recognizing forfeitures as they occur is not continued. Changes to previously reported footnote costs are precluded, unless the company needs to correct an error. The pro forma disclosures currently required by Statement 123 as amended by FASB Statement No. 148 (Statement 148) continue to be required until all presented periods are accounted for under Statement 123R, except for nonpublic companies that used the minimum value method for pro forma disclosures. Importantly, these transition provisions apply to all companies, regardless of whether Statement 123 was previously adopted using the “prospective” transition method permitted under Statement 148.

Modified Retrospective Application – Modified retrospective application means that Statement 123R applies to periods before the required effective date on a basis consistent with the pro forma footnote disclosures required by Statement 123. Modified retrospective application may be applied either (1) to all prior years for which Statement 123 was effective (awards granted, modified, or settled in cash in fiscal years beginning after the original December 15, 1994 effective date of Statement 123), or (2) only to quarterly periods in the initial year of adoption that occur prior to the applicable effective date (for early adopters).

Prospective Application – Prospective application means that Statement 123R applies only to equity compensation granted, modified, repurchased, or canceled after the required effective date. There is no cost recognition for the nonvested portion of awards outstanding as of the effective date, and the modified retrospective application method is not permitted.

Variable Awards Under Opinion 25 – Under the modified prospective and retrospective application methods, equity compensation previously accounted for as “variable” under Opinion 25 (such as repriced stock options, stock-settled SARs, and awards with performance vesting criteria) effectively become “fixed” as of the effective date based on previously estimated grant date fair values and attribution methods used for pro forma footnote disclosures under Statement 123. Compensation cost for cash-settled liability awards continues to be based on variable fair value accruals until award settlement.

\* \* \* \* \*

General questions about this letter may be addressed to Thomas M. Haines in our Chicago office at 312-332-0910 or by e-mail at [tmhaines@fwcook.com](mailto:tmhaines@fwcook.com). Copies of this letter and other related materials are available on our website at [www.fwcook.com](http://www.fwcook.com) under the following links:

<b>Date</b>	<b>Title</b>	<b>Website Link</b>
April 4, 2005	SEC Staff Releases Guidance on Option Valuation Under Statement 123(R)	<a href="http://www.fwcook.com/alert_letters/4-04-05-SEC%20Staff%20Releases%20Guidance%20on%20Option%20Valuation%20Un_.pdf">http://www.fwcook.com/alert_letters/4-04-05-SEC%20Staff%20Releases%20Guidance%20on%20Option%20Valuation%20Un_.pdf</a>
March 9, 2005	FASB 123(R) Requires Acceleration of Equity Compensation Cost for Retirement-Eligible Employees	<a href="http://www.fwcook.com/alert_letters/3-9-05-FAS%20123r%20Requires%20Acceleration%20of%20Equity%20Comp%20Cost%20..pdf">http://www.fwcook.com/alert_letters/3-9-05-FAS%20123r%20Requires%20Acceleration%20of%20Equity%20Comp%20Cost%20..pdf</a>
December 20, 2004	FASB Issues Final Statement on Accounting for Share-Based Payment	<a href="http://www.fwcook.com/alert_letters/12-20-04%20FASB%20Issues%20Final%20Statement%20on%20Accounting%20for%20Sha..pdf">http://www.fwcook.com/alert_letters/12-20-04%20FASB%20Issues%20Final%20Statement%20on%20Accounting%20for%20Sha..pdf</a>
October 20, 2004	FASB Decides on Effective Date for Option Expensing	<a href="http://www.fwcook.com/alert_letters/10-20-04%20FASB%20Decides%20on%20Effective%20Date%20for%20Option%20Expensing.pdf">http://www.fwcook.com/alert_letters/10-20-04%20FASB%20Decides%20on%20Effective%20Date%20for%20Option%20Expensing.pdf</a>
September 3, 2004	FASB Makes Progress on Stock Compensation Redeliberations	<a href="http://www.fwcook.com/alert_letters/9-3-04%20FASB%20Makes%20Progress%20On%20Stock%20Compensation%20Redeliber..pdf">http://www.fwcook.com/alert_letters/9-3-04%20FASB%20Makes%20Progress%20On%20Stock%20Compensation%20Redeliber..pdf</a>
July 22, 2004	Update on Close of FASB's Public Comment Period	<a href="http://www.fwcook.com/alert_letters/7-22-04-Update%20on%20Close%20of%20FASB's%20Public%20Comment%20Period.pdf">http://www.fwcook.com/alert_letters/7-22-04-Update%20on%20Close%20of%20FASB's%20Public%20Comment%20Period.pdf</a>
May 28, 2004	Lattice-Based Stock Option Valuation Models	<a href="http://www.fwcook.com/alert_letters/5-28-04%20Lattice-Based%20SO%20Valuation%20Models.pdf">http://www.fwcook.com/alert_letters/5-28-04%20Lattice-Based%20SO%20Valuation%20Models.pdf</a>
April 13, 2004	FASB Issues Exposure Draft on Share-Based Payment	<a href="http://www.fwcook.com/alert_letters/4-13-04-FASB%20Issues%20Exposure%20Draft%20on%20Share-Based%20Payment.pdf">http://www.fwcook.com/alert_letters/4-13-04-FASB%20Issues%20Exposure%20Draft%20on%20Share-Based%20Payment.pdf</a>
February 26, 2004	IASB Issues Final Standard on Share-Based Payment	<a href="http://www.fwcook.com/alert_letters/2-26-04-IASB%20Issues%20Final%20Standard%20on%20Share-based%20Payment.pdf">http://www.fwcook.com/alert_letters/2-26-04-IASB%20Issues%20Final%20Standard%20on%20Share-based%20Payment.pdf</a>
November 5, 2003	FASB Announces Planned Effective Date and Method of Transition for Stock Option Expensing Mandate and Reaches Further Convergence with IASB	<a href="http://www.fwcook.com/alert_letters/11-5-03-FASB%20Ann%20cing%20Mandate.pdf">http://www.fwcook.com/alert_letters/11-5-03-FASB%20Ann%20cing%20Mandate.pdf</a>
September 18, 2003	FASB Delays Timetable on Stock Compensation Project but Project Derailment Still Not Likely	<a href="http://www.fwcook.com/alert_letters/9-18-03-FASB%20De&amp;ion%20Project.pdf">http://www.fwcook.com/alert_letters/9-18-03-FASB%20De&amp;ion%20Project.pdf</a>
August 8, 2003	Valuation of Employee Stock Options: Summary of Views from FASB's Option Valuation Group	<a href="http://www.fwcook.com/alert_letters/8-8-03ValuationEmployee.pdf">http://www.fwcook.com/alert_letters/8-8-03ValuationEmployee.pdf</a>
June 23, 2003	FASB Makes Headway on Stock Compensation Project	<a href="http://www.fwcook.com/alert_letters/6-24-03-FASB%20Makes%20Headway%20on%20Stock%20Compensation%20Project.pdf">http://www.fwcook.com/alert_letters/6-24-03-FASB%20Makes%20Headway%20on%20Stock%20Compensation%20Project.pdf</a>
March 14, 2003	FASB Decides to Add Stock Compensation Project to Agenda	<a href="http://www.fwcook.com/alert_letters/3-14-03-FASB%20to%20Add%20Stock%20Comp%20Project%20to%20Agenda.pdf">http://www.fwcook.com/alert_letters/3-14-03-FASB%20to%20Add%20Stock%20Comp%20Project%20to%20Agenda.pdf</a>
January 10, 2003	FASB Issues Final Standard on Amendments to Statement 123	<a href="http://www.fwcook.com/alert_letters/1-10-03-FASBIssuesFinalStandard.pdf">http://www.fwcook.com/alert_letters/1-10-03-FASBIssuesFinalStandard.pdf</a>
December 23, 2002	FASB Releases Invitation to Comment on IASB Share-Based Payment Exposure Draft	<a href="http://www.fwcook.com/alert_letters/12-02FASBReleaseInvitationTo%5B1%5D...pdf">http://www.fwcook.com/alert_letters/12-02FASBReleaseInvitationTo%5B1%5D...pdf</a>
October 11, 2002	FASB Releases Exposure Draft on Amendments to Statement 123	<a href="http://www.fwcook.com/alert_letters/10-11-02FASBReleasesExposure...pdf">http://www.fwcook.com/alert_letters/10-11-02FASBReleasesExposure...pdf</a>
March 20, 1996	Compliance with the Footnote Disclosure Requirements of FAS 123	<a href="http://www.fwcook.com/032096.html">http://www.fwcook.com/032096.html</a>
November 8, 1995	FASB Releases Final Standard on Accounting for Stock-Based Compensation	<a href="http://www.fwcook.com/alert_letters/11895TMH.pdf">http://www.fwcook.com/alert_letters/11895TMH.pdf</a>