

Frederic W. Cook & Co., Inc.

New York • Chicago • Los Angeles

January 10, 2003

**FASB Issues Final Standard
on Amendments to Statement 123**

The Financial Accounting Standards Board (FASB) on December 31, 2002 issued a final standard in connection with its “limited-scope fast-track” project to amend the transition and disclosure provisions of FASB Statement No. 123 (Statement 123). The final standard is referred to as FASB Statement No. 148 (Statement 148), *Accounting for Stock-Based Compensation—Transition and Disclosure*.

Statement 148 is substantively similar to the Exposure Draft issued in October 2002 in that it (1) allows companies that voluntarily adopt Statement 123 to choose among three transition alternatives (*prospective* application to new awards, prospective application for new and nonvested *prior* awards, and retroactive restatement for *all prior awards*), and (2) requires certain information on stock compensation to be disclosed in the “accounting policy” footnote of annual and interim financial statements and reports (most notably, the pro forma net income and earnings per share disclosure required for companies accounting for stock compensation under APB Opinion 25). However, Statement 148 contains two notable modifications from the Exposure Draft:

1. The prospective application to new awards transition method (the original transition method prescribed by Statement 123) will *not* be permitted for companies voluntarily adopting Statement 123 in fiscal years *beginning* after December 15, 2003
2. For companies electing the retroactive restatement transition method, the restated amounts should be consistent with numbers reported in prior period pro forma net income and earnings per share footnote disclosures

All transition and disclosure provisions of Statement 148 are effective for fiscal years *ending* after December 15, 2002 (that is, for 2002 calendar year financial statements), except for the new disclosure rules applicable to interim financial reports which are effective for the first interim period *beginning* after December 15, 2002 (that is, for first quarter 2003 interim reports for calendar year companies). A more detailed discussion of the transition and disclosure provisions in the Exposure Draft that preceded Statement 148 can be found in our letter dated October 11, 2002 under the link to our website at the end of this letter.

Concurrent with the adoption of Statement 148, the FASB announced that it plans to decide during the latter part of the first quarter of 2003 (i.e., in March) whether to undertake a comprehensive project leading to the mandatory expensing of employee stock options, in conformance with the International Accounting Standards Board’s (IASB) Exposure Draft on

“Shared-based Payment.” The FASB will make its decision after considering responses to its “Invitation to Comment,” released on November 18, 2002, on the differences between the IASB’s Exposure Draft and Statement 123. Interested parties have until February 1, 2003 to submit written comments to the FASB in regard to this initiative. A more detained discussion of the FASB’s Invitation to Comment and the IASB’s Exposure Draft on Share-based Payment can be found in our letter dated December 23, 2002 under the link to our website at the end of this letter.

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General questions about this letter may be addressed to Thomas Haines at (312) 332-0910 or tmhaines@fwcook.com. Copies of this letter and other related letters on this topic are available on our website at www.fwcook.com under the following links:

- December 23, 2002 – FASB Releases Invitation to comment on IASB Share-Based Payment Exposure Draft --
http://www.fwcook.com/alert_letters/12-02FASBReleaseInvitationTo%5B1%5D....pdf
- October 11, 2002 – FASB Releases Exposure Draft on Amendments to Statement 123 -
http://www.fwcook.com/alert_letters/10-11-02FASBReleasesExposure....pdf
- March 20, 1996 – Compliance With The Footnote Disclosure Requirements of FAS 123 –
<http://www.fwcook.com/032096.html>
- November 8, 1995 – FASB Releases Final Standard on Accounting for Stock-Based Compensation – http://www.fwcook.com/alert_letters/11895TMH.pdf