

Frederic W. Cook & Co., Inc.

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February 3, 2006

**FASB Amends Statement 123(R) for
Contingent Cash Settlement of Stock Options
*IASB Publishes Proposed Amendments on Share-Based Payment***

The Financial Accounting Standards Board (FASB) on February 3, 2006 released its fourth FASB Staff Position (FSP) providing interpretive and implementation guidance on the provisions of FASB Statement 123(R). The FSP, referred to as FAS 123(R)-4, amends paragraphs 32 and A229 of Statement 123(R) to provide a “practical accommodation” that prevents employee stock options or similar instruments such as stock-settled stock appreciation rights (SARs) from being reclassified as liability awards merely because of the presence of a contingent cash settlement feature. Such a classification would result in variable market-to-market exercise date accounting for the entire existence of the award, rather than the generally more favorable grant date fixed accounting normally prescribed for stock-settled equity awards granted to employees.

Under the FSP, a cash settlement feature of an employee stock option or SAR that can be exercised only upon the occurrence of a contingent event that is outside the employee’s control (such as a change-in-control or initial public offering) does not result in liability classification until it becomes probable the event will occur. If and when a contingent event becomes probable of occurrence, the reclassification is accounted for as a modification from an equity to liability award. This guidance is consistent with required treatment for other employee equity awards, such as restricted stock and performance shares (or stock-settled share “units”). Prior to these amendments, Statement 123(R) required stock options or SARs to be classified as liabilities if the company could be required *under any circumstances* to settle the award in cash or other assets, regardless of the probability of such contingent cash settlement.

The guidance in the FSP is effective upon initial adoption of Statement 123(R), or for reporting periods beginning after the FSP is posted to the FASB website for companies already applying Statement 123(R).

Separately, the International Accounting Standards Board (IASB) on February 2, 2006 issued for public comment (until June 2, 2006) an exposure draft of proposals to amend International Financial Reporting Standard (IFRS) 2, Share-Based Payment. The amendments provide additional guidance on vesting conditions and award cancellations, and would apply to annual periods beginning on or after January 1, 2007 (with earlier application encouraged).

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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. Copies of this letter and other related materials, including our summary of Statement 123(R), are available on our website at www.fwcook.com.