

****IMPORTANT: FASB BOARD MEETING March 12, 2003****

FASB will meet in open session tomorrow – following is the first item on their agenda:

Stock-based compensation. The Board will consider the comment letters received in response to the 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, and other input received on this topic. The Board also will discuss whether a project on stock-based compensation should be added to its agenda. (Estimated 60-minute discussion.)

To monitor available meetings by telephone, interested individuals can call 1-800-846-4717. You will be charged \$.75 per minute and VISA, MasterCard, American Express, or Discover Card is required. Questions about the telephone hookup can be directed to 203-847-0700, extension 389.

FASB's Board Meeting Handout (available at http://www.fasb.org/board_handouts/03-12-03.pdf) note that the decision will be between the following four options (options 1 and 2 are delay, option 3 would be BAD, and option 4 also looks pretty bad). The handout is fairly lengthy, but it includes some worthwhile information regarding the responses that FASB received on expensing (including a note that “a significant minority of respondents believe the grant-date approach of the proposed IFRS has conceptual merit”):

Alternative 1: Defer consideration until the Liabilities and Equity Project is complete

Alternative 2: Defer consideration until the IFRS (IASB) is issued in final form

Alternative 3: Immediately add a project to rescind the Opinion 25 election in Statement 123

Alternative 4: Immediately add a project and cooperate with IASB to achieve maximum convergence.

Supporters of ours in both the House and Senate are standing by and ready to take action – including potentially doing another letter to FASB, or even introducing legislation on this issue.

A number of reporters are writing “curtain-raisers” for tomorrow morning. In order to try to frame those articles and take advantage of a number of the recent developments, the Coalition has sent the following media advisory, together with a new quote sheet (attached).

MEDIA ADVISORY

WASHINGTON, D.C., March 11, 2003 - Tomorrow the Financial Accounting Standards Board (FASB) is expected to open a project on stock options. This

action is not surprising, given recent public comments by the FASB. Time will tell whether the FASB intends to carefully consider and weigh the voluminous comments received recently pointing out that the real cost of options is already reflected in diluted earnings per share; that there is no existing method to value employee stock options accurately and reliably; and that mandatory expensing will eviscerate broad-based stock option plans.

Under the existing FASB standard on stock options, companies may elect to expense or disclose information in their footnotes. The International Employee Stock Options Coalition believes that this approach has worked well and should be maintained. Whether one expenses or discloses, a fundamental question is the method used to calculate the numbers that are used to inform investors.

The public record makes clear that valuation remains an intractable problem. Indeed, the problems with valuing employee stock options have been identified by opponents of expensing, supporters of expensing and even the Chairman of the body that oversees the International Accounting Standards Board. Requiring companies to report what most agree will be highly inaccurate and unreliable numbers will neither restore investor confidence nor improve the quality of financial reporting.

In the past week, there have been at least two significant developments in this area.

First, Paul Volcker, the Chairman of the Trustees of the International Accounting Standards Committee Foundation, who has suggested eliminating stock options altogether, raised serious questions about whether accurate valuation is even possible. At an AEI-Brookings roundtable discussion on March 5, 2003, Mr. Volcker said, "I have a rather kind of classic view about stock options. I think the logic is you expense them. That's easy to say. How you expense them is another question. There's so much controversy about how to expense it, it may conceivably even now kill the credibility of expensing them."

Second, Coca-Cola said it was abandoning the method for expensing stock options it proposed last summer and reverting to the much criticized Black-Scholes method for employee stock options. When the Wall Street Journal (March 7, 2003) asked Coke's chief financial officer Gary Fayard if an alternative to Black-Scholes is needed, he replied, "I think it's something that business and the accounting profession need to work on and evaluate." The Journal reported that in using the Black-Scholes method, Coke came up with drastically different expensing numbers on its proxy statement and its financial statement. The disparity was the result of a difference in just one of the many assumptions required by Black-Scholes.