

Accounting Issues

Employee Stock Option Accounting New Developments

- **QUARTERLY REPORTS MUST NOW INCLUDE DISCLOSURE OF NET INCOME, BASIC, AND DILUTED EPS AS IF THE FAIR VALUE METHOD OF ACCOUNTING FOR OPTIONS HAD BEEN APPLIED.** In quarters beginning after December 15, 2002 (the quarter ending March 31, 2003 for calendar-year companies), this information must be disclosed prominently and in tabular form.
- **SINCE JUNE 2002, MORE THAN 175 COMPANIES HAVE ADOPTED OR ANNOUNCED THEIR INTENTION TO ADOPT THE FAIR VALUE METHOD OF ACCOUNTING FOR EMPLOYEE STOCK OPTIONS.** One hundred thirty-three of these companies have current market caps over \$1 billion. Seventy-three are included in the S&P 500 Index, representing 29.4% of the index by market capitalization. Previously, only a handful of companies used the fair value method.
- **THERE ARE THREE ALTERNATIVE TRANSITION METHODS FOR COMPANIES VOLUNTARILY ADOPTING THE FAIR VALUE METHOD IN FISCAL YEARS BEGINNING BEFORE DECEMBER 16, 2003 (2003 FOR CALENDAR-YEAR COMPANIES).** Companies voluntarily adopting the fair value method in fiscal years beginning after December 15, 2003 (2004 for calendar-year companies) have a choice of only two transition methods. The choice of method will impact earnings trends and company comparisons for years to come.
- **ON MARCH 12, THE FASB WILL BE CONSIDERING WHETHER TO IMPROVE ACCOUNTING FOR STOCK-BASED COMPENSATION, INCLUDING WHETHER TO MANDATE USE OF THE FAIR VALUE METHOD.** In 1994, the FASB proposed that companies be required to use the fair value method. It was forced to back away from that position due to strong opposition, primarily from the technology sector. We believe that the time is now right for the FASB to require its use.

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Please read the important disclosure information on the last page of this report.

BEAR STEARNS

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BEAR STEARNS

Employee Stock Compensation Accounting: New Developments

The fair value method of accounting for employee stock options is set out in FAS No. 123, *Accounting for Stock-Based Compensation* (FAS No. 123). Under the fair value method, the option's value is estimated by applying an option pricing model at the date it is granted to an employee. The estimated fair value is charged to compensation expense over the option's vesting period. This is in contrast to the allowed alternative, the intrinsic value method. Under the intrinsic value method, the option's intrinsic value is measured at the grant date as the difference between the market price of the underlying stock and the exercise price of the option. The intrinsic value (in the rare case that it is greater than zero) is charged to compensation expense over the option's vesting period. Until recently, almost all companies followed the intrinsic value method. We are aware of only eight companies that have been using the fair value method. They are **Boeing (BA)**, **Level 3 Communications (LFLT)**, **MacDermid (MRD)**, **Mercantile Bankshares (MRBK)**, **Protective Life (PL)**, **RCN (RCNC)**, **TCF Financial (TCB)**, and **Winn-Dixie (WIN)**.

Recently, the FASB issued FAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure* (FAS No. 148). FAS No. 148 addresses how companies voluntarily adopting FAS No. 123's fair value method should handle the transition. FAS No. 148 also makes improvements to the disclosure requirements of FAS No. 123. On March 12, the FASB is scheduled to discuss other possible improvements to FAS No. 123 including the possibility of eliminating the intrinsic value alternative.

VOLUNTARY ADOPTERS

Since June 2002, numerous companies have announced their intention to adopt FAS No. 123's fair value method of expensing employee stock options. In **Appendix A**, we list 187 companies that have either adopted FAS No. 123's fair value method or announced their intention to do so. Appendix A provides the announcement date, expected year of adoption, each company's current market capitalization as well as its net income and diluted EPS from continuing operations as reported at its last fiscal year-end (2001) compared to its pro forma results as if employee stock options had been expensed using the fair value method.

One hundred thirty-nine of the companies in Appendix A have current market caps over \$1 billion. Six of these 139 began expensing prior to June 2002. Seventy-five (40%) are included in the S&P 500 Index. These 75 companies represent 15% of the index based on number of companies and 29.7% of the index based on market capitalization.

Of the 187 companies that we have identified as adopters of the fair value method, 89 (48%) are from the financial sector. The financial sector is represented by 26 banks, 19 diversified financials, 21 insurance companies, and 23 real estate companies. Another 16% of the companies are in the consumer cyclical sector. After that, the sector concentration drops off to single digits. Very few companies that would be considered technology companies or "new economy companies" appear in Appendix A. For example, there are 2 software companies, **Computer Associates (CA)** and **EGames (EGAM)**; one computer and peripherals company, **Iomega (IOM)**; one communications equipment company, **Nortel Networks (NT)**; and one Internet software company, **Expedia (EXPE)**. **Exhibit 1** presents the number of companies

that have adopted the fair value method by sector. **Appendix B** gives the sector and industry breakdown of early adopters.

Exhibit 1. Number of Companies That Have Adopted the Fair Value Method by Sector

Sector	Number of Companies	Percentage of Total
Financials	89	48%
Consumer Cyclicals	30	16%
Capital Goods	15	8%
Basic Materials	11	6%
Utilities	11	6%
Energy	8	4%
Consumer Staples	7	4%
Technology	7	4%
Communication Services	6	3%
Health Care	3	2%
Total	187	100%

Source: Company releases.

At the request of several of these early adopters, in August 2002 the FASB decided to reconsider the transition provisions originally included in FAS No. 123. A transition provision explains how a company should make the change to a new accounting method. The FASB issued an exposure draft in October 2002 and FAS No. 148 in December 2002. In addition to addressing voluntary transition to the fair value method, FAS No. 148 also made improvements to the disclosure requirements of FAS No. 123.

MORE FREQUENT AND MORE PROMINENT DISCLOSURE

Quarterly reports for periods beginning after December 15, 2002 (quarter ended March 31, 2003 for calendar-year companies) must now contain the same pro forma information on employee stock compensation that has been included in annual reports since 1996 (see *Accounting Issues*, July 2002). Specifically, FAS No. 148 now requires the following information to be disclosed prominently, in tabular form in quarterly reports for all periods presented.

Exhibit 2. Required Quarterly Disclosure

- Net income, basic EPS, and diluted EPS *as reported*.
- Compensation expense, net of any related tax effects, already included in net income *as reported* for shares of stock, stock options, or other equity instruments awarded to employees.
- Compensation expense, net of any related tax effects, computed *as if the fair value method had been applied* for all shares of stock, stock options, or other equity instruments awarded to employees in fiscal periods beginning after December 15, 1994.
- Pro forma net income as if the fair value method had been applied for all shares of stock, stock options, or other equity instruments awarded to employees in fiscal periods beginning after December 15, 1994.
- Pro forma basic and diluted EPS calculated using pro forma net income.

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

FAS No. 148 will also improve the annual disclosure of the preceding information by requiring that it be provided in *tabular form*. Currently, some companies provide the information in a text paragraph. These presentations are frequently difficult to follow. FAS No. 148 also requires the pro forma information to be included in a company's "Summary of Significant Accounting Policies." For most companies, the Summary of Significant Accounting Policies is the first footnote to the financial statements or precedes that footnote.

While we continue to believe that the income statement should include compensation cost for stock-based awards, including awards of stock options, calculated using the fair value method, quarterly as well as annual disclosure of the impact will go a long way to help analysts and investors access the effect of such awards on valuation. We believe that the standardized tabular format will enhance the understandability and comparability of the information. Including the information in a standardized location will make it more accessible.

**TRANSITIONING TO
FAIR VALUE**

As noted above, at the request of companies voluntarily adopting FAS No. 123's fair value method, the FASB reconsidered how companies should apply it for the first time. FAS No. 148 permits these companies to use any one of the three alternative transition methods listed in the table below if they adopt the fair value method in their fiscal year beginning before December 16, 2003. Companies voluntarily adopting after that date will not be able to use the prospective method.

Exhibit 3. 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. This was the method originally <i>required</i> by FAS No. 123.
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

Having three transition methods is unusual. The FASB ordinarily mandates one transition method for first-time application of a new accounting principle so that companies' results are comparable. There is also an accounting standard that specifies how a switch from one acceptable accounting method to another should be handled in the absence of specific guidance in an accounting standard. That method, which results in a company recording a "cumulative effect of an accounting change, net of tax" below income from continuing operations in its income statement, is *not* among the alternative transition methods being permitted by the FASB in this case. The FASB is permitting alternative transition methods in this instance due to the unique circumstances.

As originally issued, FAS No. 123, like most accounting standards, required the use of a single transition method, in this case, the “prospective method.” Under the prospective method of transition, the fair value method is applied to options awarded in the year of adoption and subsequently. Since the fair value of an option grant is generally amortized over its vesting period, all other things being equal, compensation expense will appear to be rising and net income will appear to be declining as each successive grant is factored in. FAS No. 123 refers to this effect pejoratively as the “ramp-up” effect. In its basis for conclusions to FAS No 123, the FASB acknowledged that the “ramp-up” effect was undesirable but felt that the alternatives would be “excessively burdensome.” Since the fair value method was neither required nor permitted prior to the issuance of FAS No. 123, companies did not have readily available the information necessary to apply the fair value method to grants made in years before 1995. However, lack of sufficient information is no longer a problem since companies have had to apply the fair value method since 1995 in order to provide the pro forma fair value disclosure. Even so, the FASB felt that it was only fair to continue to permit the prospective method for companies adopting prior to 2004 since some of them may have announced their intention to do so relying on FAS No. 123 as originally issued.

At the same time, the FASB recognized that the “ramp-up” effect of the prospective method was not only confusing but potentially misleading as well. They also recognized that the reason for requiring it had ceased to exist. Thus, the FASB is prohibiting the use of the prospective method by companies adopting the fair value method in fiscal years beginning after December 15, 2003.

The FASB is *permitting* the use of the retroactive restatement transition method because many believe that it provides the most useful information for analysis and is readily available. However, the Board is *not requiring* it because many feel that restatement of previously issued financial results detracts from the credibility of reported results. That concern led the FASB to permit the third alternative, the modified prospective method.

Under the modified prospective transition method, the fair value method of expensing options is applied to all unvested options and options granted in the year of adoption and subsequently. This results in the expense recognized in the year of adoption being the same expense that would have been recognized had the fair value method been applied to all options granted since 1995.

Transition Choice Effects Pattern of Income Recognition

Each of the permitted transition methods results in a different pattern of income recognition. This is best illustrated by example.

Assume the following:

- Good Corporate Citizen, Inc. (GOOD) elects to adopt the fair value method of expensing employee stock options for its fiscal year beginning January 1, 2003.
- Since at least 1995, GOOD has had a policy of granting employee stock options with an aggregate fair value of \$300,000 annually. That is, the number of

options granted to employees each year varies depending on the Black-Scholes fair value of an individual option on the grant date.

- Each option grant vests at the end of three years.
- GOOD has never had any forfeitures, modifications, or cash settlements of option grants.

Exhibit 4 compares GOOD's pretax compensation expense for employee stock options under each of the three allowed alternative transition rules discussed above.

Exhibit 4. Pretax Employee Stock Compensation Under Alternative Transition Methods

Transition Method	2001	2002	2003	2004	2005	2006
Prospective	\$0	\$0	\$100,000	\$200,000	\$300,000	\$300,000
Modified Prospective	\$0	\$0	\$300,000	\$300,000	\$300,000	\$300,000
Retroactive Restatement	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000

Source: Bear, Stearns & Co. Inc.

Each of these methods has advantages and disadvantages. The prospective method does not require a company adopting the fair value method to immediately hit earnings for the full fair value of a stock option grant. A company might find this desirable, for instance, if it intended to materially reduce the dollar value of stock option grants in the future. On the other hand, this method shows three years of year-over-year increasing stock option expense. It will also result in the GAAP net income being higher than the pro forma net income in the required footnote disclosure. Financial statement readers will likely find this confusing.

The modified prospective method results in a higher charge in the year of adoption since the compensation expense will include that year's amortization for all options not fully vested. On the other hand, it results in GAAP net income that matches pro forma net income in the required footnote in the year of adoption and thereafter. It also results in the appearance of only one year-over-year increasing stock option expense.

Several companies have announced the transition method that they intend to adopt, but most have been silent on the issue. **Exhibit 5** lists the companies that we have identified that have disclosed their intended method.

Exhibit 5. Companies That Have Disclosed an Alternative Transition Method

Prospective:

AMB Property Corp (AMB)
Bank of Nova Scotia (BNS)
Choice One Communications (CWON)
CSX Corp. (CSX)
DPL Inc. (DPL)
Duke Realty (DRE)
FBL Financial Group, Inc. (FFG)
Houston Exploration Company (THX)
ICO Inc. (ICOC)
Insignia Financial Group, Inc. (IFS)
Lincoln Electric Holdings, Inc. (LECO)
Mack Cali Realty Corp. (CLI)
Nortel Networks (NT)
Provident Financial Group, Inc. (PFGI)
PS Business Parks, Inc. (PSB)
State Street Corp. (STT)
Sun Life Financial Services of Canada (SLC)
Visteon Corporation (VC)

Modified Prospective

CH Energy Group (CHG)
CIBA Specialty Chemical Holdings Inc (CSB)
Coca-Cola Co. (KO)
Hawaiian Electric Industries Inc (HE)

Modified Retroactive

Chicago Mercantile Exchange Holdings (CME)

Source: Company releases.

Coca-Cola: A Real Life Example of Transition Differences

Coca-Cola (KO), one of the first companies to announce that it was voluntarily adopting the fair value method of accounting for employee stock options, provides a good example of the differences in reported earnings and EPS under the prospective and modified prospective method.

When Coke made its announcement in July 2002, the only transition method available to it was FAS No. 123's mandated prospective method. In that announcement, Coke said:

The company expects minimal financial impact in the current year from adoption of this accounting methodology. If the Board of Directors grants options in 2002 at a similar level to 2001, the expected impact would be approximately \$0.01 per share for 2002.

After FAS No. 148 was issued, Coke elected to use the modified prospective transition method. In its earnings release for the fourth-quarter and full-year 2002, Coke said:

[The] company adopted the “modified prospective” approach to expensing stock-based compensation, resulting in a full-year 2002 financial impact of \$0.11 per share, effective from January 1, 2002...Under the modified approach, financial results for periods prior to 2002 are not restated.”

The modified prospective method resulted in Coke’s after-tax expense \$0.10 per share higher than the prospective method. The prospective method would have resulted in the earnings impact ramping up to the \$0.11 per share level over time. Also, the modified prospective method resulted in a diluted EPS reduction that is much more in line with the magnitude and trend of the pro forma impact on diluted EPS from stock compensation expense that Coke had disclosed in its footnotes in prior years. According to the pro forma footnote in Coca-Cola’s 2001 financial statements, employee stock compensation would have reduced diluted EPS by \$0.09, \$0.08 and \$0.07 in 2001, 2000, and 1999, respectively. Because Coke is using the modified prospective method, not the retroactive restatement method of transition, Coke’s GAAP comparative income statement will not include these dilutive effects for 2001 and 2000. In other words, the net income and diluted EPS presented on the face of its GAAP income statement will not be comparative.

It’s Not Just the “Bottom Line” That Changes

Retroactive restatement seems analytically superior to us because it shows all years presented in the GAAP income statement under the same method of accounting facilitating comparison and reducing confusion. This is particularly true in situations where the employee stock compensation expense is allocated to employees in different areas of the company resulting in a different cost of goods sold, selling, general and administrative expense, and/or research and development expense. **Microsoft (MSFT)**, while not yet adopting the fair value method for its primary financial statements, voluntarily provides a complete supplemental income statement adjusted for employee stock compensation calculated using the fair value method. This provides a good illustration of how individual line items and totals would change if it did adopt that method. We have included Microsoft’s comparative GAAP and pro forma income statement for the years ended June 2002, 2001, and 2000 in **Appendix C**. For the year ended June 2002, this comparative income statement shows that every operating expense line is increased due to employee stock compensation expense. Interestingly, it changes the ranking of the expenses. As reported, sales and marketing expense was Microsoft’s largest operating expense, \$5,407 million or 19% of sales. When adjusted for employee stock compensation, it grows to \$6,252 million (22% of sales). However, research and development expense becomes the largest expense, growing to \$6,299 million (22% of sales) from \$4,307 million (15% of sales). This seems to suggest that most of the stock options are going to the employees most likely responsible for the company’s current and future success, its researchers.

JUST THE BEGINNING

We believe that the changes made by FAS No. 148 are just the first step to mandatory fair value accounting for employee stock compensation. In November 2002, the FASB issued an Invitation to Comment, *Accounting for Stock-Based Compensation, and Its Related Interpretations, and IASB Proposed IFRS, Share-based Payments*. That document asked for comment on the similarities and differences between the fair value method prescribed in FAS No. 123 and the fair value method being

proposed by the International Accounting Standards Board (IASB). The IASB is another not-for-profit, independent standard setter charged with developing a set of high-quality global accounting standards. The most significant difference between the IASB proposal and FAS No. 123, in our opinion, is that the IASB proposes to make the fair value method of accounting for stock compensation mandatory. On issuing the Invitation to Comment, FASB Chairman, Bob Herz, a former IASB member, said

The comments we receive from constituents on the similarities and differences between the two approaches will provide valuable input to the FASB when it considers how we can improve the accounting for stock-based compensation in the U.S., including whether we should *require* use of the preferred fair value based method (emphasis added).

The comment period ended February 1. The FASB and its staff have been evaluating the input received. On March 12, the FASB will meet to discuss what the next steps should be.

We believe that it is very likely that the FASB will direct the staff to begin work on an exposure draft mandating the use of the fair value method. At a minimum we believe the Board will propose changes to FAS No. 123 to bring its fair value method in line with at least some aspects of the IASB proposal. After all, part of the FASB's mission is to facilitate convergence to a single set of high-quality global accounting standards and it has agreed to work with the IASB to that end.

Another aspect of the FASB's mission is to eliminate alternatives in practice so that like transactions are accounted for in a like manner. As the list of companies using the fair value method grows, the increasing diversity in practice becomes hard for the FASB to ignore. The FASB moving to eliminate the fair value method to eliminate diversity in practice seems implausible. After all, the FASB has clearly stated in FAS No. 123 that it believed that the fair value method was the preferable method. How could it then mandate use of only the intrinsic value method and still maintain that it was pursuing the highest quality standards?

There is still a tremendous amount of opposition in the business community to expensing employee stock options using the fair value method. However, offsetting this is a concern about the corporate governance implications of stock option compensation and a growing understanding and acceptance of the fair value method of expensing employee stock options in the investment community. There also continues to be opposition in Congress, but unlike the last time the FASB tackled this topic, there is also some visible support in Congress.

As we said in our July 2002 report, *Employee Stock Option Expense: Is the Time Right for Change?*, our best estimate is that the FASB will mandate use of the fair value method around 2005 when publicly traded European companies adopt IASB standards.

Appendix

APPENDIX A. Companies That Currently Expense or Intend to Expense Stock Options Using the Fair Value Method (\$ and shares in millions, except per share data)

Ticker	Company	Adoption Year	Announcement Date of Adoption	2002 Fiscal Yearend	Current Market Cap	Fiscal 2001		EPS from Cont. Oper.	Pro Forma EPS from Cont. Oper.	# of Options Granted in 2001	# of Options Outstanding at Yearend	# of Diluted Shares Outstanding at Yearend	S&P 500	Industry
						Net Income from Cont. Oper.	Pro Forma Net Income from Cont. Oper.							
BA	Boeing Co	1998	1998	12/2002	\$ 23,479.12	\$ 2,826.00	\$ 2,826.00	\$ 3.41	\$ 3.41	2.8	28.2	829.3	Yes	Aerospace & Defense
INT	World Fuel Services	2002	8/1/02	03/2003	216.9	17.2	17.1	1.62	1.60	0.1	1.4	10.6	No	Aerospace & Defense
UPS	United Parcel Service Inc.	2003	8/14/02	12/2002	63,946.5	2,425.0	2,374.0	2.12	2.07	6.2	29.2	1,144.0	Yes	Air Freight & Logistics
BDG	Bandag Inc.	2002	11/14/02	12/2002	586.1	43.8	43.0	2.12	2.08	0.4	0.9	20.7	No	Auto Components
JCI	Johnson Controls Inc.	2003	10/9/02	09/2002	7,036.3	478.3	469.8	5.11	5.02	1.5	4.9	93.0	Yes	Auto Components
LEA	Lear Corporation	2003	10/18/02	12/2002	2,503.3	34.2	18.4	0.52	0.28	2.2	6.4	65.3	No	Auto Components
VC	Visteon Corporation	2003	10/18/02	12/2002	846.4	(118.0)	(123.0)	(0.91)	(0.95)	5.2	4.9	131.0	Yes	Auto Components
F	Ford Motor Company	2003	9/12/02	12/2002	15,286.5	(5,453.0)	(5,606.0)	(3.02)	(3.10)	35.3	172.1	1,810.0	Yes	Automobiles
GM	General Motors	2003	8/6/02	12/2002	18,942.9	1,018.0	803.0	1.77	1.38	17.0	67.0	556.0	Yes	Automobiles
BAC	Bank of America Corp	2003	8/12/02	12/2002	103,571.6	6,792.0	6,441.0	4.18	3.96	53.1	184.6	1,625.7	Yes	Banks
BK	Bank of New York Co. Inc. **	TBA	8/13/02	12/2002	17,517.7	1,343.0	1,286.0	1.81	1.73	9.8	39.3	741.0	Yes	Banks
BNS	Bank of Nova Scotia	2003	12/4/02	10/2002	17,866.0	2,061.0	N/A	4.05	N/A	6.3	26.5	509.0	No	Banks
ONE	Bank One	2002	7/16/02	12/2002	41,889.6	2,682.0	2,496.0	2.28	2.12	23.6	90.5	1,174.0	Yes	Banks
CAC	Camden National Corporation	TBA	8/27/02	12/2002	179.4	15.4	15.3	1.89	1.88	0.0	0.1	8.2	No	Banks
CMA	Comerica	2002	8/6/02	12/2002	7,047.13	709.58	664.87	3.88	3.63	2.6	13.1	180.0	Yes	Banks
CBSH	Commerce Bancshares, Inc.	2003	2/3/03	12/2002	2,578.0	182.0	178.1	2.73	2.67	0.6	3.3	26.1	No	Banks
DRL	Doral Financial Corporation	2003	2/4/03	12/2002	2,342.1	143.9	141.6	2.95	2.91	-	1.1	47.8	No	Banks
FBF	FleetBoston Financial Corporation	2002	8/14/02	12/2002	25,767.2	931.0	837.0	0.83	0.75	21.4	105.5	1,083.7	Yes	Banks
GNTY	Guaranty Bancshares, Inc.	2002	9/6/02	12/2002	48.2	3.3	3.3	1.09	1.09	-	0.1	3.0	No	Banks
KEY	KeyCorp	2003	10/17/02	12/2002	10,146.6	157.0	132.0	0.37	0.31	7.4	34.2	429.6	Yes	Banks
MTB	M & T Bank Corporation	2003	9/19/02	12/2002	7,297.9	378.1	353.1	3.82	3.58	2.3	9.9	99.0	No	Banks
MEL	Mellon Financial Corp.	2003	8/13/02	12/2002	9,592.7	436.0	393.0	0.91	0.82	8.4	28.3	477.7	Yes	Banks
MRBK	Mercantile Bankshares, Inc.	1995	1995	12/2002	2,536.6	181.3	181.3	2.55	2.55	0.1	1.6	71.2	No	Banks
NCC	National City Corporation	2003	10/29/02	12/2002	16,938.3	1,388.1	1,348.0	2.27	2.20	10.2	48.8	611.9	Yes	Banks
PHC	Peoples Holding Company	2002	11/19/02	12/2002	223.0	14.6	14.6	2.48	2.48	0.0	0.0	5.9	No	Banks
PNC	PNC Financial Services Group, Inc.	2003	9/30/02	12/2002	12,632.3	377.0	344.0	1.26	1.14	4.0	12.5	290.0	Yes	Banks
BPOP	Popular, Inc.	2002	10/9/02	12/2002	4,446.5	303.9	303.8	2.17	2.17	0.0	0.0	136.2	No	Banks
PFGI	Provident Financial Group, Inc.	2003	1/15/03	12/2002	1,396.3	23.3	17.3	0.46	0.33	1.4	6.1	49.2	No	Banks
SOV	Sovereign Bancorp	2002	7/19/02	12/2002	3,458.3	123.4	119.9	0.48	0.47	2.5	9.7	256.9	No	Banks
STI	SunTrust Banks, Inc.	2002	8/13/02	12/2002	15,952.4	1,369.2	1,354.7	4.70	4.65	3.2	12.1	291.6	Yes	Banks
TCB	TCF Financial Corporation	2000	2000	12/2002	3,089.4	207.3	207.3	2.70	2.70	-	0.4	76.8	No	Banks
VLY	Valley National Bancorp	2002	7/17/02	12/2002	2,311.1	135.2	133.4	1.73	1.71	0.4	1.9	97.5	No	Banks
WB	Wachovia	2002	7/18/02	12/2002	47,978.1	1,619.0	1,561.0	1.45	1.40	60.6	125.6	1,105.0	Yes	Banks
WM	Washington Mutual, Inc.	2003	1/29/03	12/2002	31,856.1	2,732.0	2,704.0	3.15	3.12	23.3	40.3	864.7	Yes	Banks
WBST	Webster Financial	2002	7/24/02	12/2002	1,624.3	136.8	134.1	2.75	2.69	0.6	3.2	49.7	No	Banks
KO	Coca-Cola Co.	2002	7/14/02	12/2002	99,481.7	3,979.0	3,777.0	1.60	1.51	45.0	141.0	2,487.0	Yes	Beverages
MOLA	Molson Inc.	2003	11/6/02	03/2003	4,105.6	175.6	N/A	1.43	N/A	1.7	5.6	122.4	No	Beverages
CZ	Celanese AG	2002	10/22/02	12/2002	993.7	NA	NA	NA	NA	NA	NA	50.3	No	Chemicals
CSB	Ciba Specialty Chemicals Holdings Inc.	2003	2/4/03	12/2002	4,370.8	380.0	368.0	5.72	5.57	0.5	1.8	132.8	No	Chemicals
DOW	Dow Chemical Company	2003	8/26/02	12/2002	24,581.8	(417.0)	(476.0)	(0.46)	(0.52)	6.9	67.5	901.8	Yes	Chemicals
DD	DuPont	2003	11/5/02	12/2002	36,480.6	4,328.0	4,238.0	4.15	4.06	12.5	73.2	1,041.2	Yes	Chemicals
LYO	Lyondell Chemical Co.	2003	8/13/02	12/2002	1,958.0	(145.0)	(153.0)	(1.24)	(1.31)	3.1	6.6	117.6	No	Chemicals
MRD	MacDermid Inc.	2001	4/1/01	03/2003	707.9	(28.9)	(29.5)	(0.91)	(0.92)	0.6	2.0	31.9	No	Chemicals
SMG	Scotts Co.	2003	7/25/02	09/2002	1,553.0	15.5	10.8	0.51	0.35	0.9	4.6	30.4	No	Chemicals
CD	Cendant Corporation	2003	8/28/02	12/2002	12,759.2	423.0	205.0	0.45	0.20	75.0	218.0	917.0	Yes	Commercial Services & Supplies
JOB	General Employment Enterprises, Inc.	2002	8/5/02	09/2002	2.6	(1.1)	(1.1)	(0.21)	(0.22)	0.2	0.9	5.1	No	Commercial Services & Supplies
HRB	H&R Block Inc. ***	2004	9/11/02	04/2003	7,155.2	434.4	400.4	2.38	2.20	8.8	15.9	188.3	Yes	Commercial Services & Supplies
SVM	Service Master	2003	7/31/02	12/2002	2,895.9	(171.8)	(179.4)	(0.54)	(0.56)	5.2	29.2	311.4	No	Commercial Services & Supplies
SCS	Steelcase Inc.	2004	9/23/02	02/2003	1,354.9	1.0	(8.6)	0.01	(0.06)	2.8	8.5	147.7	No	Commercial Services & Supplies
NT	Nortel Networks	2003	1/24/03	12/2002	8,663.1	(24,307.0)	(25,953.0)	(7.62)	(8.14)	55.6	215.5	3,189.0	No	Communications Equipment
IOM	Iomega	2003	7/24/02	12/2002	529.0	(93.3)	(95.7)	(1.74)	(1.79)	1.4	2.8	53.5	No	Computers & Peripherals
TIN	Temple-Inland	2003	8/5/02	12/2002	2,267.4	111.0	107.0	2.26	2.16	1.1	3.6	49.3	Yes	Containers & Packaging
HDL	Handelman Company	2003	9/10/02	04/2003	355.6	37.1	35.8	1.39	1.34	0.4	1.4	26.8	No	Distributors
AXP	American Express	2003	8/12/02	12/2002	43,169.4	1,311.0	1,074.0	0.98	0.80	42.9	146.1	1,336.0	Yes	Diversified Financials
CME	Chicago Mercantile Exchange Holdings	2003	1/10/03	12/2002	1,377.7	68.3	65.6	2.33	2.24	1.3	2.6	31.8	No	Diversified Financials
C	Citigroup	2003	8/7/02	12/2002	166,165.5	14,284.0	13,724.0	2.75	2.64	71.0	364.4	5,147.0	Yes	Diversified Financials
FNM	Fannie Mae	2003	7/23/02	12/2002	63,226.8	6,067.0	5,826.0	5.89	5.79	4.2	26.2	1,006.0	Yes	Diversified Financials
FRE	Freddie Mac	2002	7/23/02	12/2002	37,849.3	4,373.0	4,347.0	5.96	5.92	1.4	8.7	696.9	Yes	Diversified Financials
GBL	Gabelli Asset Management Inc.	2003	7/26/02	12/2002	858.2	61.1	59.3	2.03	1.97	0.2	1.2	30.8	No	Diversified Financials
GS	Goldman Sachs Group Inc.	2003	8/13/02	11/2002	31,946.3	2,310.0	1,965.0	4.26	3.63	29.0	84.4	541.8	Yes	Diversified Financials
HI	Household International Inc.	2002	8/12/02	12/2002	12,612.4	1,847.6	1,819.7	4.08	4.02	3.1	17.8	468.1	Yes	Diversified Financials
JPM	J.P. Morgan Chase & Co.	2003	8/12/02	12/2002	45,240.9	1,719.0	1,097.0	0.83	0.53	163.0	359.8	2,023.6	Yes	Diversified Financials
JEF	Jefferies Group, Inc.	2003	2/5/03	12/2002	970.9	59.5	NA	2.28	NA	1.3	3.3	26.1	No	Diversified Financials
MER	Merrill Lynch & Co.	2003	8/13/02	12/2002	29,296.2	573.0	(281.0)	0.57	(0.38)	35.1	194.5	938.6	Yes	Diversified Financials
MCO	Moody's Corporation	2003	12/13/02	12/2002	6,719.5	212.2	202.9	1.32	1.27	0.1	14.7	160.2	Yes	Diversified Financials

APPENDIX A (cont'd). Companies That Currently Expense or Intend to Expense Stock Options Using the Fair Value Method (\$ and shares in millions, except per share data)

Ticker	Company	Adoption Year	Announcement Date of Adoption	2002 Fiscal Yearend	Current Market Cap	Fiscal 2001			# of Options Granted in 2001	# of Options Outstanding at Yearend	# of Diluted Shares Outstanding at Yearend	S&P 500	Industry	
						Net Income from Cont. Oper.	Pro Forma Net Income from Cont. Oper.	EPS from Cont. Oper.						Pro Forma EPS from Cont. Oper.
MWD	Morgan Stanley	2003	8/13/02	11/2002	39,792.9	3,610.0	3,235.0	3.19	2.84	24.5	151.4	1,121.8	Yes	Diversified Financials
NEU	Neuberger Berman	2003	7/24/02	12/2002	1,861.4	132.7	1,861.4	1.82	1.72	1.3	4.8	73.1	No	Diversified Financials
NMR	Nomura Holdings Inc.	2002	12/18/02	03/2003	23,292.4	¥168,046	N/A	¥85.32	N/A	-	1.0	1,972.9	No	Diversified Financials
PFG	Principal Financial Group	2002	8/7/02	12/2002	9,288.1	369.5	368.2	1.02	1.02	3.7	3.6	346.0	Yes	Diversified Financials
RJF	Raymond James Financial	2003	2/3/03	09/2002	1,267.7	79.3	75.3	1.60	1.52	1.2	3.4	48.8	No	Diversified Financials
STT	State Street Corp.	2003	8/13/02	12/2002	12,150.4	628.0	585.0	1.90	1.77	5.6	21.8	330.5	Yes	Diversified Financials
WPL	W.P. Stewart & Co., Ltd.	2003	7/31/02	12/2002	711.8	80.3	80.0	1.71	1.71	NA	NA	46.9	No	Diversified Financials
T	AT&T	2003	10/22/02	12/2002	14,580.2	(4,131.0)	(4,691.0)	(1.33)	(1.48)	90.0	317.5	3,643.0	Yes	Diversified Telecommunication Services
BCE	BCE INC	2003	12/18/02	12/2002	17,108.5	459.0	N/A	0.56	N/A	11.6	18.5	817.9	No	Diversified Telecommunication Services
CWON	Choice One Communications	2003	11/21/02	12/2002	11.9	(248.8)	(258.5)	(7.23)	(7.48)	2.5	4.4	39.7	No	Diversified Telecommunication Services
LVLT	Level 3 Communications, Inc	1998	1998	12/2002	2,092.3	(5,448.0)	(5,448.0)	(14.58)	(14.58)	20.7	29.5	373.8	No	Diversified Telecommunication Services
RCNC	RCN Corporation	2000	2000	12/2002	96.6	(1,168.8)	(1,194.3)	(14.03)	(14.30)	8.2	8.5	94.1	No	Diversified Telecommunication Services
VZ	Verizon Communications Inc.	2003	12/5/02	12/2002	95,341.2	590.0	92.0	0.22	0.04	34.2	245.2	2,730.0	Yes	Diversified Telecommunication Services
CHG	CH Energy Group Inc.	2003	2/19/03	12/2002	665.0	50.8	50.7	3.11	3.11	0.1	0.1	16.4	No	Electric Utilities
CIN	Cinergy	2003	7/24/02	12/2002	5,414.1	442.3	437.9	2.75	2.72	0.8	7.4	161.0	Yes	Electric Utilities
DPL	DPL Inc.	2003	2/20/03	12/2002	1,524.3	196.9	195.3	1.56	1.54	0.1	7.2	126.6	No	Electric Utilities
GXP	Great Plains Energy	2003	11/14/02	12/2002	1,544.9	(40.0)	(40.0)	(0.68)	(0.68)	0.2	0.3	61.9	No	Electric Utilities
HE	Hawaiian Electric Industries Inc	2002	1/21/03	12/2002	1,461.5	107.7	108.6	3.18	3.20	0.2	0.8	33.9	No	Electric Utilities
PPL	PPL Corporation	2003	10/4/02	12/2002	5,711.3	221.0	218.1	1.15	1.13	0.9	2.3	146.6	Yes	Electric Utilities
CBE	Cooper Industries	2003	8/6/02	12/2002	3,501.5	261.3	256.7	2.75	2.70	1.7	4.7	94.9	Yes	Electrical Equipment
EMR	Emerson Electronics	2003	8/6/02	09/2002	19,955.2	1,031.8	1,012.0	2.40	2.36	0.5	9.1	429.5	Yes	Electrical Equipment
TNL	Technitrol, Inc.	2003	10/21/02	12/2002	618.4	NA	NA	NA	NA	NA	NA	33.6	No	Electronic Equipment & Instruments
ICOC	ICO Inc.	2003	2/14/03	09/2002	31.2	(16.7)	(17.0)	(0.79)	(0.80)	0.5	1.6	22.7	No	Energy Equipment & Services
FLM	Fleming Companies Inc.	2003	8/8/02	12/2002	131.3	26.8	25.3	0.60	0.59	2.1	5.1	44.9	No	Food & Drug Retailing
WIN	Winn-Dixie Stores Inc	1996	1996	06/2002	1,713.8	189.5	189.5	1.35	1.35	0.5	2.6	140.4	Yes	Food & Drug Retailing
DOL	Dole Foods	2003	7/19/02	12/2002	1,847.6	(37.1)	(39.4)	(0.66)	(0.70)	0.7	3.6	56.3	No	Food Products
SFD	Smithfield Foods, Inc.	2002	8/22/02	04/2003	2,046.9	196.9	193.9	1.78	1.76	1.8	5.7	110.4	No	Food Products
KSE	Keyspan Corp.	2003	9/26/02	12/2002	4,958.9	243.7	235.8	1.70	1.64	2.3	7.8	139.2	Yes	Gas Utilities
NJR	New Jersey Resources Corporation	2003	10/30/02	09/2002	864.2	53.3	53.0	3.00	2.98	0.4	1.1	26.8	No	Gas Utilities
OKE	Oneok Inc	2003	2/21/03	12/2002	1,217.4	101.6	85.4	0.85	0.71	1.1	2.3	99.7	No	Gas Utilities
ARTL	Aristotle Corporation	2002	11/7/02	06/2003	72.4	218.0	157.0	0.11	0.08	0.0	0.2	1.9	No	Health Care Equipment & Supplies
HB	Hillenbrand Industries Inc.	2003	9/26/02	09/2002	3,042.4	170.0	164.0	2.71	2.65	1.0	2.3	62.8	No	Health Care Equipment & Supplies
RVP	Retractable Technologies Inc.	2002	11/14/02	12/2002	95.5	(7.2)	(7.4)	(0.47)	(0.48)	-	1.2	19.8	No	Health Care Equipment & Supplies
CHH	Choice Hotels International, Inc.	2003	9/25/02	12/2002	867.6	14.3	13.4	0.32	0.30	0.3	3.1	44.6	No	Hotels Restaurants & Leisure
PZZA	Papa John's International, Inc.	2002	7/30/02	12/2002	435.6	47.2	46.5	2.08	2.04	0.2	4.1	22.8	No	Hotels Restaurants & Leisure
BUNZ	Schlotzskys Inc.	2003	8/13/02	12/2002	18.4	2.5	1.8	0.33	0.24	0.5	1.2	7.5	No	Hotels Restaurants & Leisure
CTX	Centex Corporation	2004	9/12/02	03/2003	3,429.4	382.2	357.8	6.11	5.72	1.7	7.1	62.5	Yes	Household Durables
HAR	Harman International Industries	2003	8/19/02	06/2002	1,989.7	32.4	27.3	0.96	0.81	0.9	4.9	33.7	No	Household Durables
LEG	Leggett & Platt	2003	11/20/02	12/2002	3,697.9	187.6	179.6	0.94	0.90	2.0	9.9	200.4	Yes	Household Durables
TUP	Tupperware International	2003	8/6/02	12/2002	743.1	61.5	54.9	1.04	0.93	1.6	10.5	58.9	Yes	Household Durables
PG	Procter & Gamble *	2004	8/5/02	06/2002	106,794.4	2,922.0	2,612.0	2.07	1.85	28.4	104.2	1,405.6	Yes	Household Products
GE	General Electric	2002	7/31/02	12/2002	237,830.3	14,128.0	13,832.0	1.41	1.37	60.9	354.5	10,052.0	Yes	Industrial Conglomerates
RAVN	Raven Industries	2002	8/20/02	01/2003	166.9	8.8	8.8	1.86	1.85	0.0	0.3	4.7	No	Industrial Conglomerates
ALL	Allstate Corp.	2003	8/12/02	12/2002	22,290.9	1,167.0	1,137.0	1.61	1.57	6.3	25.5	723.3	Yes	Insurance
AIG	American International Group	2003	8/11/02	12/2002	131,629.5	5,499.0	5,355.0	2.07	2.02	23.9	54.3	2,650.0	Yes	Insurance
CLU	Canada Life Financial Corporation	2003	12/9/02	12/2002	4,659.6	338.0	N/A	2.13	N/A	1.2	2.0	160.6	No	Insurance
CB	Chubb Corp.	2003	8/14/02	12/2002	8,120.2	111.5	65.7	0.63	0.37	3.8	18.4	175.8	Yes	Insurance
RE	Everest Re Group, Ltd.	2002	10/21/02	12/2002	2,700.9	99.0	95.0	2.10	2.02	0.6	2.1	47.1	No	Insurance
FFG	FBL Financial Group, Inc.	2003	8/29/02	12/2002	552.2	40.4	39.4	1.30	1.27	0.4	2.0	27.9	No	Insurance
HIG	Hartford Financial Services Group, Inc.	2003	9/24/02	12/2002	9,402.3	549.0	496.0	2.27	2.05	4.2	18.9	241.4	Yes	Insurance
LNC	Lincoln National Corporation	2003	8/8/02	12/2002	4,969.8	605.8	556.0	3.05	2.79	3.4	21.0	193.3	Yes	Insurance
MXRE	Max Re Capital Ltd.	2003	9/9/02	12/2002	423.7	2.5	1.6	0.06	0.04	0.8	1.0	40.6	No	Insurance
MBI	MBIA Inc.	2002	7/29/02	12/2002	5,296.6	583.2	574.2	3.91	3.85	1.3	8.3	149.3	Yes	Insurance
MET	MetLife Inc.	2003	8/12/02	12/2002	18,221.3	473.0	454.0	0.62	0.59	12.3	11.1	767.0	Yes	Insurance
MRH	Montpelier Re Holdings Ltd.	2002	11/5/02	12/2002	1,679.9	(61.6)	(61.6)	(1.18)	(1.18)	2.0	2.0	52.4	No	Insurance
PL	Protective Life	1995	1995	12/2002	1,844.0	141.1	141.1	2.01	2.01	NA	-	70.0	No	Insurance
PRU	Prudential Financial Inc.	2003	8/13/02	12/2002	17,248.4	NM	NM	NM	NM	12.1	12.0	585.0	Yes	Insurance
RG	Reinsurance Group of America, Inc.	2003	1/30/03	12/2002	1,318.0	39.9	36.7	0.81	0.75	2.1	2.3	49.9	No	Insurance
RNR	RenaissanceRe Holdings Ltd.	2003	10/14/02	12/2002	2,532.7	165.8	153.2	7.90	7.37	0.5	1.8	62.4	No	Insurance
SAFC	Safeco Corporation	2003	10/25/02	12/2002	4,473.4	(1,045.3)	(1,049.1)	(8.18)	(8.21)	0.9	2.8	127.9	Yes	Insurance
SFG	StanCorp Financial Group, Inc.	2003	1/30/03	12/2002	1,475.4	106.0	103.4	3.44	3.35	0.2	1.0	30.8	No	Insurance
SLC	Sun Life Financial Services of Canada	2002	7/31/02	12/2002	11,185.8	896.0	879.0	2.03	1.99	5.7	5.5	432.0	No	Insurance
TAP.B	Travelers Property Casualty Corp.	2003	10/16/02	12/2002	15,707.3	NA	NA	NA	NA	NA	NA	500.0	Yes	Insurance
XL	XL Capital Ltd	2003	2/11/03	12/2002	9,643.4	(576.1)	(615.9)	(4.55)	(4.86)	3.1	9.2	126.7	Yes	Insurance
AMZN	Amazon	2003	7/23/02	12/2002	8,393.8	(556.8)	(952.6)	(1.53)	(2.61)	46.2	66.0	364.2	No	Internet & Catalog Retail

APPENDIX A (cont'd). Companies That Currently Expense or Intend to Expense Stock Options Using the Fair Value Method (\$ and shares in millions, except per share data)

Ticker	Company	Adoption Year	Announcement Date of Adoption	2002 Fiscal Yearend	Current Market Cap	Fiscal 2001			# of Options Granted in 2001	# of Options Outstanding at Yearend	# of Diluted Shares Outstanding at Yearend	S&P 500	Industry	
						Net Income from Cont. Oper.	Pro Forma Net Income from Cont. Oper.	EPS from Cont. Oper.						Pro Forma EPS from Cont. Oper.
USAI	USA Interactive	2003	7/24/02	12/2002	12,879.7	(186.8)	(267.1)	(0.50)	(0.61)	7.5	84.4	374.1	No	Internet & Catalog Retail
EXPE	Expedia, Inc.	2003	2/5/03	06/2003	3,953.3	(78.1)	(98.5)	(1.65)	(2.09)	1.8	14.9	47.2	No	Internet Software & Services
PRDS	Predictive Systems Inc.	2002	9/19/02	12/2002	9.4	(140.9)	(157.6)	(3.91)	(4.38)	9.0	13.3	36.0	No	IT Consulting & Services
LECO	Lincoln Electric Holdings, Inc.	2003	10/16/02	12/2002	850.2	83.6	81.2	1.96	1.90	0.7	2.7	42.6	No	Machinery
PCAR	PACCAR Inc.	2003	9/24/02	12/2002	5,519.7	173.6	167.9	2.26	2.18	0.5	2.1	115.4	Yes	Machinery
CHTR	Charter Communications	2002	8/6/02	12/2002	291.8	(1,177.7)	(1,225.3)	(4.37)	(4.55)	29.4	46.6	269.6	No	Media
GREY	Grey Global Group Inc.	2003	8/14/02	12/2002	766.2	(24.4)	(25.6)	(18.46)	(19.38)	0.0	0.2	1.2	No	Media
LEE	Lee Enterprises	2003	7/22/02	09/2002	1,407.5	59.5	57.7	1.35	1.31	0.4	1.0	44.1	No	Media
WPO	Washington Post Co.	2002	7/15/02	12/2002	6,717.8	229.6	226.0	24.06	23.68	0.0	0.2	9.5	No	Media
WPPGY	WPP Group PLC -ADR	2002	8/20/02	12/2002	6,897.7	NA	NA	NA	NA	NA	NA	231.4	No	Media
ABER	Aber Diamond Corp.	2003	12/3/02	01/2003	1,055.55	81.04	NA	1.46	NA	1.0	2.7	55.5	No	Metals & Mining
GG	Goldcorp Inc.	2003	10/23/02	12/2002	2,031.8	NA	NA	NA	NA	0.3	4.3	168.0	No	Metals & Mining
N	Inco Limited	2003	2/4/03	12/2002	3,944.0	305.0	301.0	1.49	1.46	1.3	7.7	188.7	No	Metals & Mining
COST	Costco Wholesale Corporation	2003	8/14/02	08/2002	13,856.4	602.1	537.0	1.29	1.15	8.8	39.6	475.8	Yes	Multiline Retail
MAY	May Dept. Stores	2003	8/16/02	01/2003	5,612.2	706.0	680.0	2.22	2.15	4.7	22.5	317.6	Yes	Multiline Retail
PSMT	PriceSmart	2003	8/5/02	08/2002	109.3	3.7	3.3	0.56	0.49	0.1	0.9	6.7	No	Multiline Retail
SKS	Saks Incorporated	2003	8/20/02	1/2003	1,101.2	(15.7)	(42.9)	(0.11)	(0.30)	4.7	27.6	142.0	No	Multiline Retail
WMT	Wal-Mart Stores Inc.	2003	8/14/02	01/2003	212,576.3	6,671.0	6,592.0	1.49	1.47	11.3	49.7	4,481.0	Yes	Multiline Retail
MWH	BayCorp Holdings Corp.	2003	8/14/02	12/2002	125.0	21.7	19.5	2.53	2.27	0.4	1.0	8.6	No	Multi-Utilities & Unregulated Power
CPN	Calpine Corp.	2003	8/27/02	12/2002	1,092.4	641.1	612.6	1.85	1.77	3.0	27.7	372.4	Yes	Multi-Utilities & Unregulated Power
COP	ConocoPhillips ****	2003	9/25/02	12/2002	34,315.3	3,239.0	3,187.0	4.74	4.66	N/A	N/A	N/A	Yes	Oil & Gas
MCF	Contango Oil & Gas	2002	8/5/02	06/2002	28.0	7.7	7.6	0.54	0.53	0.5	1.0	14.4	No	Oil & Gas
THX	Houston Exploration Company	2003	2/24/03	12/2002	836.6	122.6	118.2	4.00	3.86	1.1	2.2	30.6	No	Oil & Gas
MRO	Marathon Oil	2003	8/6/02	12/2002	7,027.9	1,317.0	1,311.0	4.26	4.24	1.6	6.7	309.5	Yes	Oil & Gas
PPP	Pogo Producing Company	2003	8/9/02	12/2002	2,409.7	88.0	83.5	1.62	1.55	1.0	3.9	60.8	No	Oil & Gas
PCO	Premcor	2002	8/6/02	12/2002	1,789.0	165.4	164.4	4.49	4.46	0.2	1.8	34.5	No	Oil & Gas
SUN	Sunoco, Inc.	2002	9/11/02	12/2002	2,671.6	398.0	395.0	4.85	4.82	0.8	4.9	82.0	Yes	Oil & Gas
AMB	AMB Property Corp	2002	7/8/02	12/2002	2,309.1	138.6	134.7	1.47	1.42	1.9	7.4	85.2	No	Real Estate
BRE	BRE Properties, Inc.	2003	10/14/02	12/2002	1,362.3	87.8	78.0	1.70	1.60	1.5	3.5	48.5	No	Real Estate
CBL	CBL & Associates Properties, Inc.	2003	10/29/02	12/2002	1,171.7	74.5	73.9	2.63	2.60	0.4	2.4	25.8	No	Real Estate
DRE	Duke Realty	2002	7/31/02	12/2002	3,507.2	282.4	281.2	1.75	1.74	0.7	4.7	151.7	No	Real Estate
FCH	FelCor Lodging Trust Incorporated	2003	10/30/02	12/2002	403.1	(56.5)	(56.8)	(1.07)	(1.08)	0.3	2.0	52.6	No	Real Estate
FR	First Industrial Realty Trust, Inc.	2003	2/12/03	12/2002	1,065.4	68.3	67.5	2.56	2.54	1.0	2.9	39.6	No	Real Estate
GBP	Gables Residential	2003	11/14/02	12/2002	624.0	64.8	64.4	2.29	2.27	0.0	1.2	30.3	No	Real Estate
HME	Home Properties of New York Inc.	2003	8/7/02	12/2002	845.9	64.6	63.7	2.11	2.07	0.9	2.1	20.2	No	Real Estate
HMT	Host Marriott Corporation	2002	10/16/02	12/2002	1,834.5	53.0	53.0	0.09	0.09	1.4	4.9	288.4	No	Real Estate
IFS	Insignia Financial Group, Inc.	2002	7/24/02	12/2002	252.6	5.7	3.4	0.20	0.14	0.1	6.6	23.4	No	Real Estate
SFI	iStar Financial	2003	7/24/02	12/2002	2,533.3	231.8	231.1	5.16	5.16	1.7	4.1	88.2	No	Real Estate
KRC	Kilroy Realty Corp.	2002	8/13/02	12/2002	604.6	38.4	37.8	1.40	1.38	0.0	1.5	27.4	No	Real Estate
MAC	Macerich Company	2002	8/12/02	12/2002	1,601.3	79.8	79.7	1.76	1.76	0.0	1.8	45.0	No	Real Estate
CLI	Mack Call Realty Corp.	2002	2/26/03	12/2002	1,640.4	131.7	126.2	2.32	2.22	1.0	4.5	64.8	No	Real Estate
PCL	Plum Creek Timber Co.	2002	8/2/02	12/2002	4,037.4	338.0	335.0	2.58	2.56	0.7	2.6	130.7	Yes	Real Estate
PSB	PS Business Parks, Inc.	2002	9/9/02	12/2002	682.7	49.9	49.2	1.83	1.80	0.3	0.8	22.4	No	Real Estate
PSA	Public Storage Inc.	2002	11/14/02	12/2002	4,105.7	324.2	320.0	1.51	1.48	1.8	6.7	123.6	No	Real Estate
O	Realty Income	2002	7/26/02	12/2002	1,210.0	67.6	67.3	1.98	1.97	-	0.3	29.3	No	Real Estate
RA	Reckson Associated Realty Corp.	2002	12/16/02	12/2002	1,194.5	(44.2)	(44.7)	(0.92)	(0.93)	0.2	5.4	58.4	No	Real Estate
RFS	RFS Hotel Investors, Inc.	2003	8/1/02	12/2002	274.7	(13.7)	(14.0)	(0.55)	(0.56)	0.7	1.4	25.0	No	Real Estate
SPG	Simon Property	2002	7/31/02	12/2002	6,456.9	200.7	200.7	0.86	0.86	1.1	3.2	173.0	Yes	Real Estate
TARR	Tarragon Realty Investors	2002	8/5/02	12/2002	162.9	1.1	0.8	0.05	0.01	0.2	1.6	8.4	No	Real Estate
VNO	Vornado Realty Trust	2003	8/7/02	12/2002	3,793.9	266.7	253.3	2.90	2.75	0.0	15.5	92.1	No	Real Estate
CSX	CSX Corp.	2003	2/26/03	12/2002	5,579.8	293.0	280.0	1.38	1.32	5.0	23.3	212.4	Yes	Road & Rail
CA	Computer Associates	2003	7/29/02	03/2003	7,580.4	(1,102.0)	(1,185.0)	(1.91)	(2.05)	4.5	25.5	577.0	Yes	Software
EGAM	EGames Inc.	2003	11/14/02	06/2002	2.1	2.2	1.9	0.22	0.19	0.0	1.7	9.8	No	Software
HD	Home Depot Inc.	2003	8/23/02	1/2003	53,748.3	3,044.0	2,800.0	1.29	1.19	25.3	69.4	2,353.0	Yes	Specialty Retail
LOW	Lowe's Companies, Inc.	2003	8/19/02	1/2003	30,362.9	1,023.3	968.2	1.30	1.22	10.9	19.1	794.6	Yes	Specialty Retail
JNY	Jones Apparel	2003	7/31/02	12/2002	3,569.5	236.2	209.7	1.82	1.63	7.0	17.9	133.7	Yes	Textiles Apparel & Luxury Goods
KWD	Kellwood Co.	2003	8/28/02	1/2003	647.3	37.7	35.6	1.65	1.57	0.6	3.1	22.9	No	Textiles Apparel & Luxury Goods

NM - Not meaningful.

NA - Information unavailable

TBA - Company has not named a specific date or is awaiting board approval.

APPENDIX A (cont'd). Companies That Currently Expense or Intend to Expense Stock Options Using the Fair Value Method (\$ and shares in millions, except per share data)

* Procter & Gamble said it is prepared to begin expensing options no later than fiscal 2004, but the company stopped short of guaranteeing the change.

** The Financial Services Forum, a CEO-led group of the industry's largest companies, announced that all of its publicly traded member companies will now require employee stock options to be reported as expenses. Bank of New York (BK) is a member of the forum, however, it has not yet released a statement outlining its adoption.

*** 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.

**** ConocoPhillips (COP) was formed on August 30, 2002 in the merger between Conoco Inc. (COC) and Phillips Petroleum Company (P). Each Phillips share was converted into one share of ConocoPhillips. Each Conoco share was converted into .4677 shares of ConocoPhillips. The information from each company's financial statement footnote is provided below. The pro forma expense for ConocoPhillips is based on the estimates provided in the ConocoPhillips Sept. 25 press release. According to the company, the pro forma after-tax expense would have been approximately \$52 million, or \$0.08 diluted earnings per share. These results are based on the assumption that FAS 123 was adopted at the beginning of 2001, that vesting periods and grant dates were conformed, and that there were 684 million diluted shares.

Ticker	Company	Adoption Year	Announcement Date of Adoption	2002 Fiscal Yearend	Fiscal Yearend Market Cap	Fiscal 2001			# of Options Granted in 2001	# of Options Outstanding at Yearend	# of Diluted Shares Outstanding at Yearend	
						Net Income from Cont. Oper.	Pro Forma Net Income from Cont. Oper.	EPS from Cont. Oper.				Pro Forma EPS from Cont. Oper.
COC	Conoco Inc.	2003	9/25/02	12/2002	NM	1,596.0	1,550.0	2.51	2.44	8.0	43.2	635.1
P	Phillips Petroleum Co.	2003	9/25/02	12/2002	NM	1,643.0	1,626.0	5.57	5.51	9.0	16.4	295.0

Source: Company reports and press releases; FactSet Research Systems Inc.; Bear Stearns estimates.

APPENDIX B. Industry and Sector Analysis of Companies That Currently Expense or Intend to Expense Stock Options Using the Fair Value Method

Sector	Industry	Number of Companies by Industry	Total Percentage by Industry	Number of Companies by Sector	Total Percentage by Sector
Basic Materials	Chemicals	7	4%	11	6%
	Containers & Packaging	1	1%		
	Metals & Mining	3	2%		
Capital Goods	Aerospace & Defense	2	1%	15	8%
	Air Freight & Logistics	1	1%		
	Commercial Services & Supplies	5	3%		
	Electrical Equipment	2	1%		
	Industrial Conglomerates	2	1%		
	Machinery	2	1%		
	Road & Rail	1	1%		
Communication Services	Diversified Telecommunication Services	6	3%	6	3%
Consumer Cyclical	Auto Components	4	2%	30	16%
	Automobiles	2	1%		
	Distributors	1	1%		
	Hotels Restaurants & Leisure	3	2%		
	Household Durables	4	2%		
	Internet & Catalog Retail	2	1%		
	Media	5	3%		
	Multiline Retail	5	3%		
	Specialty Retail	2	1%		
	Textiles Apparel & Luxury Goods	2	1%		
Consumer Staples	Beverages	2	1%	7	4%
	Food & Drug Retailing	2	1%		
	Food Products	2	1%		
	Household Products	1	1%		
Energy	Energy Equipment & Services	1	1%	8	4%
	Oil & Gas	7	4%		
Financials	Banks	26	14%	89	48%
	Diversified Financials	19	10%		
	Insurance	21	11%		
	Real Estate	23	12%		
Health Care	Health Care Equipment & Supplies	3	2%	3	2%
Technology	Communications Equipment	1	1%	7	4%
	Computers & Peripherals	1	1%		
	Electronic Equipment & Instruments	1	1%		
	Internet Software & Services	1	1%		
	IT Consulting & Services	1	1%		
	Software	2	1%		
Utilities	Electric Utilities	6	3%	11	6%
	Gas Utilities	3	2%		
	Multi-Utilities & Unregulated Power	2	1%		
Total		187	100%	187	100%

Source: FactSet Research Systems Inc.; Company reports and press releases.

APPENDIX C. Excerpt from Microsoft's 2002 Stock Option Footnote from June 30, 2002 Form 10-K

Had compensation cost for the company's stock option and employee stock purchase plans been determined as prescribed by SFAS 123, pro forma income statements for 2000, 2001, and 2002 would have been as follows:

(in millions, except per share amounts; year ended June 30)

	<u>2000</u>		<u>2001</u>		<u>2002</u>	
	Reported	Pro Forma	Reported	Pro Forma	Reported	Pro Forma
Revenue	\$ 22,956	\$22,956	\$ 25,296	\$25,296	\$28,365	\$28,365
Operating Expenses:						
Cost of Revenue	3,002	3,277	3,455	3,775	5,191	5,699
R&D	3,772	4,814	4,379	6,106	4,307	6,299
Sales and Marketing	4,126	4,468	4,885	5,888	5,407	6,252
G&A	1,050	1,284	857	1,184	1,550	1,843
Total Operating Expenses	11,950	13,843	13,576	16,953	16,455	20,093
Operating Income	11,006	9,113	11,720	8,343	11,910	8,272
Losses on Equity Investees and Other Investment	(57)	(57)	(159)	(159)	(92)	(92)
Investment Income/(Loss)	3,326	3,326	(36)	(36)	(305)	(305)
Income before Income Taxes	14,275	12,382	11,525	8,148	11,513	7,875
Provision for Income Taxes	4,854	4,210	3,804	2,689	3,684	2,520
Income before Accounting Change	9,421	8,172	7,721	5,459	7,829	5,355
Cumulative effect of Accounting Change	—	—	(375)	(375)	—	—
Net Income	\$9,421	\$ 8,172	\$7,346	\$ 5,084	\$7,829	\$5,355
Basic Earnings per Share	\$1.81	\$1.57	\$1.38	\$0.95	\$1.45	\$0.99
Diluted Earnings per Share	\$1.70	\$1.48	\$1.32	\$0.91	\$1.41	\$0.98

The weighted average Black-Scholes value of options granted under the stock option plans during 2000, 2001, and 2002 was \$36.67, \$29.31, and \$31.57. Value was estimated using a weighted average expected life of 6.2 years in 2000, 6.4 years in 2001, and 7.0 years in 2002, no dividends, volatility of .33 in 2000, .39 in 2001, and .39 in 2002, and risk-free interest rates of 6.2%, 5.3%, and 5.4% in 2000, 2001, and 2002.

BEAR STEARNS

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