

## Recent regulatory and compliance developments

By Sandy Paavola

### **FASB: Expensing stock options**

The Financial Accounting Standards Board (FASB) has voted to require companies to expense stock option grants and other equity compensation on their income statements. The board is aiming to complete its review of how the expensing will occur and have a standard available for comment in early 2004; rule implementation is expected by the end of 2004. FASB has indicated it will look at how ESOPs should be accounted for during its project. Unlike stock options, ESOP costs are charged to compensation as shares are allocated, but changes in how that is done could result.

### **Pension / retirement plan changes**

“Post Enron” legislation continues to be acted upon in Congress. The House passed the Pension Security Act of 2003 (H.R. 1000) in May 2003, which addresses diversification, eligibility and discrimination rules primarily for 401(k) plans. The bill also requires that workers receive quarterly benefit statements including information about their rights and the importance of diversification. It also provides for fiduciary exemptions for neutral professional investment advisors providing advice to employees. ESOPs are excluded from the bill’s requirements, except for ESOPs in public companies that are combined with 401(k) plans or that allow employees to buy stock through deferrals into the plan.

The Pension Preservation and Savings Expansion Act of 2003 (H.R. 1776) was

introduced in the House recently. Although it primarily affects pension plans and employee savings plans, there are several provisions that would impact ESOPs: vesting must be completed after three years or gradually over six years; the minimum distribution age increases from 70½ to 75 years of age; and diversification rules as outlined in H.R. 1000.

In the Senate, the Pension Protection and Expansion Act of 2003 (S. 9) was recently introduced and has been referred to the Senate Committee on Finance. The bill is not expected to be considered in its entirety, but many elements may be incorporated into other bills. Major differences between the House and Senate versions concern the rules for investment advice and eligibility exemptions. Although Congress could reach a consensus on the issues, disagreements could stall or defeat the bills.

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*“Under capitalism man exploits man; under socialism the opposite is true.”*

*- Polish Proverb*

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### **Employee ownership commission**

The Employee Ownership for the Twenty-First Century Act (H.R. 1778) was introduced to establish a presidential commission on employee ownership. The commission would have 15 members with varying backgrounds studying and reporting on issues surrounding employee ownership.

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## Do you seek and accept change?

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A growing business requires a captain who loathes complacency. Smart entrepreneurs constantly evaluate their company's direction, look for new ways to generate revenue and capitalize on emerging markets.

Often, as the business grows, owners feel locked in to their current business model, especially in hard economic times. The challenge for established executives is to remain flexible and welcome change. The ability to think like an entrepreneur can be a competitive advantage particularly for a small business.

Flexibility is another competitive advantage for business. A business must continually examine its market, competitors and strategies to foster growth.

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*“Change is the law of life. And those who look only to the past or present are certain to miss the future.”*

*- John F. Kennedy*

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## The ESI family grows, again!

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At ESI, we're committed to providing quality service to you. And, in our effort to maintain the highest level of service, we are happy to announce the most recent addition to the ESI team: Alison Geanon. Alison joined ESI in March 2003 as a Financial Analyst with business experience in an array of industries. Her knowledge of project management, accounting, and research studies is an excellent foundation for providing business valuations. In addition, Alison's experience with compliance analysis and the evaluation of business acquisitions further strengthens her capabilities.



Since joining ESI, Alison has been working on valuation updates for many of our clients. She will also be working on original report assignments as well. Alison holds an undergraduate degree from the University of Chicago and received her MBA with an emphasis in marketing, finance, and accounting from the Kellogg School of Management at Northwestern University. We are delighted to have Alison on our team and are certain that you will enjoy getting to know her.

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