



**Rolling Out a Global Stock Plan:
Best Practices and Lessons Learned**

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Agenda

- **Current Environment**
- **The Plan: Past v. Future**
- **Due Diligence**
- **Country Specific Developments: Options and Alternative Equity Vehicles**
- **Conclusions**

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Current Environment: Global Equity Plans

- Continuously changing environment
- Accounting changes on stock options – FASB and IASB
- Move from options?
 - Are cash programs a true replacement for equity plans?
 - Switch to other equity vehicles?
 - More diversification?

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Current Environment: Global Equity Plans (cont.)

- Underwater options
- Corporate Governance and shareholder scrutiny: US and overseas
- Sarbanes Oxley (Section 404 reviews)
- Numerous country specific tax audits
- New country specific laws (E&Y Global Incentive Compensation Reporter Service issued 53 alerts as of October 2003)

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Current Environment: Corporate Governance

- Sarbanes-Oxley
 - Executive loans from employer prohibited
 - CEO/CFO attesting to accuracy of financial statements
 - Review of processes due to Section 404
- NYSE/NASDAQ Rules
 - Shareholder approval required for new equity compensation plans or material modification of an existing plan
 - Exemptions:
 - 423/ESPP plans
 - Grants to new employees under a merger or acquisition
 - If approval not required because of exemption, exchange must be notified in writing by the company and/or press release about activity falling under exemption

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Background - APB 25

APB Opinion No. 25, “Accounting for Stock Issued to Employees” (1972)

- Intrinsic Value Method
 - Measurement Date (date the number of shares & exercise price are fixed and determined)
 - Expense = Excess of Fair Market Value over Exercise Price on Measurement Date
- Consequences
 - Fixed Plan vs. Variable Plan
 - No expense recognized when Exercise Price = FMV on date of grant
 - No charge to earnings for at-the money options

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Background - FAS 123

FAS 123, "Accounting for Stock Based Compensation"

- Exposure draft (1993)
 - Recommended Fair Value Method
- Final statement (1995)
 - *Recommended*, but did not require Fair Value Method
 - Required Pro Forma Footnote Disclosure
- Consequences:
 - Varying accounting practices across companies
 - Black-Scholes Valuation method largely used

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Black-Scholes Inputs

Black -Scholes Methodology- Six inputs

- Current stock price
- Exercise price
- Option term
- Risk-Free interest rate
- Dividend yield
- Volatility

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International Accounting Standards Board Update

IASB, “IFRS 2 Share-based Payment”

- Final Standard issued February 19, 2004
- Effective on a “modified retroactive” basis beginning on January 1, 2005
- Requires expensing of share option schemes and other share-based payments
- Applies to all employee and non-employee transactions
- European Union requiring all listed companies to switch to IASB standard no later than 2005 (2007 for companies also listed in the US)
- IASB worked with Financial Accounting Standards Board (FASB) to substantively conform its final standard to the “modified grant date fair value” principles proposed by FASB in its impending Exposure Draft to be issued

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FASB Exposure Draft

- Proposed FAS 123 transition rules were released in 2002; however, because this was not mandatory, many companies continued to use APB 25
- FASB Exposure Draft of Equity-Based Compensation (EBC) project issued on March 31, 2004
- Proposed standard is expected to become effective for fiscal years beginning after December 15, 2004 for public companies; December 15, 2005 for nonpublic companies
- Conceptually similar to “IFRS 2 Share-based Payment” with certain notable differences
- Nonemployee plans and ESOPs deferred until second stage of project

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FASB Exposure Draft (cont.)

Overview

- Eliminates APB 25
- Amends FAS 123
- Expense recognized based on fair value at grant date
- Private companies may use fair value or variable intrinsic value
- Graded vs. Cliff Vesting
- Modifications and cancellations
- Equity vs. Liability

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FASB Exposure Draft (cont.)

Additional FASB decisions on the following:

- Valuation Methodologies
- Reversal of Compensation Cost
- Award Modifications & Cash Settlements
- Income Tax Effects
- Employee Stock Purchase Programs

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The Coca-Cola Company

Equity Plan Re-design Project



The Coca-Cola Company: Equity Programs

- Key principles outlined by The Coca-Cola Company's (TCCC) Compensation Committee as current-state cornerstones to Executive Compensation:
 - Competitiveness
 - Management Development
 - Equity Orientation
 - Performance and Accountability

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TCCC: Equity Programs

- Awards are made at the discretion of the Compensation Committee of the Board of Directors
- As a discretionary program, eligibility and grant amounts are variable from grant to grant
- Grants may be occasional for some current participants rather than annual
- A stock option or the income derived from a stock option grant is not a part of compensation or salary for the purposes of determining bonuses, pension or other compensation or benefit calculations
- Participation in the plan does not create a right to further employment or receipt of future grants

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TCCC: Current Equity Programs

- Stock Options/Stock Appreciation Rights (SARs)
- Restricted Stock/Promise to Pay Restricted Stock in the future (RS Unit)
- Stock Ownership Program
- Directors Deferred Compensation Plan

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TCCC Stock Options: History

- First grant in 1956
- Program limited to upper management until 1995
- In 1995, program expanded to entry level professionals (US salary beginning @ \$50,000)
- In 1999, Company discontinued granting of U.S. Incentive Stock Options (ISO's) (annual tax savings of \$50,000,000) and introduced 15 year term
- In 2003, Company announced elimination of eligibility for entry level professional roles (average salary \$75,000) and returned to a ten year term
- Currently grant to approximately 7,600 employees in 110 Countries

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TCCC Stock Options: History

- Overhang and dilution are two key measures investors (big and small) use to monitor how much shareowner value is tied up in employee equity grants
- Dilution is the annual decrease in ownership of current owners due to annual stock grants: approximately 1% annually from 1998 through 2003
- Overhang is the measure of potential dilution from stock compensation plans
- TCCC overhang in lowest quartile compared to competitive group

2003	2002	2001	2000	1999	1998
12.4%	11.1%	7.9%	8.3%	9.1%	5.2%

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TCCC Stock Options

Stock Options Plan Prior to Review

- Vesting: 25% per year over 4 years
- Term: 15 years
- Personal performance and future potential considered in determining the size of grant
- 2002 grant: 29 Million shares
- 2002 grant expense: \$379,900,000 over vesting period

Other Long Term Program

- For senior executives a cash long-term program was provided
- Plan provided for various performance measures, included a 3 year performance period and an additional 2 year deferral provision

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TCCC Stock Options

Plan Prior to Review (cont.)

- Global modifications/considerations for tax/legal purposes
- Belgium: Special term and vesting provisions to reduce taxable value at grant
- France/UK: Qualified Plan to minimize social tax costs (France: modified grant date to ensure tax qualification)
- Germany/Japan: Post-assignment tracking to manage tax obligations from option exercises taxable after departure
- India/Japan: SEC-type filings required prior to grant
- Italy: Modified grant price to minimize social tax costs and defer taxation until sale
- Russia: Modified exercise methods to avoid exchange control complications

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TCCC Restricted Stock: History

- First grant in 1982
- Program primarily used for very senior executive leadership, often in key hire situations
- Sporadic program usage, generally for retention purposes
- TCCC currently uses program for:
 - Performance Based Restricted Stock
 - Retirement based Restricted Stock
 - Retention (time based) Restricted Stock

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TCCC Restricted Stock: Plan Prior to Review

	Retirement Vest	Retention Vest	Performance Based
Rationale	<ul style="list-style-type: none"> • Retention of key executive 	<ul style="list-style-type: none"> • Shorter term retention of key executives • Used in key hire “buyout” situations 	<ul style="list-style-type: none"> • To tie executive to achievement of critical business performance over a specific performance period
Term	<ul style="list-style-type: none"> • Age 62 + 5 years hold 	<ul style="list-style-type: none"> • 3, 4, or 5 years 	<ul style="list-style-type: none"> • 3 or 5 years
Release	<ul style="list-style-type: none"> • Retirement, death, disability 	<ul style="list-style-type: none"> • At end of period 	<ul style="list-style-type: none"> • At end of performance period if performance criteria met
Performance criteria	<ul style="list-style-type: none"> • Used in determining size of award 		<ul style="list-style-type: none"> • EPS over performance period
Dividends	<ul style="list-style-type: none"> • Paid during holding period 		
Discretion of Compensation Committee	<ul style="list-style-type: none"> • Used for other termination events 		<ul style="list-style-type: none"> • If EPS goal met, negative discretion applicable to determine whether attainment of other specific measures will reduce award

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TCCC: Philosophy Behind Modifications

- Revised compensation strategy:
 - Performance focus vs. entitlement
- Global appropriateness of equity and value delivered
- Emphasize ownership guidelines

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Long Term Equity Performance Plan - Overview

Objectives

- Consolidate long term cash plan and equity awards through a single plan, focused on long term Company performance
 - Award a combination of performance share units and stock options for Officers and Senior Executives
 - Award stock options only below the Senior Executive level
- Increase total Company results focus through performance share units directly tied to achievement of 3-year performance results
 - Deliver market competitive award for achieving results
 - Stronger upside potential for exceeding results
- Signal performance areas critical to driving long term shareowner value and total Company return through the measures selected:
 - Earnings per share growth rate over time
 - Maintaining or improving already strong return on invested capital performance
- Reinforce stock ownership at leadership levels
- Assure simplicity and ease of understanding

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New Long Term Equity Plan

	2002 Program	2003 Program
Officers & Senior Executives	<p>Cash award:</p> <ul style="list-style-type: none"> - Reflects % of salary - Earned based on results over 3 years - Treated as pensionable income - Negative discretion if Earnings per Share growth target not met <p>Stock options:</p> <ul style="list-style-type: none"> - Awarded at variable intervals - 15-yr life with 4-yr graduated vest (25%/25%/25%/25%) 	<p>Performance share units (40%):</p> <ul style="list-style-type: none"> - Awarded at beginning of performance period - Earned based on cumulative 3-yr Earnings per Share results - Converted to restricted shares based upon actual EPS performance - Dividends/dividend equivalents paid during 2-yr restriction period - <u>NOT</u> treated as pensionable income - Negative discretion if Company ROIC falls below range <p>Stock options (60%):</p> <ul style="list-style-type: none"> - Range set and reviewed annually - Granted annually with 10-year life, 4-yr graduated vest
Executives, Managers & Professionals	<p>Stock options</p> <ul style="list-style-type: none"> - Awarded at variable intervals - 15-yr life with 4-yr graduated vest (25%/25%/25%/25%) 	<p>Stock options</p> <ul style="list-style-type: none"> - Range set and reviewed annually - Granted annually at same time as Officers and Senior Executives - 10-year life with 4-yr graduated vest - Eligibility & award levels reflects relevant market data

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Long-Term Equity Programs – Performance Share Unit Awards

- Five year program
- Target award determined based upon long-term market data
- Range of awards 50% to 150% of target. No award if below threshold performance level.
- At end of three year performance period, grant (based on performance range) of restricted shares is made
- Restrictions for additional two year period; dividends/dividend equivalents paid during 2 year period
- Specific treatment in events of retirement, death, disability, transfer to bottler, involuntary separation and other termination

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Long Term Equity Performance Plan – Sample Calculation

Let's assume the Target Market Value for the Equity Component is:

\$600,000

Sample company current stock price \$40
BSV = \$14
Discounted RSV = \$34

60% of Value delivered through Stock Options

\$360,000

40% of Value delivered through Performance Shares

\$240,000

$$360,000 \div \text{BSV } \$14 =$$

25,715 options

$$\text{Face value } 25,715 \times 40.00 = \$1,028,600$$

(Note: BSV takes into account the vesting period and life of option)

$$\$240,000 \div \text{Discounted RS value } \$34 =$$

*(current stock price less discount 15%)

7,060 PSU's

$$\text{Face value } 7,060 \times 40.00 = \$282,400$$

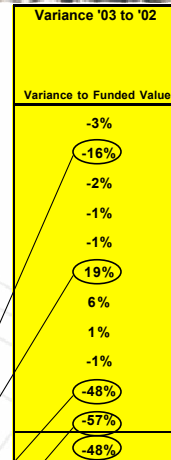
(Note: Discount rate takes into account performance and restriction period)

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Long Term Equity Performance Plan - 2003 Equity Guideline Compared to 2002 Targets

- Long-term target awards adjusted in 2003 to better reflect competitive market
- Resulted in some increases in target awards, but also significant adjustments for some levels, including lower level professional roles



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Correcting Market Competitiveness

Transition Year

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Long Term Equity Programs - Stock Ownership Guidelines

- Executives should reasonably reach goal, net of tax, with existing programs
- 5 years to reach guidelines, with 2 additional years for subsequent increase in responsibility/target ownership levels
- Equity that counts towards ownership levels:
 - 401(K); International Thrift; Company and personal contributions
 - Shares owned outright (employee and spouse)
 - Restricted shares after performance period is met
 - Restricted shares with time-based or retirement vest
- Annual tracking of progress against ownership targets
- Flat number of shares with a salary multiple maximum

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GEO 2004 1st Annual Conference
MONTREAL
18-20 April

The Coca-Cola Company

Impact of FAS 123 Implementation on Plan Design



TCCC: Decision to Implement FAS 123

- 1/3 of peers benchmarked adopted or intended to adopt FAS 123, including: American Express, Bank of America, ExxonMobil, Eastman Kodak, Ford, General Electric, General Motors, Home Depot, Proctor & Gamble, SBC Communications, Wal-Mart
- Impact of FAS 123 decision directly affected by Company compensation strategy related to long term equity compensation
- Decision announced in July 2002 to expense stock options on financial statements under FAS 123
 - Selected “Modified Prospective” approach (record expense for all unvested and all future grants)
 - Alternative equity awards (such as SARs) result in same/similar accounting impact with reduced share utilization
 - Plan amended and approved by shareowners in 2003 to allow grant of stock-settled SARs

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TCCC: How FAS 123 Impacts Plan Design

Stock Option Plan Element	If New Plan in Future, Would FAS 123 Decision Affect Design?
Authorization for shares	No
Performance Vesting	<u>Maybe</u> : Allowance for performance features provides flexibility in design/expense management
Discounted stock options	<u>Possibly</u> : Could explore discounts as a way to reduce share utilization
Deferral of stock option gain	<u>No</u> : However proposed legislation may change current approach
Reloads	<u>Possibly</u> : Could explore reloads as a way to reduce share utilization
Transferable options	No
Stock purchase loans	<u>No</u> : Recent legislation (Sarbanes Oxley) makes no longer possible
Option Repricing	<u>Possibly</u> : Current approach with many companies – “Exchange” programs to reduce expense

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TCCC: How FAS 123 Impacts Plan Design (cont.)

- Stock-settled SARs are an effective tool to use:
 - Same accounting impact as stock option grants, but potential positive impact (compared to options) on EPS at exercise since earnings are divided among fewer shares
 - Reduce overall share utilization
 - Outside of U.S. where local tax and other laws may create negative impact on stock options
 - Alternative to cashless exercise, especially for executives prohibited from such under Sarbanes Oxley
 - Reduces number of shares sold by insiders upon exercise
- Increase of Restricted Stock (Performance shares) for senior leadership
 - Reduce share utilization
 - More aligned with shareholder interests: Executive suffers with shareholders from a reduced stock value

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GEO 2004 1st Annual Conference
MONTREAL
18-22 April

Ernst & Young as Advisor

Benchmarking and Due Diligence



Global Benchmarking Study: October 2001

- 16 companies responded of 59 approached
- Domestic and global practices regarding:
 - Eligibility and frequency
 - Term and vesting
 - Grant size and equity type
 - Impact of performance on awards

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Global Benchmarking Study: October 2001

- Eligibility and Frequency
 - At hire and ad hoc grants not common
 - Eligibility concentrated at levels of manager or above
 - Participants making regular grants do so on an annual basis
- Option Term
 - 93% utilize 10 year term. 7% utilize 7 year term
- Vesting
 - 21% use 1 year cliff vesting
 - 72% vest pro-rata over 3 to 5 years

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Global Benchmarking Study: October 2001

- Grant Size
 - Average grant for entry manager: 1,700 options with Black Scholes Value of \$25,000
 - Average grant for senior general manager: 32,300 options with Black Scholes Value of \$415,000
- Impact of Performance
 - 79% indicate performance impacts grant size
 - Performance considerations varied, including rating, future contribution, division of option pool, etc.

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Global Benchmarking Study: October 2001

- Global Differentiation
 - 64% had international grant practices which differed from domestic practice
 - Most modifications due to tax, accounting or legal requirements, including:
 - Phantom awards
 - Modification of exercise methods
 - Vesting schedules
 - Performance metrics not applied as regularly overseas in determining grant size
 - Grants to lower level managers in emerging markets

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Global Tax Due Diligence

- Impact of performance vesting on taxation
 - 57 country due diligence
 - Switzerland: impact in valuation
- Restricted stock taxation
 - Identify countries where restricted stock may result in taxation upon award
- Stock options v. SARs
 - Identify countries where options are taxed prior to exercise
 - Consideration of whether SARs defer taxation until exercise

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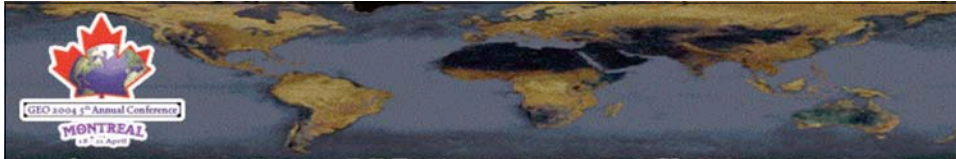


Global Legal Due Diligence


- Due diligence in 17 countries regarding impact of performance vesting on:
 - New/update filings required: 25% countries
 - Acquired rights
 - Potential issue in many countries if grants have been received on regular basis
 - Can often be avoided with appropriate language in award agreements
 - Enforceability of forfeiture provisions: 75% of countries will most likely permit enforcement of such clauses

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Final Thoughts



TCCC: The Plan Foundation as Established

- Omnibus plan implemented
- Develop compliance approach: financial & governance
- Country specific design implemented as appropriate
- Communications:
 - Written: Explaining benefits of equity, record keeping vendor, plan mechanics, and tax implications
 - Local Presentations with local EY tax representatives
- Global Monitoring

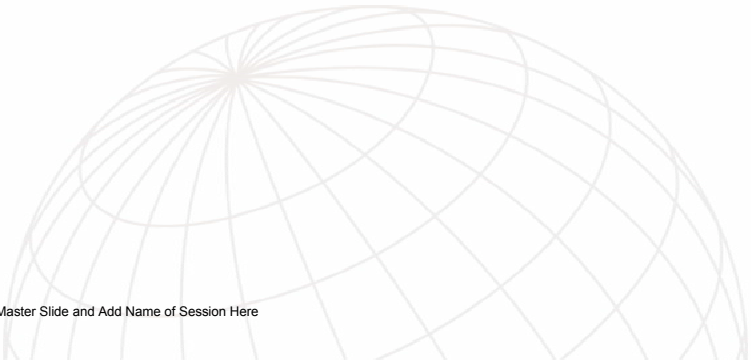
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TCCC: Path Being Forged

- Compensation design continuously evolves
- Closer aligned with peer strategies in the marketplace




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Final Considerations

- Minimize risk and exposure to your organization
- Maximize tax benefits to your organization and its people
- Keep current on changes to make appropriate business decisions
- Keep the message/program simple



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Any Questions?

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