

11. Stock Options and Restricted Shares

The Company maintains stock incentive plans (the “Plans”) for the benefit of certain officers, directors and employees. Options granted generally vest over two or three years and are exercisable for periods up to ten years from the date of grant at a price which equals fair market value at the date of grant.

The Company accounts for the Plans in accordance with APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for the Plans been determined consistent with Statement of Financial Accounting Standards No. 123 (“SFAS 123”), “Accounting for Stock-Based Compensation,” the Company’s net income and diluted earnings per Common Share would have been reduced by \$21.6 million and \$0.08 per share, respectively, for fiscal 2000, \$83.1 million and \$0.29 per share, respectively, for fiscal 1999, and \$33.6 million and \$0.12 per share, respectively, for fiscal 1998. During fiscal 1999, stock option grants under the previous Allegiance and Scherer plans vested immediately on the merger date. These accelerated grants increased the fiscal 1999 pro forma effect on net income and diluted earnings per Common Share by \$32.9 million and by \$0.12 per share, respectively. Because the SFAS 123 method of accounting has not been applied to options granted prior to July 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The following summarizes all stock option transactions for the Company under the plans from July 1, 1997 through June 30, 2000, giving retroactive effect to conversions

of options in connection with merger transactions and stock splits (in millions, except per share amounts):

	Options Outstanding	Weighted Average Exercise Price
Balance at June 30, 1997	20.1	\$ 19.25
Granted	6.3	43.70
Exercised	(3.7)	14.62
Canceled	(0.9)	21.46
Change in fiscal year	(0.7)	28.26
Balance at June 30, 1998	21.1	23.96
Granted	3.4	69.61
Exercised	(3.6)	16.80
Canceled	(0.6)	45.60
Balance at June 30, 1999	20.3	34.51
Granted	6.4	47.02
Exercised	(3.9)	22.74
Canceled	(1.0)	55.07
Balance at June 30, 2000	21.8	\$ 39.21

Giving retroactive effect to conversion of stock options related to mergers and stock splits, the weighted average fair value of options granted during fiscal 2000, 1999, and 1998 was \$17.64, \$22.55, and \$14.19, respectively.

The fair values of the options granted to Company employees and directors were estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for grants in the respective periods:

	As of June 30,		
	2000	1999	1998
Risk-free interest rate	6.25%	5.72%	5.53%
Expected life	4 years	4 years	3 years
Expected volatility	37%	30%	27%
Dividend yield	0.18%	0.18%	0.16%

Information relative to stock options outstanding as of June 30, 2000:

Range of exercise prices	Outstanding			Exercisable	
	Options (in millions)	Weighted average remaining contractual life in years	Weighted average exercise price	Options (in millions)	Weighted average exercise price
\$ 0.05 – \$ 26.61	7.1	5.6	\$ 17.57	7.1	\$ 17.57
\$ 26.78 – \$ 40.58	3.9	6.6	38.24	3.9	38.24
\$ 40.71 – \$ 46.75	6.3	9.1	46.44	0.3	42.24
\$ 47.38 – \$ 71.00	4.4	7.9	64.62	0.1	60.35
\$ 73.38 – \$ 79.56	0.1	8.6	74.70	–	–
\$ 0.05 – \$ 79.56	21.8	7.2	\$ 39.21	11.4	\$ 25.60