to a Customer or a Reseller of the Vendor's Products." Under this consensus, generally, cash consideration is classified as a reduction of revenue, unless specific criteria are met regarding goods or services that the vendor may receive in return for this consideration. Non-cash consideration is classified as a cost of sales.

As a result of applying this consensus, the Company has reclassified promotional payments to its customers and the cost of consumer coupons and other cash redemption offers from selling, general, and administrative expense (SGA) to net sales. The Company has reclassified the cost of promotional package inserts and other non-cash consideration from SGA to cost of goods sold. Prior-period financial statements have been reclassified to comply with this guidance.

Advertising

The costs of advertising are generally expensed as incurred and are classified within SGA.

Stock compensation

The Company currently uses the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," to account for its employee stock options and other stock-based compensation. Under this method, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized. The table below presents pro forma results for the current and prior years, as if the Company had used the alternate fair value method of accounting for stock-based compensation, prescribed by SFAS No. 123 "Accounting for Stock-Based Compensation" (as amended by SFAS No. 148). Under this pro forma method, the fair value of each option grant was estimated at the date of grant using the Black-Scholes option-pricing model and was recognized over the vesting period, generally two years. Pricing model assumptions are presented below. Refer to Note 8 for further information on the Company's stock compensation programs.

(millions, except per share data)	**2003**	2002	2001
Stock-based compensation expense net of tax:			
As reported	**$ 12.5**	$ 10.7	$ 5.4
Pro forma	**$ 42.1**	$ 52.8	$ 29.1
Net earnings:			
As reported	**$ 787.1**	$ 720.9	$ 473.6
Pro forma	**$ 757.5**	$ 678.8	$ 449.9
Basic net earnings per share:			
As reported	**$ 1.93**	$ 1.77	$ 1.17
Pro forma	**$ 1.86**	$ 1.66	$ 1.11
Diluted net earnings per share:			
As reported	**$ 1.92**	$ 1.75	$ 1.16
Pro forma	**$ 1.85**	$ 1.65	$ 1.10

	2003	2002	2001
Risk-free interest rate	**1.89%**	3.58%	4.57%
Dividend yield	**2.70%**	2.92%	3.30%
Volatility	**25.75%**	29.71%	28.21%
Average expected term (years)	**3.00**	3.00	3.08
Fair value of options granted	**$4.75**	$6.67	$5.05

Derivatives and hedging transactions

The Company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" on January 1, 2001. This statement requires all derivative instruments to be recorded on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. Upon adoption, the Company reported a charge to earnings of $1.0 million (net of tax benefit of $.6 million) and a charge to other comprehensive income of $14.9 million (net of tax benefit of $8.6 million) in order to recognize the fair value of derivative instruments as either assets or liabilities on the balance sheet. The charge to earnings relates to the component of the derivative instruments' net loss that has been excluded from the assessment of hedge effectiveness. Refer to Note 12 for further information.

During April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial accounting and reporting guidance for derivative instruments and hedging activities, resulting primarily from decisions reached by the FASB Derivatives Implementation Group subsequent to the original issuance of SFAS No. 133. This Statement is generally effective prospectively for contracts and hedging relationships entered into after June 30, 2003. The adoption of SFAS No. 149 has had minimal impact on the Company, except that cash flows associated with certain derivatives are now being classified in the financing rather than the operating section of the cash flow statement. Such derivatives are generally limited to net investment hedges and those used by the Company to reduce volatility in the translation of foreign currency earnings to U.S. Dollars. The impact of this classification change during 2003 was insignificant.

Recently adopted pronouncements

Exit activities

The Company has adopted SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities," with respect to exit or disposal activities initiated after December 31, 2002. This statement is intended to achieve consistency in timing of recognition between exit costs, such as one-time employee separation benefits and contract termination payments, and all other costs. Under preexisting literature, certain costs associated with exit activities were recognized when management committed to a plan. Under SFAS