



FASB 123R – STOCK-BASED COMPENSATION

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123R, Accounting for Stock-Based Compensation. In the past year, as FASB 123R has taken effect, public and private companies have faced the challenge of complying with the revised requirements. FASB 123R requires all companies to account for share-based payment awards at fair value. Additionally, public companies are required to record the compensation costs for any unvested portions of previously issued awards.

In meeting FASB 123R requirements, corporate financial executives may face complex valuation scenarios, and may choose to revisit their valuation methodologies. FASB allows for a choice of valuation methods in order to comply with 123R. The chosen method must 1) be applied in a manner that is consistent with the fair value measurement and other requirements of FASB 123R; 2) be based on established, generally applied financial economic theory; and 3) reflect all substantive characteristics of the subject instruments.

As noted, FASB 123R does not mandate a specific valuation methodology, but allows for a choice among the prevalent methods which include the Black-Scholes Model and Binomial Lattice Mode. These valuation methods may vary greatly in ease and cost of utilization. Selecting the appropriate methodology is a key component in meeting FASB's requirements for document compliance in a time-effective and cost-effective manner.

Given the many available share-based award instruments, including common stock, preferred stock, partnership interests, membership units, convertible securities, warrants, and restricted stock; and the numerous other variables involved in the award and redemption of these instruments; the task of complying with FASB 123R has become a significant consideration for many corporate financial executives. The services of an independent valuation professional, experienced in valuing stock options for financial reporting purposes, may be required to address these issues in a timely and efficient manner and to provide appropriate support for the value of the options.

**If you have questions
or would like more information on
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