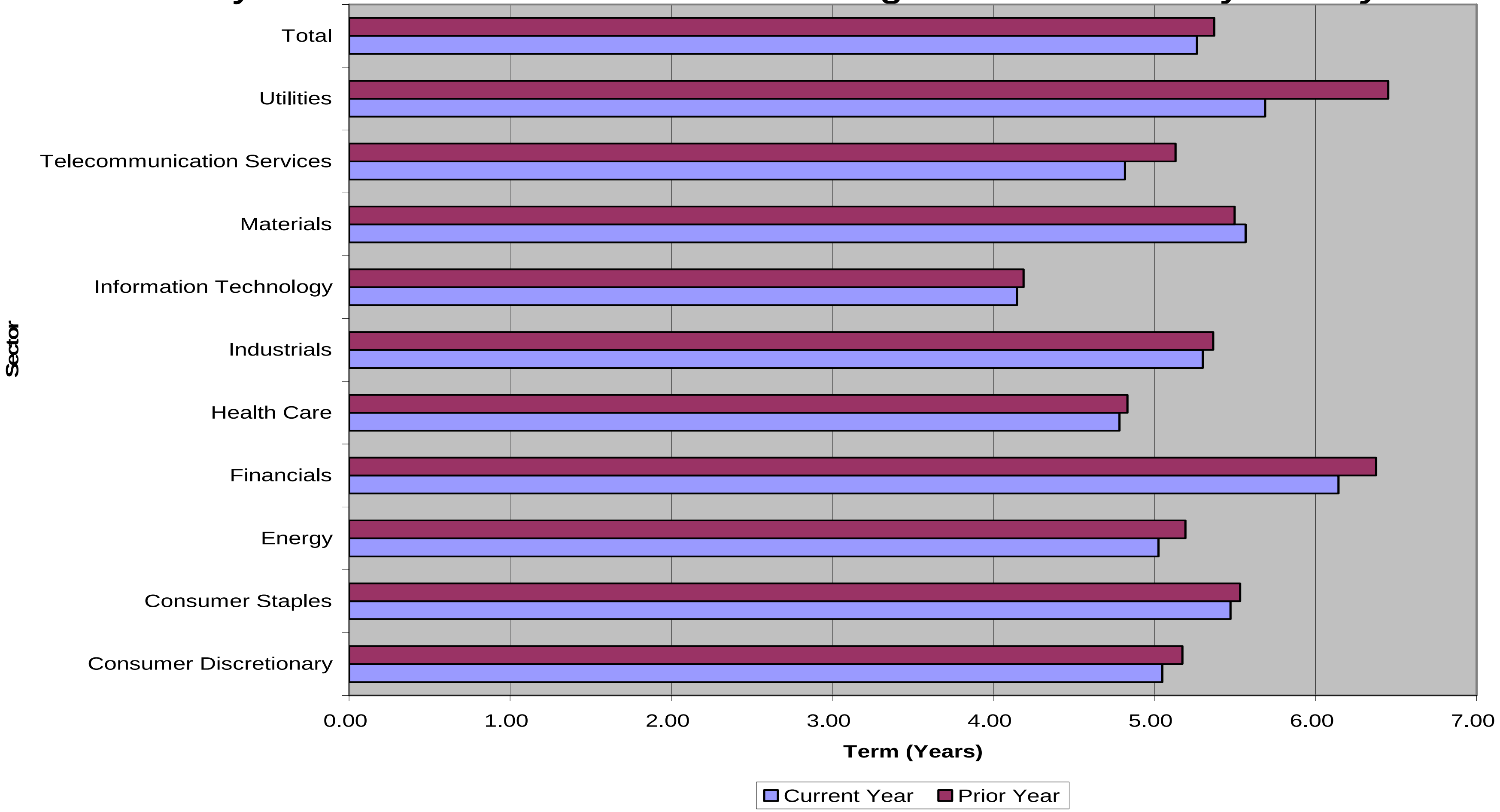
FAS123R Valuation: Expected Life Considerations

- Factors to consider include:
  - Simplified Approach from SAB 107
  - Vesting period and contractual term
  - Historical patterns of exercise and post-vesting termination
  - Changes in option characteristics (i.e. vesting or term)
  - Expected volatility
  - Optionee demographics
    - Age/Gender/Country/Job Level
    - Stratification
  - Peer companies
  - Censored data and assumptions about outstanding options
    - Minimum at Vesting
    - Maximum at Term
    - Most likely may be the midpoint of future remaining term
    - Alternative: standard tables?

Expected Life – Emerging Best Practice

- Courtesy of FAS123R Data in SEC Filings as Provided by *Salary.com*

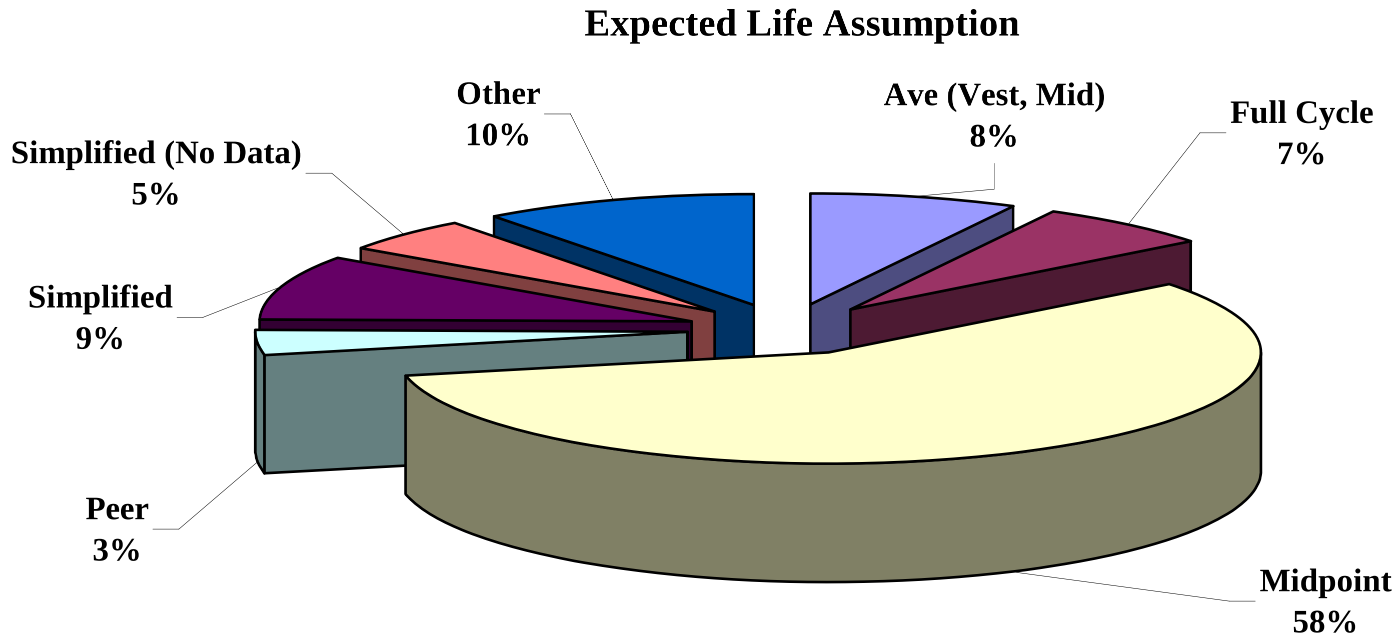


Expected Life – Emerging Best Practice

- Courtesy of FAS123R Data in SEC Filings as Provided by *Salary.com*

	Current Year			Prior Year		
Sector	**Total Companies**	**Standard Deviation**	**Average**	**Total Companies**	**Standard Deviation**	**Average**
Consumer Discretionary	411	1.59	5.05	466	1.72	5.17
Consumer Staples	77	1.88	5.47	89	1.99	5.53
Energy	110	1.99	5.03	128	2.11	5.19
Financials	632	2.17	6.14	671	2.23	6.38
Health Care	345	1.71	4.78	393	1.73	4.83
Industrials	273	1.70	5.30	322	1.77	5.36
Information Technology	462	1.58	4.15	518	1.66	4.19
Materials	93	2.12	5.57	103	2.10	5.50
Telecommunication Services	38	1.92	4.82	44	1.80	5.13
Utilities	44	2.26	5.69	68	2.21	6.45
Total	2,485	2.00	5.26	2,802	2.07	5.37

Expected Life – Emerging Best Practice



- The most common approach (67/117) is to assume currently outstanding options will be exercised at the midpoint of the future remaining term.
- The "Simplified Approach" as outlined in SAB #107 is also popular. It can be calculated from historical data or, in the absence of historical data, can be calculated using the vesting schedule and the full contractual term.