

# FAS 123R Implementation Survey 2007

- 1) What valuation model do you plan to use in FY 2007?**
  - a) Have you created a footnote disclosure statement explaining your choice of valuation technique?
  - b) Do you believe that Statement 123R Paragraph A87 provides an accurate Fair Value calculation using the Lattice model?
  - c) When is the use of Monte Carlo Simulation method preferred?
  - d) Will you use a single risk-free interest rate or a series of implied forward rates?
- 2) Do you have any questions about SEC Staff Accounting Bulletin 107?**
  - a) Will you use the SAB 107 simplified Expected Term formula in FY 2007?
- 3) Do you have any questions about PCAOB Staff Audit Guidelines?**
  - a) Are you prepared to answer questions from your independent auditor regarding model selection and the reasonableness of assumptions used?
- 4) How will you estimate Expected Volatility?**
  - a) How would you adjust historical volatility to deemphasize periods of unique activity?
  - b) Are you blending implied and historical volatilities to estimate Expected Volatility?
  - c) How do you determine your peer group companies?
- 5) How will you substantiate your estimate of Expected Term?**
  - a) Are you going to use the SAB 107 transition simplified formula in FY 2007?
  - b) What is the difference between average time to exercise and average time outstanding?
  - c) What percentage of options typically expire without exercise?
  - d) What is your Expected Forfeiture (post-vest) assumption for FY 2006 grants?
- 6) How will you estimate Expected Forfeitures?**
  - a) Will you use historical pre-vest forfeiture data?
  - b) Will you assume an estimated future turnover rate applied to each tranche?
  - c) How often do you revise your estimate of pre-vest forfeiture rates?
- 7) What is your Suboptimal Exercise Factor ("SOEF") assumption?**
  - a) Are you familiar with 123R Paragraph A87 Illustration 4 that assumes an SOEF of 2.0?
  - b) How will you estimate SOEF in future reporting periods?
- 8) Do you plan to grant Market Condition awards?**
  - a) How will you calculate the Fair Value of these awards?
  - b) How will you calculate Duration or Derived Service Period?
- 9) Do you plan to grant Performance Condition awards?**
  - a) How will you calculate probability of Exercise?
- 10) How many ESO awards are planned for FY 2007 or were granted in FY 2006?**
  - a) What level of precision do you plan to apply in calculating the Fair Value of these awards?
  - b) What is the materiality of applying an advanced valuation technique vs. an approximation method?
- 11) What feedback have you received during FY 2006 from your independent auditor or financial advisor regarding interpretation and implementation of FAS 123R?**
  - a) Montgomery Investment Technology offers three 123R solutions:  
Software Applications, CPE Approved Training, and Valuation Consulting Services.

