



## Certain Aspects of the FASB Statement 123R, Share-Based Payment

The Financial Accounting Standards Board (FASB) on December 16, 2004 approved and issued its final statement on accounting for equity compensation, referred to as “*Statement 123(R), Share-Based Payment*”. The new statement requires compensation expensing for equity awards. The following tables highlight certain aspects of *Statement 123(R), Share-Based Payment* impacting long-term compensation planning:

Overview
<p>Generally, the “intrinsic value” method of accounting which typically produces zero expense for stock options would be repealed and replaced with a requirement that equity awards be accounted for at “fair value” on the grant date. The standard provides guidance on how the fair value of equity instruments should be measured.</p>

Methods for Determining Compensation Cost		
Award Type	Example	Compensation Cost
Full Value Equity Awards	Settlement in Company Stock:  <u>Restricted Stock,</u> <u>Performance Shares,</u> <u>Stock-denominated Restricted Stock Units</u>	Based on market price of underlying stock at the grant date.
Equity Appreciation Awards	Settlement in Company Stock:  <u>Stock Options,</u> <u>SARs Settled in Stock</u>	Estimated fair market value at grant date (using an option pricing model).
Liability Awards	Settlement in Cash or Other Assets:  <u>Cash Settled SARs,</u> <u>Non-Stock Denominated Restricted Stock Units,</u> <u>Performance Shares</u>	Re-measure the fair value of the liability at the end of each reporting period until such time that the liability has been settled (i.e., exercised, lapsed, and forfeited).

