

Introduction

Last December, FASB issued FAS 123(R) which will require companies to recognize an expense upon issuance of employee stock options based on the fair value of the award. The revised pronouncement will become effective June 15, 2005, for public companies that do not file as a small business and December 15, 2005, for the remainder of GAAP-audited companies.

VALUE Incorporated has extensive experience in the valuation of stock options and other securities. We recently made our proprietary OptionValue software freely accessible from our website. OptionValue, an employee stock option valuation worksheet, applies state of the art methodologies and considers all relevant issues in determining the fair value of an employee stock option award. Please visit our website at www.valueinc.com/downloads to download a complimentary copy.

Key Features

OptionValue is a modified FAS 123 worksheet that determines the fair value of options, specifically considering reduced economic life, stock price and the number of options expected to exercise.

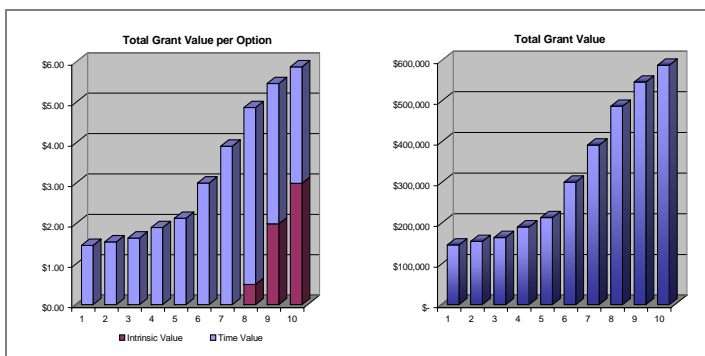
Users have the ability to control standard inputs used in option valuation. In addition, users may modify option forfeiture rates for pre- and post-vesting periods, as well as select a stock price exercise threshold to quantify employees' early exercise behavior.

OptionValue incorporates additional metrics, such as estimated economic life and the number of forfeited options for each grant.

OptionValue allows for valuation of up to ten grants simultaneously and offers multiple award valuation calculations.

OptionValue										Powered by VALUE	
Company Specific Assumptions											
Current Price	\$20.00			Valuation Date	12/31/2004						
Risk Free Rate	5.0%			Standard Deviation	20.0%						
Dividend Yield	1.0%			Grant to View Detail	1						
Option Grants Information											
Employee Exit Rate Pre-Vesting (Annual)				4.0%							
Employee Exit Rate Post-Vesting (Annual)				5.0%							
Early Exercise Threshold (>100%)				280.0%							
Expiration Date	Strike Price	Vested Date	Options Granted	Periods (= 20)	Years until Vested	Years to Expiration	Call Option Fair Value	Fair Value Total Award			
1 12/31/2014	\$40.00	12/31/2007	100,000	20	3.0	10.00	\$1.47	\$146,568			
2 6/30/2014	\$37.50	6/30/2007	100,000	20	2.5	9.49	1.55	155,458			
3 12/31/2013	\$35.00	12/31/2006	100,000	20	2.0	9.00	1.65	164,880			
4 6/30/2013	\$32.50	6/30/2006	100,000	20	1.5	8.50	1.91	190,800			
5 12/31/2012	\$30.00	12/31/2005	100,000	20	1.0	8.00	2.14	213,820			
6 6/30/2012	\$25.00	6/30/2005	100,000	20	0.5	7.50	3.01	301,108			
7 12/31/2011	\$22.00	12/31/2004	100,000	20	-	7.00	3.92	392,273			
8 6/30/2011	\$19.50	6/30/2004	100,000	20	-	6.50	4.88	487,758			
9 12/31/2010	\$18.00	12/31/2003	100,000	20	-	6.00	5.47	547,118			
10 12/31/2009	\$17.00	12/31/2002	100,000	20	-	5.00	5.89	588,551			
TOTAL								\$3,188,335			
Expiration Date	Strike Price	Vested Date	Options Granted	Expected Life	Options Forfeited	Options to Exercise	Call Option Fair Value	Fair Value Total Award			
1 12/31/2014	\$40.00	12/31/2007	100,000	6.14	33,008	66,992	\$2.19	\$146,568			
2 6/30/2014	\$37.50	6/30/2007	100,000	5.94	31,928	68,072	2.28	155,458			
3 12/31/2013	\$35.00	12/31/2006	100,000	5.69	30,948	69,052	2.39	164,880			
4 6/30/2013	\$32.50	6/30/2006	100,000	5.51	27,649	72,351	2.64	190,800			
5 12/31/2012	\$30.00	12/31/2005	100,000	5.29	26,647	73,353	2.91	213,820			
6 6/30/2012	\$25.00	6/30/2005	100,000	5.01	19,907	80,093	3.76	301,108			
7 12/31/2011	\$22.00	12/31/2004	100,000	4.66	14,391	85,609	4.58	392,273			
8 6/30/2011	\$19.50	6/30/2004	100,000	4.34	9,926	90,074	5.42	487,758			
9 12/31/2010	\$18.00	12/31/2003	100,000	4.12	9,334	90,666	6.03	547,118			
10 12/31/2009	\$17.00	12/31/2002	100,000	3.62	5,117	94,883	6.20	588,551			
TOTAL								\$3,188,335			

Visual Functionality



OptionValue generates multiple graphs to illustrate and compare grant values as well as total award values.

The worksheet also creates graphs for depicting sensitivity analysis for early exercise and forfeiture rates, as well as a visual display of discounted option values at each calculation point.

OptionValue is macro free to ensure the security of your computer and network.

Multiple Valuation Metrics

OptionValue uses the binomial method as its primary methodology. By using the binomial method, we are able to more accurately calculate discounts associated with early exercise and forfeiture.

In addition to the binomial method, OptionValue also calculates option values under the Black-Scholes-Merton method.

OptionValue displays the option's fair value at each discounting point, giving the user full control over the metrics and drivers of the company's employee stock option values.

Each calculation step is clearly shown through the creation of eleven binomial trees.

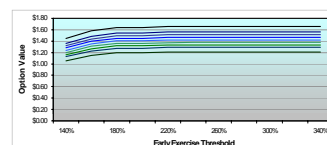
OptionValue		As of 12/31/2004																			
GRANT 1																					
Option Specific Inputs																					
Current Price	\$20.00	Number of Periods	20.00																		
Strike Price	\$40.00	Vested at end of Period	6.00																		
Risk Free Rate	5.0%	Exit Rate Pre-Vesting	4.0%																		
Standard Deviation	20.0%	Exit Rate Post-Vesting	5.0%																		
Dividend Yield	1.0%	Early Exercise Threshold	280.0%																		
Term to Expiration (Yrs.)	10.00																				
Black-Scholes-Merton Method		Binomial Method																			
d1	-0.1473	U	1.1519																		
d2	-0.7797	D	0.8681																		
N(d1)	0.4415	π_u	0.5359																		
N(d2)	0.2178	π_d	0.4641																		
Call Option Value - European	\$2.71	Call Option Value - European	\$2.69																		
		Call Option Value - American	\$2.69																		
Option Prices		Binomial Adjustments																			
		<table border="1"> <thead> <tr> <th></th> <th>Price</th> <th>Discount</th> </tr> </thead> <tbody> <tr> <td>Vesting Restriction</td> <td>\$2.69</td> <td>0.0%</td> </tr> <tr> <td>Exit Rate Pre-Vesting</td> <td>2.38</td> <td>11.5%</td> </tr> <tr> <td>Exit Rate Post-Vesting</td> <td>1.47</td> <td>38.4%</td> </tr> <tr> <td>Early Exercise Threshold</td> <td>1.47</td> <td>0.0%</td> </tr> <tr> <td>Fair Value of Call Option</td> <td>\$1.47</td> <td>45.5%</td> </tr> </tbody> </table>		Price	Discount	Vesting Restriction	\$2.69	0.0%	Exit Rate Pre-Vesting	2.38	11.5%	Exit Rate Post-Vesting	1.47	38.4%	Early Exercise Threshold	1.47	0.0%	Fair Value of Call Option	\$1.47	45.5%	
	Price	Discount																			
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Fair Value of Call Option	\$1.47	45.5%																			

STOCK PRICE	0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
EUROPEAN OPTIONS	1.47	2.14	3.10	4.44	6.31	8.89	12.39	17.33	23.59	31.48	41.29	53.61
ADJUSTED FOR VESTING	1.47	0.83	0.43	0.20	0.08	0.14	0.23	0.38	0.64	1.07	1.75	2.84
ADJUSTED FOR VESTING & ATTRITION PRE-VESTING	1.47	0.83	0.43	0.20	0.08	0.14	0.23	0.38	0.64	1.07	1.75	2.84
ADJUSTED FOR VESTING & ATTRITION PRE- AND POST-VESTING	1.47	0.83	0.43	0.20	0.08	0.14	0.23	0.38	0.64	1.07	1.75	2.84
ADJUSTED FOR VESTING, ATTRITION & EXERCISE THRESHOLD	1.47	0.83	0.43	0.20	0.08	0.14	0.23	0.38	0.64	1.07	1.75	2.84

Sensitivity Analysis

OptionValue offers a sensitivity analysis clearly displaying the breakpoints in value for early exercise and forfeiture assumptions.

Early Exercise Threshold	0.0%	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%	9.0%	10%
140.0%	1.46	1.36	1.32	1.28	1.24	1.20	1.16	1.13	1.09	1.06
160.0%	1.58	1.48	1.44	1.39	1.35	1.31	1.27	1.23	1.19	1.15
180.0%	1.54	1.54	1.49	1.45	1.40	1.36	1.32	1.28	1.24	1.19
200.0%	1.64	1.54	1.49	1.45	1.40	1.36	1.32	1.28	1.24	1.19
220.0%	1.65	1.56	1.51	1.46	1.42	1.37	1.33	1.29	1.24	1.21
240.0%	1.66	1.56	1.51	1.47	1.42	1.38	1.33	1.29	1.24	1.21
260.0%	1.66	1.56	1.51	1.47	1.42	1.38	1.33	1.29	1.24	1.21
280.0%	1.66	1.56	1.51	1.47	1.42	1.38	1.33	1.29	1.24	1.21
300.0%	1.66	1.56	1.51	1.47	1.42	1.38	1.33	1.29	1.24	1.21
320.0%	1.66	1.56	1.51	1.47	1.42	1.38	1.33	1.29	1.24	1.21
340.0%	1.66	1.56	1.51	1.47	1.42	1.38	1.33	1.29	1.24	1.21



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System Requirement: Microsoft Excel
256 MB of RAM Recommended



VALUE Incorporated
5221 N. O'Connor Blvd., Suite 830
Irving, Texas 75039

Phone: 972.831.7900
Fax: 972.831.7901
Email: info@valueinc.com

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