

An Integrated Approach to ASC 718 Compliance

Equity Methods is a full-service firm, possessing deep experience in plan design, equity award valuation, and financial reporting. This integrated portfolio of expertise lends significant benefit to clients. This case study discusses the cumulative support Equity Methods has provided to a Fortune 100 technology company (TechCo) that grants a combination of both plain vanilla options/RSUs and performance-based RSUs.

TechCo first engaged Equity Methods in 2007 to value and account for a new performance-based RSU being issued to a broad-based employee constituency. This award contained both a market condition (relative TSR) and performance condition (EPS growth), whereby the market condition outcome modified the performance condition outcome. Equity Methods built a Monte Carlo simulation to value the award, which was required as a result of the market condition. The client was impressed that the external auditors spent less than ten hours auditing this valuation due to the depth and breadth of supporting materials provided in the upfront deliverable.

Equity Methods' next step was to build a financial reporting process to measure compensation cost, deferred taxes, and the impact on diluted EPS. As the first-to-market with a solution for performance awards, Equity Methods efficiently customized its modular technology to fit the specific terms of this award. No two performance awards are the same – not only were the interdependent market and performance condition nuanced in this particular case, but a set of atypical retirement eligibility provisions affected this award. Within three months, TechCo was implemented and reporting on this award.

Equity Methods' cross-functional expertise across plan design, valuation, and reporting has created three specific sources of value for this client:

- **Modifications.** This award was subsequently modified, and in the process, Equity Methods was able to assist in designing the modification terms and forecasting their impact on compensation expense. These tasks leveraged cross-functional experience in plan design (evaluating competing modification choices), valuation (measuring the incremental cost of the modification), and reporting (retooling the existing process to handle the modification).
- **Award Variations.** After creating value in the modification case, TechCo leveraged Equity Methods to design hybrid awards. The hybrid awards had different intended incentives, which Equity Methods worked to incorporate into the award design.
- **Comprehensive Reporting.** Based on Equity Methods' success in reporting on the performance awards, TechCo subsequently engaged Equity Methods to perform the reporting for all their awards. Equity Methods also customized numerous reports to facilitate certain management reporting requirements.

Equity Methods' integrated portfolio of expertise consistently creates added value for clients. Not only are clients able to consolidate more services in a single partner, but also this enables Equity Methods to be much more strategic in its delivery due to its insight into the end-to-end process (design to reporting).