Armanino McKenna LLP Welcomes You To Today's Webinar:

The Basics of Equity Compensation Modifications

The presentation will begin in a few moments

Participants will receive an email within 3 business days with access to their certificate of completion.

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- Actively respond to at least 75% of the polling questions
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About the Presenters

Scott Schimberg, Senior Manager, Armanino McKenna

Scott has more than 20 years of financial executive, operations and consulting experience in public and private companies and has held positions as Controller and Vice President, Finance and Administration.

Scott has recently returned to Consulting after working as the head of finance for a Med Tech company that filed an S-1. While working for TRIABeauty Inc. (TRIA), Scott learned first-hand how to address a company's stock compensation audit readiness by managing the initial audit for the company all the way through filing an S-1.

About the Presenters

Scott Schwartz, Senior Consultant, Armanino McKenna

Scott has worked in the legal and financial industries, providing financial and consulting services to public and private companies, as well as entrepreneurs.

He has provided extensive equity compensation and valuation services to clients, as well as financial modeling and process re-engineering assistance. Scott has worked with auditors' related to stock-based compensation and other equity transactions. He has also completed various specialized training courses in business valuations, fraud, equity compensation administration, excel, and other continuing professional education.

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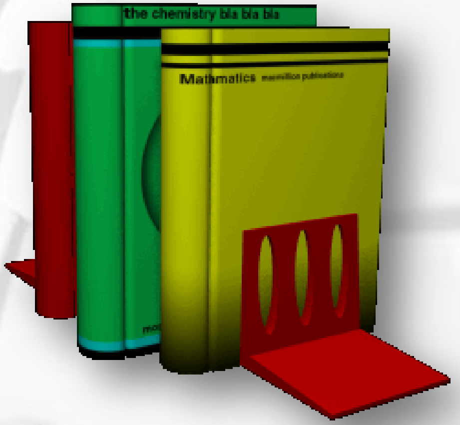
Learning Objectives

- Clarify what constitutes a modification related to equity awards
- Identify typical types of modifications and accounting treatment
- Apply guidance for administering and accounting for modifications



Presentation Overview

- ASC 718 review
- Modifications
  - Definition
  - Examples
  - Fair value implications
  - Types of modifications
  - Administration
  - Potential tax implications

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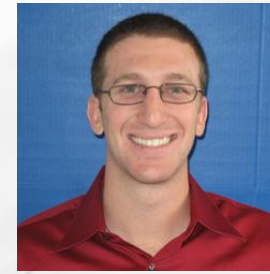
ASC 718 Review

- Employee/non-employee
- Requisite service period
- Various option pricing models
- Fair value of awards at grant

ASC 718 Review (continued)

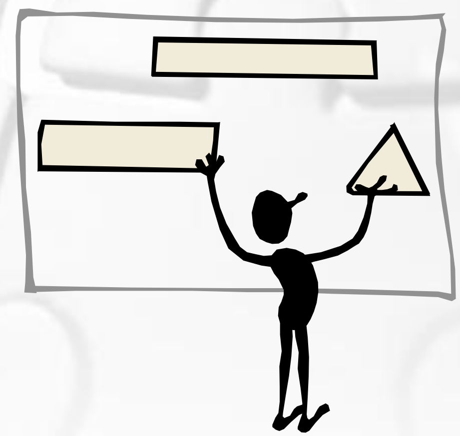
- Recognize expense over the requisite service period
  - Less forfeiture estimate
- Income tax impact
- EPS

Polling Question # 1



Definition of a Modification

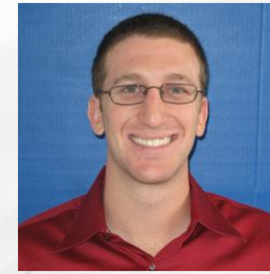
- Change in the terms or conditions of an award
- Treated as an exchange of original award for new award
- Recognize compensation expense depending on modification type



Examples of Modifications

- Obvious:
  - Re-pricing of awards
  - Exchange of awards in a business combination
  - Reclassification of an award
- Commonly Overlooked:
  - Accelerated Vesting
  - Extended time to Exercise
  - Changing award type or performance conditions
  - Reclassification of an award

Fair Value Implications

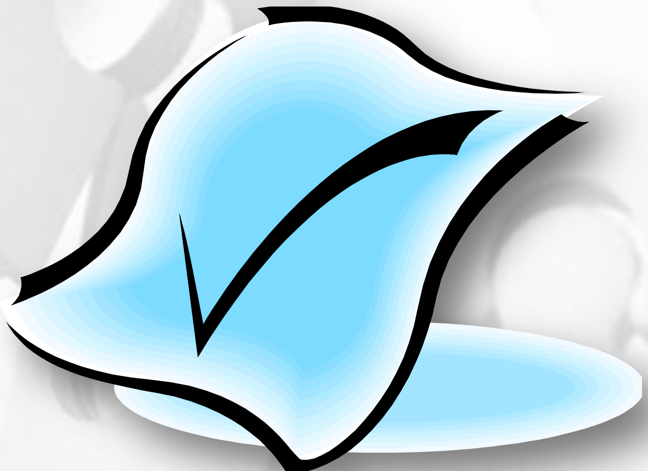


- Always as of the modification date
- Equity awards
  - Probability of vesting
  - Comparing fair value of original and modified award
- Liability Awards
  - Recognize fair value using modified terms

Polling Question # 2

The correct answer for question #2 is…

- A. – Extended time to exercise



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Types of Modifications

- Analyze each award's probability of vesting before and after modification

	Type I: Probable to Probable	Type II: Probable to Improbable	Type III: Improbable to Probable	Type IV: Improbable to Improbable
Expense	Incremental fair value between new award and original	Incremental fair value between new award and original	Fair value of new award only	Fair value of new award only
Minimum Expense	Grant date fair value (original)	Grant date fair value (original)*	No minimum	No minimum
Expense Timing	Vested - Immediately Unvested - over service period	Unvested - over service period when probable	Vested - Immediately Unvested - over service period	Unvested - over service period when probable

* As long as original target is achieved

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Polling Question # 3

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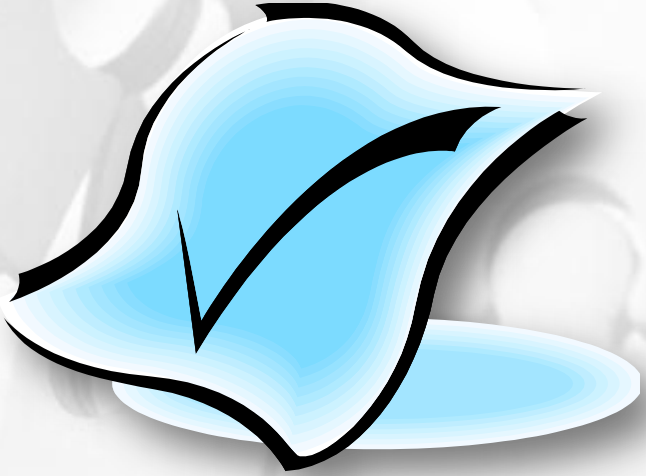
The correct answer for question #3 is…

- C. - Original grant FV



Example - Modifying Performance Conditions (improbable to probable)

- Unvested option - performance conditions changed from improbable to probable
- Grant Date Fair Value: $0.40
- Fair Value of Modified Award: $0.30
- Recognize the ratable amount over the service period as of the modification date

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Example - Re- pricing example (probable to probable)

- Fully vested option is re-priced
  - All terms stay the same except the price
  - Incremental expense is $0.21 per share

Fair Value Calculation				
Before	After		Variable	Description
$1.00	$1.00	=	S	Stock's current price.
$2.00	$1.00	=	K	Strike price.
2.50	2.50	=	t	Expected term in years.
0.29%	0.29%	=	r	Risk free rate
50.0%	50.0%	=	v	Volatility of the stock (or peer group)
$ 0.11	$ 0.31	=		Value of the option over vesting term

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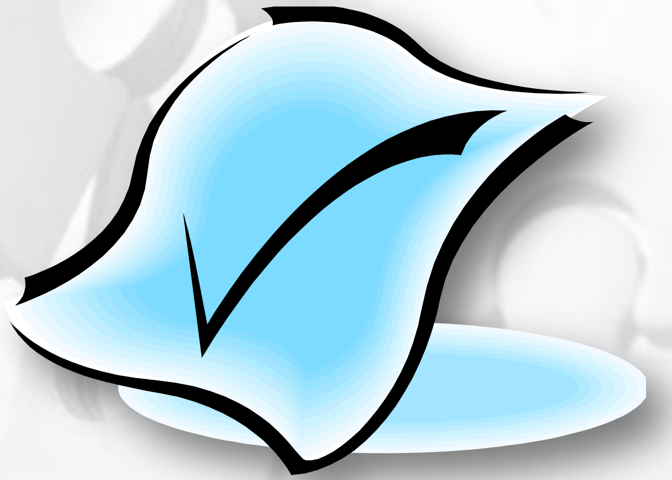
Polling Question # 4

The correct answer for question #4 is…

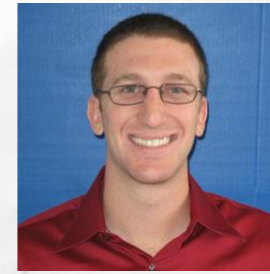
- A. - Immediately



Administering Modifications

- Obtain input
- Communicate modification choices to participants
- Document:
  - Modification details
  - Accounting treatment – calculations w/ supporting detail

Potential Tax Implications



- Deferred compensation under Section 409A
- Subject to limitation under Section 162(m)
- Loss of incentive stock option qualification
- Income Tax Withholdings
- Other tax issues

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In Conclusion…

During this webinar, we've covered:

- Refresher on ASC 718
- What constitutes a modification
- How to manage modifications
- Accounting for simpler modifications

Polling Question # 5

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What Questions Do You Have?

Submit Your Questions Now!

Contact Us

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