reporting for investments in equity instruments, such as *SSAP No. 30—Investments in Common Stock (excluding investments in common stock of subsidiary, controlled or affiliated entities)*.

8. The following example illustrates the application of this measurement date guidance for a transaction in which a performance commitment exists prior to the time that the grantee's performance is complete and the terms of the equity instrument are subject to adjustment after the measurement date based on the achievement of specified performance conditions.

> On 1/1/X2, Company grants Service Provider 100,000 options with a life of 2 years. The options vest if Service Provider advertises products of Company on Service Provider's web site for 18 months ending 6/30/X3. Company also agrees that if Service Provider provides 3 million "hits" or "click-throughs" during the first year of the agreement, the life of the options will be extended from 2 years to 5 years. If Service Provider fails to provide the agreed upon minimum of 18 months of advertising through 6/30/X3, Service Provider will pay Company specified monetary damages that, in the circumstances, constitute a "sufficiently large disincentive for nonperformance."
>
> Service Provider would measure the 100,000 stock options for revenue recognition purposes on the performance commitment date of 1/1/X2 using the 2-year option life. Assume that at the measurement date (1/1/X2) the fair value of the options is $400,000. On 12/1/X2, Service Provider has provided 3 million "hits" and the life of the option is adjusted to 5 years. Service Provider would measure additional revenue pursuant to the achievement of the performance condition as the difference between the fair value of the adjusted instrument at 12/1/X2 (that is, the option with the 5-year life assumed to be $700,000) and the then fair value of the old instrument at 12/1/X2 (that is, the option with the 2-year life, which is assumed to be $570,000). Accordingly, additional revenue of $130,000 would be measured. The remaining $170,000 increase in fair value of the instrument should be accounted for in accordance with the relevant literature on the accounting and reporting for investments in equity instruments, such as SSAP No. 26.

9. This Issue does not address when revenue is recognized. However, the Task Force observed that a liability (deferred revenue) or revenue would be recognized in the same period(s) and in the same manner as it would if the enterprise was to receive cash for the goods or services instead of the equity instruments.

10. The Task Force reached a consensus that this Issue applies to all grants and to modifications of existing grants that occur after January 1, 2001. "Modifications of existing grants" does not include changes to the quantity or terms of an equity instrument that occur when any originally unknown quantity or term becomes known pursuant to the terms of the original instruments.

INT 00-32 Status

11. No further discussion is planned.