Case 07-4

Murray Compensation, Inc.

Murray Compensation, Inc. (Murray), an SEC registrant that provides payroll processing and benefit administration services to other companies, granted 100,000 “at-the-money” employee share options on January 1, 2010. The awards have a grant-date fair value of $6, vest at the end of the third year of service (cliff-vesting), and have an exercise price of $21.

Subsequent to the awards being granted, the stock price has fallen significantly. On January 1, 2012, Murray decreased the exercise price on the stock options to $12. This downward adjustment to the exercise price was made in order to ensure that the options continue to provide intended motivational benefit to employees. However, in addition to the reduction in the exercise price, Murray also changed the vesting terms, such that the employees must provide an additional two years of service (awards will now vest on January 1, 2015).

Immediately prior to the reduction in the exercise price of the awards, the fair value was $1 per award. After considering the impact of the January 1, 2012, re-pricing, the fair value was $4 per award.

Required:

- Calculate the amount of compensation cost that should be recognized by Murray in the years ended December 31, 2012, 2013, and 2014. Assume that there have been no forfeitures and that Murray uses a straight-line approach for recognizing compensation cost.

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