Case 15-7
Ventura Company

Ventura Associates, Inc. (Ventura), a private company, is a manufacturer of exterior building products. On January 1, 20X1, Ventura granted non-qualified stock options under its 20X1 stock incentive plan (the Plan) to certain employees. Ventura can only settle the stock options by issuing common stock. The fair market value of Ventura's underlying stock on January 1, 20X1 was $10 per share. Some of the stock options are time-vesting options, and some are performance-vesting options.

A summary of the options' grant terms is as follows:

- **Time-vesting options**

  Date of grant: January 1, 20X1

  Exercise price: $10 per share

  Vesting (must be employed upon vesting):

  · 20 percent per year on each anniversary after the date of grant OR

  · Upon a change in control or initial public offering (IPO), all unvested options vest immediately

- **Performance-vesting options**

  Date of grant: January 1, 20X1

  Exercise price: $10 per share

  Vesting (must be employed upon vesting):

  · 20 percent per year, contingent on achievement of annual EBITDA targets (which are specified in the grant notification and vary each year from 20X1 through 20X5, and also have a cumulative catch-up feature such that EBITDA shortfalls in any given year can be 'made up' through EBITDA surpluses in future years) OR

  · Upon a change in control or IPO, the installment of options (1) associated with the year in which the change in control or IPO occurs, and (2) associated with future years' EBITDA targets become immediately vested and exercisable

During 20X1, it was not probable that Ventura would meet any year's EBITDA target, or that a change in control or IPO would occur.

On November 15, 20X2, Ventura announced its intention to undertake an IPO of its common stock. The IPO was completed and Ventura's stock began trading in October 20X3. During all periods in 20X2 and 20X3, it was still not probable that Ventura would meet any year's EBITDA target (either individually or cumulatively).

Required:

- For each award, how should Ventura initially recognize compensation cost?
- How does the IPO announcement in 20X2 and the completion of the offering in 20X3 affect Ventura's accounting for these options in the years ended December 31, 20X2 and 20X3?