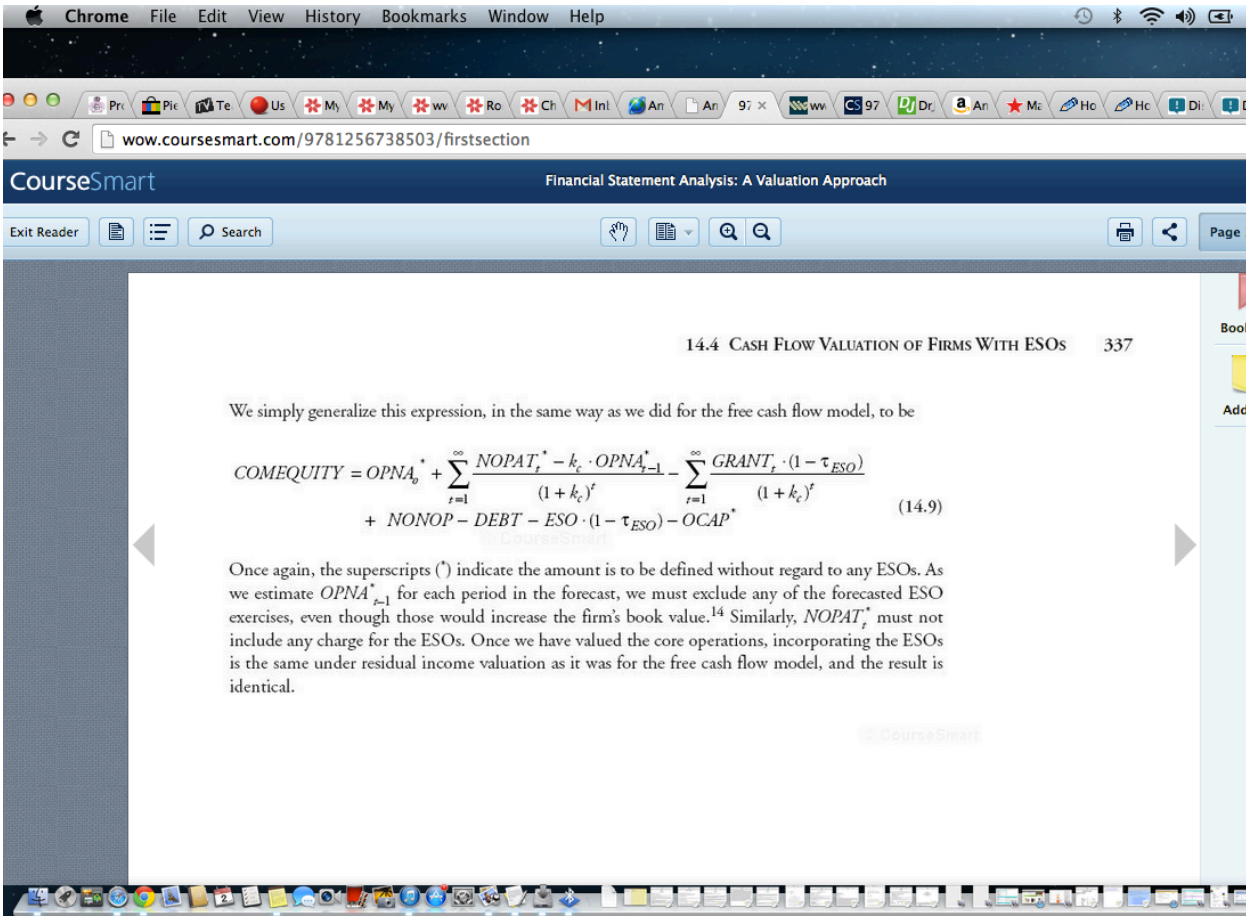

We simply generalize this expression, in the same way as we did for the free cash flow model, to be

$$COMEQUITY = OPNA_0^* + \sum_{t=1}^{\infty} \frac{NOPAT_t^* - k_e \cdot OPNA_{t-1}^*}{(1+k_e)^t} - \sum_{t=1}^{\infty} \frac{GRANT_t \cdot (1-\tau_{ESO})}{(1+k_e)^t} + NONOP - DEBT - ESO \cdot (1-\tau_{ESO}) - OCAP^* \quad (14.9)$$

Once again, the superscripts (*) indicate the amount is to be defined without regard to any ESOs. As we estimate $OPNA_{t-1}^*$ for each period in the forecast, we must exclude any of the forecasted ESO exercises, even though those would increase the firm's book value.[14] Similarly, $NOPAT_t^*$ must not include any charge for the ESOs. Once we have valued the core operations, incorporating the ESOs is the same under residual income valuation as it was for the free cash flow model, and the result is identical.