

## The CEO Speaks

### Marianne Brannock-Hill CTP, CEP



Welcome to 2010! This new year is expected to bring new beginnings, new opportunities, as well as open new directions for the business enterprise. With new direction and opportunities, comes change.

We should expect more mergers, acquisitions, changes in the workforce population, and the re-evaluation of business strategies. Corporations are still not out of the woods and much attention is being given to ensure that this year turns a profit. How does this affect us?

We should be ready for change. I call this "transition-readiness". Within the equity compensation field, transition can mean a merger (think Sun), getting ready for an IPO, out-sourcing the department, or changing one of your vendors.

With companies scrutinizing department costs, you may need to re-evaluate the cost-benefit of your vendors and be prepared to change the Transfer Agent, the equity-tracking software, or the company's authorized stock broker for executive and employee transactions.

Such change may be the direction your company takes or may come unexpectedly. Either way, change requires preparation, planning, and readiness.

To get insight into the considerations for the various changes we may encounter, we invite you to visit our Transition-Central website:

[www.frsequitystrategies.com/transition.htm](http://www.frsequitystrategies.com/transition.htm)

## CEP Exam Prep Program

### The Spring 2010 CEP season is upon us!

There is no better time than now to finish your certification. The Certified Equity Professional (CEP) designation is a nationally-recognized certification. A CEP designation will put you ahead in your career, line you up for a promotion, a salary increase, or a new position.

Start now, sign up for the Exam, then sign up for the FRS Equity Strategies' CEP Exam Prep Program. Our in-depth program walks you through all the books and materials. The Prep Program keeps you disciplined and focused on your required reading and studying.

The FRS CEP Exam Prep Program Classes, Webinars, Boot Camps and Sample Exams are the most comprehensive exam preparation program available. In consideration of the current economic environment and the importance of certification to career growth and employment for stock plan professionals, FRS Equity Strategies has reduced the fees for our Prep Program to make it easier for you to afford the training assistance.

A personalized, program is waiting for you. What are you waiting for? The CEP certification is your best bet to advance your equity compensation knowledge no matter what career you currently have.

Visit our website for Prep Program details:

[www.frsequitystrategies.com/cep-exam.htm](http://www.frsequitystrategies.com/cep-exam.htm)

and sign up today!

## Industry News

### EASI Software - February 8, 2010

Equity Administration Solutions, Inc. (<http://easiadmin.com>), announced it is first to market with enhanced Proxy reporting that meets the SEC requirements issued on December 16, 2009. The new 2010 Executive and Director Compensation tables now display all awards granted during the given fiscal year and the corresponding grant date Fair Values. EASI gives customers the flexibility to run the old or new report versions.

### Equity Edge - February 2010

#### Now is the time to upgrade to 8.1.

This version carries the new feature to allow the company to select the "cancel-date" forfeiture method. This will allow those wicked terminations to disappear and any allowable reversal of expense will occur on the fiscal period for the termination, and the grant line item will be gone for good!

Switching to "Cancel-date" forfeiture method from the "Vest-Date" forfeiture method can be accomplished once the company upgrades to 8.1 version. Moving to this method will show a final

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expense of options for terminated employees in the fiscal period that they have forfeited or expired options. The system will no longer continue to show an expense line item for these canceled grants all the way through to the last vest date. This has been the auditors' concern since 2006.

**NOTE:**

You must true-up the total expense recognized for terminated employees and their canceled options in the fiscal period that you upgrade and switch forfeiture methods. Obtain your auditor's approval before switching.

**Two-Step Software – Dec. 8, 2009**

Two Step Software, Inc. ([www.twostep.com](http://www.twostep.com)) announced that it has added a set of Black-Scholes calculators to its complimentary FAS 123R Reporting Kit which has already been downloaded by hundreds of CFOs. Two Step Software's FAS 123R Reporting Kit is a set of white papers, webinars and reporting tools that can provide a foundation for understanding equity compensation reporting for privately-held and venture-backed companies.

In addition to the educational materials already included in the kit, the new calculators will help CFOs calculate "fair value" under FAS 123R (now ASC Topic 718), as well as the related Black-Scholes variables: volatility, interest rate, and expected term.

To download visit:

[www.twostep.com/getF123Rpkpr](http://www.twostep.com/getF123Rpkpr)

**SVB Analytics' eProsper CapMx - January 12, 2010**

SVB Analytics ([www.eprosper.com](http://www.eprosper.com)), acquired a capitalization table and option tracking management solution for public companies, giving SVB Analytics the ability to offer this service to public corporations in addition to the private companies it serves today. The acquisition of Equity Enterprise from Boardroom Software continues to build SVB's platform for companies at all stages of development, including public companies.

The solution acquired by SVB Analytics is also primarily used by companies in the technology and life science sectors. SVB Analytics expects to grow its business through this acquisition with the added ability to assist IPO candidates and other public companies. Over time, SVB Analytics/ eProsper will bring the best features of CapMx and Equity Enterprise together in one platform.

**E\*Trade's Equity Edge -**

October 7, 2009

E\*Trade Financial Corp. (NASDAQ: ETFC) today announced the launch of Equity Edge Online, the new web-based, integrated, end-to-end equity compensation management platform from E\*Trade Financial Corporate Services. In an ever-changing regulatory environment, Equity Edge Online provides flexible, accurate and auditable financial reporting, enabling companies to save time, reduce costs and increase efficiencies in their employee stock plan solutions.

Building on the success of the Equity Edge software, the new online platform supports most equity vehicles - including stock options, restricted stock awards and units, appreciation rights and employee stock purchase programs - and is a fully integrated, end-to-end solution benefiting corporate administrators as well as employees.

**“Transition Central”**

The following transition processes impact the ongoing management of your equity programs in a multitude of ways.

- Move to Outsourcing
- Merger or Acquisition
- Switching software
- Changing vendors

FRS has prepared an article for each topic that includes a list of considerations to assist a corporation with the transition process.

To view and download any of these documents, we invite you to visit our Transition-Central website:

[www.frsequitystrategies.com/transition.htm](http://www.frsequitystrategies.com/transition.htm)

**Special Topics**

**New SEC Disclosure Requirements Impact Equity Compensation**

As we mentioned in the last issue of the FRS Newsletter, the Securities and Exchange Commission (SEC) had put forth proposals for modifying the requirements regarding executive compensation disclosure in the annual proxy statement. Since that issue, the proposals have been clarified and approved. The following is a summary of the changes which impact equity compensation disclosure.

In 2006, the SEC required companies to disclose the annual expense of equity for the year applicable to the year of cash compensation disclosure. Because most awards vest over a period of multiple years, and expense is distributed throughout the vesting period, a single year's expense attribution often represented multiple years of grants. Adding to the confusion was the requirement that performance awards be reported at the amounts payable for maximum performance, a scenario that was rarely achieved over the past two years.

The SEC attempted to address both of these issues with the new requirements. Under the new rules, companies will be required to report stock and option awards in the Summary and the Director Compensation Tables as the aggregate grant date fair value of the award. This is a return to the manner in which equity compensation was disclosed prior to August 2006.

In addition, performance-based awards will now be reported on the basis of the most probable outcome of the performance requirement, not the maximum possible (unless of course the maximum happens to be the most probable outcome). The determination should be made on the date of the grant and should parallel the number of options/shares/units accounted for when determining the expense of the award for accounting purposes.

Additional considerations to keep in mind regarding equity compensation disclosure:

- Values of equity awards will need to be recalculated for the prior years when presenting the three-year history of compensation in the Summary Compensation Table (SCT).
- Although the equity values will need to be recalculated, a re-examination and identification of Named Executive Officers (NEOs) for those prior years will not be required and may stay the same.
- Due to the changes in the reporting of equity awards, companies with large one-time awards to officers (such as a new-hire award, promotional award, or bonus award) should be careful when identifying the NEOs for 2009. This also applies to companies with an award schedule involving large awards granted every third year rather than ongoing annual awards. Such a schedule would impact the determination of NEOs and provide greater variability in NEO identification from year-to-year.
- Although the requirement for disclosing the value of performance awards is based on the most probable outcome, companies will still need to provide information on the maximum value in footnotes to the SCT if that probable outcome is below maximum opportunity.

-William Parsons  
 Founder & Principal  
 CompWiser Consulting

**CompWiser** [www.compwiser.com](http://www.compwiser.com)

For assistance with equity compensation plan design, proxy disclosure, or a formal risk assessment please contact William at [wparsons@compwiser.com](mailto:wparsons@compwiser.com)

## Keep Your Skills Sharp

Take the opportunity now to sign up for classes or certification training to advance your knowledge base. Accounting, stock plan management, software review, or SEC disclosure reporting are just a few to consider.

Visit [www.frsequitystrategies.com/training.htm](http://www.frsequitystrategies.com/training.htm) to explore the online educational resources provided by FRS Equity Strategies.

FRS is currently offering special discounts on training packages of advanced topics in equity compensation for your senior management team and your equity plan management group.

Email [william@equity-strategies.com](mailto:william@equity-strategies.com) for more information on these package deals.

## The FRS Challenge!

### Challenge Question: A prize for the first correct answer!

Name the 3 "conditions" for a stock option that will drive how the option is fair valued and will dictate the expense allocation method.

**\$25 gift certificate for the first right answer emailed to:**  
[training@equity-strategies.com](mailto:training@equity-strategies.com)

### Prior Newsletter's FRS Challenge Question:

If your stock options vest on a performance measure that is based upon a comparison to the stock price of a group of peer companies. What valuation model should be used to determine the expense of the options for reporting under FAS 123(R)?

ANSWER: The Monte Carlo valuation model.

### Challenge Winner:

Don Gillotti of EASi, Equity Administration Solutions, won the \$25 gift certificate for the first email with the right answer.



## Announcements

### Team Edge and Team EASi

We have expanded our Stock Plan Administration Outsourcing Division!

Team Edge performs full service administration on your software (Equity Edge).

Team EASi performs full service administration, and we carry the software license for the EASi web-based platform.

Our new location is 1580 Oakland Road, Suite C205, San Jose, CA 95131.

Main: 408-727-0227  
 Fax: 408-727-1760.

FRS Equity Strategies is the only full-service stock options and equity compensation consulting firm in the US that can deliver a complete solution to your company. Our suite of services includes:

### Outsourcing

[www.frsequitystrategies.com/outsourcing.htm](http://www.frsequitystrategies.com/outsourcing.htm)

### Consulting

[www.frsequitystrategies.com/consulting.htm](http://www.frsequitystrategies.com/consulting.htm)

### Training & Education

[www.frsequitystrategies.com/training.htm](http://www.frsequitystrategies.com/training.htm)

We deliver unsurpassed knowledge of all aspects of equity compensation, unrivaled attention to detail and a high level of personal attention. We understand and meet the strictest standards of confidentiality to protect your information and minimize risk. Our services are organized and priced to deliver the best value without sacrificing quality.

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Please contact us to request a custom proposal on outsourcing and consulting services.