

## The CEO Speaks

**Marianne Brannock-Hill, CTP, CEP**



As we close this year, there are high notes and low notes. We can all attest to the fact that 2009 has been a difficult year all around. The high note is that equity still remains a big part of the compensation benefits for US corporations and therefore the equity compensation profession remains an ever-changing and progressive corporate position. Although we are suffering from high unemployment, there will be a turn-around, and you need to be ready for the demands of this profession.

This applies to all corporate professional positions: Education is the key to career advancement! You have heard of the phrase "seasoned" professional. You hear of that one person who got the promotion, who got the raise, or who got the job. Who are these people and how do you get on that train? In order to advance your career, ensure continuous status advancement and salary increases, and maintain an exciting professional life, you must take charge of your future and direct the outcome.

You must learn how to measure your value, develop self-marketing skills, and develop specific strategies for career advancement.

Now is the time to make room for furthering your career. If you make the time now, you will reap the rewards sooner rather than never.

The number one goal for corporate professionals should be to expand your knowledge in the accounting and finance world. Most high-level corporate positions require some level of accounting knowledge. You will be truly surprised to find out that the job description for an Equity Professional five years ago was one-half page and now it's one full page. Lots more to

know! Check out our web site for a job description from 2003 and one from 2009.

FRS has a new segment on "How to Succeed as an Equity Professional" that gives the actual steps for you to take to advance your career.

FRS offers many educational opportunities. Visit our website for details:

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

## CEP Continuing Ed Units

### CEPs - Get 8 CPE units!

Our CEP CEU Program provides 8 units of credit towards maintaining your CEP designation.

The Program offers advanced equity compensation courses to fulfill the knowledge requirements and grant Continuing Education Units toward your CEP designation. The Program is affordable – only \$35 -\$45 for each class!

These all provide Refresher Courses for Sr Equity Professionals and Consultants.

Test yourself! The CEU Program offers a 50-questions exam geared at a senior-level professional. Visit:

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

and select the CEP-CEU Program.

## Industry News

### EASI Software Pleasanton, CA, November 6, 2009

Equity Administration Solutions, Inc. (<http://easadmin.com>), announced that it has selected AIRS from R&W Software to automate its Section 16 insider reporting for customers. Working with R&W Software will enable EASi customers to run Section 16 reports, export them into AIRS and submit SEC Forms 3, 4 and 5 in the required XML format.

### SVB Analytics' eProsper CAPMX San Francisco, CA, September 16, 2009

CapMx ([www.eprosper.com](http://www.eprosper.com)) now offers an easy click-through process to reprice options and the ability to maintain original grant values or modify them as needed. CapMx new disclosure reports provide values for both original and repriced grants, as well as values that reflect changes in liability status for early exercised grants.

### E\*Trade's Equity Edge Alpharetta, GA, October 20, 2009

New W-8BEN Recertification Process at E\*TRADE. In order to conform to the new Internal Revenue Service (IRS) electronic documentation requirements, affected stock plan participants who are not U.S. persons will need to complete their Form W-8BEN recertification by December 31st, 2009. Affected stock plan participants include those who activated and certified their W-8BEN prior to July 31st, 2009 for the first

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time, or who re-certified due to the expiration process prior to November 2008.

**Two-Step Software  
Needham, MA , September 28, 2009**

Two Step Software, Inc. ([www.twostep.com](http://www.twostep.com)) offers faster stock option administration and document production with the latest release of its browser-based, hosted equity management and compliance system. Version 6.2 provides new features that continue to simplify comprehensive ownership management and FAS 123R reporting.

**International Update**

If you have not yet heard, [Australia](#) and [India](#) have completely changed the methods that are required to tax the Ordinary Income derived from equity benefit grants and transactions – for options, restricted stock awards and units. This is

Ask for the FRS International “Starter Chart” that will give you all the up-to-date information on 25 countries. We update this report every 6 months. It is pulled from many public sources and combines all this data in one document! It's free! Just send an email request to [Laura@equity-strategies.com](mailto:Laura@equity-strategies.com). She heads up our Customer Support Dept and will be glad to send it out to you.

**Special Topics**

**8 Tips for Equity Edge (EE) Users**

(November 1, 2009) Our Resources Page has many white papers and Application Tips for Equity Edge and EASi Users. To see additional tips visit: [www.frsequitystrategies.com](http://www.frsequitystrategies.com) and click on our resources link on the right side of the page.

**EE Tip1: Repricing / Regranting**

Any version from 6.0 to 8.1 will perform a standard repricing of options when the menu item “repricing” is used. Accounting Application Tips: There are 4 steps. EE uses the “pool” approach.

- 1) At the time of the repricing in the system, any unamortized amount remaining under the old grant “walks into” the new repriced, grant.
- 2) Then calculate the incremental fair value off-line.
- 3) Upload the incremental per share fair value into the repriced grant, as a “custom” fair value, using the fv template.
- 4) Audit the expense reports to ensure that the unamortized amount as well as the incremental value is reported as a “combined” expense amount (this is the “pool approach”). This is really difficult because you can't see the old unamortized amount and the new incremental amount as separate expense lines. (The auditors really want to see it separate.)

If you run the expense reports with a zero estimated forfeiture rate, you will be able to identify and audit the two expense amounts.

NOTE: Some equity tracking software uses the “pool” approach and others use the “bifurcated” approach. If you are on different software, DO NOT follow the guidelines for Equity Edge. Check with your Software Application Support Team for more information.

**EE Tip 2: Switching to “Cancel-date” forfeiture method off the “Vest-Date” forfeiture method**

This can be accomplished once the company upgrades to 8.1 version. Moving to this method will show a final 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 cancelled grants all the way through to the last vest date. This has been an auditor's concern since 2006.

You must true-up the total expense recognized for terminated employees and their cancelled options in the fiscal period that you switch over. Obtain your audit firm's approval before switching.

**EE Tip3: The “Single User Weighted Average” box on the Expense Reports.**

If you have run any Expense Reports and checked this box at any time, it is important that you review the Expense Reports for that period with your Corporate Controller. Accounting regulations require that any accounting methodologies must remain consistent at each reporting period.

Checking this box changes the methodology for expensing, and therefore must be approved by the company's audit team ahead of time. Review the Equity Edge application brief for more information on this feature.

**EE Tip4: Non-Employee Grants and Expensing.**

First, let's clarify that non-employee Board Members are treated as non-employees for tax purposes and they are treated as employees for accounting purposes. EE requires that the Board Member should not have the Employee Box checked, but you must have the Director box checked on the Insider Tab.

Non-employees (not Board Members) options and awards will require a mark-to-market accounting treatment. This requires the user to set-up a Black-Scholes Forecast each Quarter-end and then run the “Expense Summary” or “Detail” reports for the expense allocation.

This is NOT the Expense Allocation Recognition Report which is for “employee only” equity comp expense. At the time the user is running the Expense Detail Report, the process will require you to input several data and this is how the system will know the Black-Scholes factors for the mark-to-market fair valuation.

**EE Tip5: Valuation Disclosure Recap Report**

This is an excellent report for your public company SEC reporting requirements. Be sure that you are on 7.1 or a later version. Any prior versions had a glitch and did not report certain data correctly.

### EE Tip6: The WOO and WAO

Both the WOO and the WAO reports are required for the company to determine the EPS calculation on a diluted basis.

The other reports that are useful:

- WOO Summary - Common Equivalents Options (woosumry)
- Calculation of Weighted Shares Outstanding (weighted)
- Average Unamortized Expense Audit (avgexpns)
- Calculation of Weighted Shares Outstanding by Transaction Type (wootrans)
- Audit Summary of Common Equivalents from O/S Options (auditsum)
- Calculation of Diluted Common Equivalents from Stock Options (diluted)
- Anti-Dilutive Common Equivalents from Stock Options (antidltd)
- WAO Summary - Common Equivalents RS (waosumry)
- Calculation of Weighted Shares Outstanding – RS (waowgtd)
- Average Unamortized Expense Audit – RS (waoavgex)
- Calculation of Weighted Shares Outstanding by Transaction Type – RS (waotrans)
- Audit Summary of Common Equivalents from O/S RS (waoaudts)
- Calculation of Diluted Common Equivalents from RS (waodltd).

### EE Tip7: Tax Table

The settings in your Tax Table will be the “default” that automatically pulls into a new Account record when a new account is set up. Do not change the sequence of your standard income and social tax line items.

The best practice is Federal, FICA, Medicare, then list the States and the Countries. If you change the sequence in the Setup Menu, then your Payroll Reporting download will be showing up in the wrong columns.

### EE Tip8: Audit, Audit, Audit!

Every entry in Equity Edge should be audited by another person. If you do not have the in-house resources to do this at the end of every day or week, then it should be required to do this at the end of every month. Just have another pair of eyes on your work and require that all data inputs have a “source” document. FRS offers assistance with data audits as well as other equity plan management responsibilities on a project basis. Visit [www.frsequitystrategies.com/consulting.htm](http://www.frsequitystrategies.com/consulting.htm) for additional details.

### Corporations Continue to Offer Equity Comp

Charles Schwab released a new corporate stock plan study revealing that most companies view stock plans as an important tool to motivate and reward workers at all levels. Despite market uncertainty, a majority of companies surveyed say they are offering the same or even more stock plan benefits to their employees since Fall 2008.

The study, conducted earlier this year by Koski Research, surveyed 200 corporate stock-plan decision makers at companies with \$25 million to more than \$50 billion in revenue across a range of industries. The results show that about a quarter of respondents plan to increase their stock benefits, while 68% expected to keep them at the current level.

According to an announcement of the survey, one in four respondents (25%) says their company plans to increase stock plan benefits in the next year, while more than two-thirds (68%) plan to maintain benefits at the current level. Additionally, Schwab notes that these benefits are not just for senior-level employees:

- Half (50%) of participating companies now offer performance shares to manager-level employees.
- Nearly half (48%) offer manager-level employees stock options and one-third (34%) award restricted stock to managers.
- More than a quarter offer

performance shares (26%) and/or stock options (27%) to employees below the manager level, while 17% award restricted stock to this group of employees

Plans are targeted more toward existing employees than recruits: motivating employees to support the success of their company (65%) and giving employees a sense of ownership in the company (58%) were most commonly cited as reasons for offering these benefits; just 12 percent saw them as a key recruiting tool. More information at:

<http://www.aboutschwab.com>

### Key Upcoming Issues in Equity Compensation

For those of you involved with the annual executive compensation disclosure required for public companies by the SEC changes related to equity compensation are on the horizon. The modifications in equity compensation reporting and upcoming Say-On-Pay shareholder votes may have the following impact:

- The Compensation Discussion & Analysis will become even more critical with respect to communicating aspects of equity compensation programs.
- The design of equity compensation may need to be simplified in order to ease the communication burden to shareholders voting on executive compensation programs.
- Formally defined ownership guidelines and holding provisions on equity programs may become more commonplace.
- Design of equity compensation in terms of both size of award levels and vesting provisions may be impacted. Smaller awards with performance-based vesting is likely.

In addition to the SEC changes and impending Say-on-Pay provisions, there is an increasing focus on the examination of risk related to compensation programs. If your company does not already conduct a risk assessment of compensation programs, a formal process should be

undertaken. The following questions should be addressed:

- Does the equity compensation program provide an adequate balance between annual short-term cash incentives and three to five year (or longer) equity-based incentives?
- If equity compensation programs entail performance vesting, do the performance metrics take into consideration the impact on long-term viability of the organization? Are there claw-back provisions on these programs?
- Are the equity vehicles used in equity compensation programs providing a balance between upside and downside potential to ameliorate risk?
- Do equity programs have vesting periods of sufficient length to address long-term performance?
- Do equity programs have provisions such as ownership requirements or holding provisions to reduce risky behavior?

Equity compensation continues to be an important component of a well designed and effective compensation program. The benefits of equity compensation to both the organization and the employee far exceed the burden of administration and implementation.

-William Parsons  
Founder & Principal  
CompWiser Consulting

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, advanced Excel and advanced Access 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.

## Announcements

### New Staff at FRS – a CPA and a CEP

Ana Maria Flores-Velez, CPA, with 20+ years of Accounting, Finance and Equity Compensation experience joined FRS in October. Her expertise in accounting, FAS123(R), IFRS2, equity compensation compliance for a pre-IPO company and the administrative requirements for an IPO as well as her experience on the EASi software all lend a boost to our team.

Kathleen Cleary, CEP, has 15 years of diverse equity plans experience, knows multiple software applications, and has extensive background in training. She will lead many of our new training workshops. She will provide on-site availability to companies across the country.

### New Location – Double the Space!

We have moved! We had been in our Santa Clara location for 6 years and outgrew it. We're happy to now have room to grow. Our new location is 1580 Old Oakland Road, Suite C205, San Jose, CA 95131.

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

## The FRS Challenge!

### 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)?

**\$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:

Under Rule 144 what is the current holding periods for affiliates?

The answer is: Rule 144 Holding Period Requirements for Affiliates and Non-Affiliates: 1) Restricted securities issued pre-IPO by a '34 Act reporting company must be held for at least 6 months, after being fully paid for. 2) Restricted securities issued pre-IPO by a non-reporting company must be held for at least one year, after being fully paid for. There are exemptions under Rule 701 that are not addressed here.

## Challenge Winner:

Saie-Yau Hui, the Senior Treasury Manager of Silicon Laboratories, has won the \$25 gift certificate for the first email with the right answer

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 and 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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