

# 8 Tips for Equity Edge Users

The following items will assist Equity Edge (EE) users in making the most of their current software license. Additional tools and resources for Equity Edge subscribers may be found on our website:

[http://www.frsequitystrategies.com/FRS\\_2008/FRS\\_Links.phtml](http://www.frsequitystrategies.com/FRS_2008/FRS_Links.phtml)

## **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 and 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 Equivalent 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 Equivalent Options (auditsum)
- Calculation of Diluted Common Equivalent Options (diluted)
- Anti-Dilutive Common Equivalent Options (antidltd)
- WAO Summary - Common Equivalent RS (waosumry)
- Calculation of Weighted Shares Outstanding – RS (waowghtd)
- Average Unamortized Expense Audit – RS (waoavgex)
- Calculation of Weighted Shares Outstanding by Transaction Type – RS (waotrans)
- Audit Summary of Common Equivalent RS (waoaudts)
- Calculation of Diluted Common Equivalent 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.