

# FRS Equity Strategies

A Consulting Firm and Educational Institute for Equity Compensation

---

## Equity Edge Reports for Estimated Forfeiture Rate Analysis

These two reports can be used to calculate *one of the data points* to be used in identifying your estimated forfeiture rate. They should be run for a date range from inception through the end of the period being examined. A shorter date range can be used; however this will depend upon the amount of historical data available for your company:

1. Options Cancelled
  - After downloading to Excel:
    - Identify forfeited options only (unvested at cancellation)
    - Sort forfeitures by year of cancellation
    - Group by FAS stratification groups
  
2. Options Granted
  - After downloading to Excel:
    - Sort by year of grant
    - Match options granted to forfeiture data, using the grant # as your identifier
    - To calculate the percentage of forfeiture, divide options forfeited by options granted on a grant-by-grant basis
    - Subtotal each year's cancellation percentages
    - Calculate the simple average of annual forfeiture rates
    - Group by FAS stratification groups

The purpose for gathering this data is to identify the “haircut” to be taken against the equity compensation expense. The annualized rate should be applied against the accrued expense each reporting period. This forfeiture rate is trued up each fiscal period as actual forfeitures occur.

This analysis is completely separate from the Black-Scholes analysis, and is not a required disclosure.