

EQUITY ROLL FORWARDS

Are you sitting at your desk secretly hoping and praying that the VP of Human Resources doesn't come over and ask you how many shares are available for grant because they are thinking of doing a broad-based grant? Maybe you just started at a new company and inherited an unbalanced plan, or perhaps you're having trouble keeping track of a new plan in addition to a legacy plan. Either way, if you track shares available for grant outside of your equity compensation software, being confident that you know how many shares are available for grant will ensure you have one less thing to worry about in the middle of the night.

So, how do you tackle a project like this, where you have years of history to reconcile? It's the same answer as to the question "How do you eat an entire bear?" – one bite at a time! (My apologies to the vegetarians out there.)

Start at a Point of Confidence:

While you may think that you have to start at the beginning of time, that isn't necessarily so. If you have some point back in time when you were confident that the numbers reconciled, why not start there? Knowing that you don't have to go back to the beginning of time may just give you the confidence you need to begin the project.

Let Your System Help You:

Many years ago, I consulted at a company where they put notes in the Plan Comment field every month when they moved "returned" shares from their legacy plan to their new plan. At that time, they had no other choice, but many software products now have functionality that lets you track the movement of shares from one plan to another. If yours does and you haven't taken advantage of the functionality, now might be the time to do so. Spending an hour or two entering historical share transfers will save you a great deal of time when you start reconciling your plan(s).

Pulling Data:

Once you've determined whether or not you have a "point of confidence," you now know how far back you have to pull data. You want to run a report that shows every *option and award granted* and another report to show every *option and award cancelled* and download them into Excel. It is not necessary to separate grants that were forfeited as opposed to expired, but you should be aware if your software separates these numbers into separate columns in Excel. You'll also want to be aware of any repricings or other modifications and how that would impact your numbers. In a repricing situation, you will have two grants awarded (both the parent and the new child grant) and one grant cancelled (the parent grant); and, you may even have a subsequent cancellation of the child grant.

Setting up Your Workbook:

Copy each of these reports into a separate sheet in the Excel workbook. If you have multiple plans, make sure one column has the plan identifier (e.g., 2000, 2009, etc.) in a separate column. Using the YEAR function, create a separate column that has the year the grant was either awarded or cancelled. If you need to, you can always use the MONTH function to do a more granular analysis. Create a Summary worksheet that has separate columns for each Plan (one column for data that you calculate and one column with static information coming from your off-line tracking document) and columns for variances. For each year, you will have a row for: Beginning Balance, New Shares (e.g., if your plan has an Evergreen provision), Transferred (if your Plan allows you to transfer returned shares from the legacy plan to the current plan), Granted, Cancelled (I recommend consolidating forfeited and expired), and Ending Balance.

Example	2009 Plan		
	Calculated	Off-Line Tracking	Variance
Beginning Balance (2007)	1,000,000	1,000,000	-
New Shares	-	-	-
Transferred	(15,000)	(8,000)	7,000
Granted	(156,750)	(145,250)	11,500
Cancelled	22,000	22,000	-
Ending Balance (2007)	850,250	868,750	18,500

Year-by-Year Analysis:

Start by looking at the big picture. Use the SUMIFS function to pull in the shares granted and cancelled for each year and plan. Compare the data pulled from the system with the numbers you've tracked outside of the system to identify any variances. You just may find that there are fewer variances than you thought. Some variances you may be able to reconcile very quickly.

Month-by-Month Analysis:

If necessary, you may need to do a month-by-month analysis for one or more years. A separate worksheet should be set up for each year. Simply follow the same process using SUMIFS, but this time for each month. This will help you narrow down your search for where the variances actually occurred. Be sure to document the reconciliation of any variances; I recommend doing this on a separate worksheet for each month.

Fungible Pools:

Of course, if your plan has a fungible pool, all of this will be a bit more complicated. This plan feature requires that at least one specific grant type (usually awards) be deducted from the shares available for grant at a share ratio that is different from other shares (e.g., deduct awards at a ratio of 1.5 to 1). If your plan has this feature, I recommend you create a separate Granted row for the shares that have a different ratio (e.g., one row would be Granted and a separate row would be Awards Granted). Below the Awards Granted row, include a row for the Share Ratio. This row would only contain the variance resulting from the share ratio. For example, if Awards Granted is -50,000 and the ratio is 1.5 to 1, the value in the Share Ratio field would be -25,000 (-50,000 * .5). You will also need to take the share ratio into consideration if cancelled shares are returned to the plan instead of being retired. In this case, create a separate Awards Cancelled row and add a Share Ratio row below it to include the return of the additional shares that were deducted at grant (25,000 in the above example).

Final Clean-up:

Doing this type of reconciliation is often a great way to find problems with your data. For example, in your off-line tracking you may have included shares for someone who terminated; however, the reconciliation may show that the person was never actually terminated in the software. Make sure you follow through and fix any data issues uncovered and document on your reconciliation workbook any steps you took to reconcile the shares.

Barbara Richley,
Senior Equity Compensation Consultant
Stock & Option Solutions
brichley@sos-team.com

Barbara Richley is a Senior Equity Compensation Consultant with Stock & Option Solutions. She assists clients with all manner of equity compensation challenges. Some of her recent projects have included a financial reporting system conversion and reconciliation, a re-creation and reconciliation of an equity roll-forward, a DTA balance reconciliation, and the update to Black-Scholes assumptions for a recently public company. Barbara has been working in equity compensation since 1988 and volunteers for the CEPI and the Silicon Valley Chapter of the NASPP.

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