



EquityFocus™

Five Easy Steps to Create Auditable Stock Option Records and Comply with FAS 123R

The Challenge: In today's regulatory environment, CFOs and stock plan administrators must integrate the ever-changing requirements of accurate record tracking, FAS 123R valuation and expense reporting, and good corporate governance. As the level of complexity has increased, Excel spreadsheets and other manual systems no longer satisfy auditors. You need a solution you can trust to make your work easier and faster, with greater accuracy and accountability. But, you are faced with the questions:

Where do I get started?

How do I take the pain out of stock option tracking and FAS 123R compliance?

What type of system will satisfy my auditors?

The Solution: Here's a plan to get you started and it's easier than you might think.

ACTION	PROBLEM	SOLUTION	DESCRIPTION
1 Organize Documents	Missing documents are the greatest source of potential future issues.	Collect all historical documents related to option grants and related stock records. Identify and note any missing documents.	<ul style="list-style-type: none"> ■ Board actions ■ Option agreements ■ Exercises / cancellations / terminations ■ Common stock certificates
2 Centralize Records	Multiple systems create data inconsistency and more work.	Create a single, consolidated digital repository for all legal documents and data related to stock option records and other related stock types, available to all members of the working group.	<ul style="list-style-type: none"> ■ All legal documents ■ All stock and option records ■ Complete capitalization tables ■ All supporting documents/spreadsheets
3 Automate Transactions	Manual updates and calculations are a major source of errors and wasted time.	Implement a system that automates all transactions, calculations and creates a complete audit trail of user changes and legal documents.	<ul style="list-style-type: none"> ■ Exercises / cancellations / terminations ■ Fully diluted capitalization tables ■ FAS 123R valuation / expensing ■ Audit trail of user changes ■ Signed documents
4 Determine Variables	Determining FAS 123R variables is difficult for companies that are privately-held or have little historical data.	Use historical information, external sources, or seek outside assistance to determine FAS 123R variables. Attach supporting documents to each variable in order to support assumptions during an audit or to evaluate future changes.	<ul style="list-style-type: none"> ■ Standard variables for Black-Scholes formula: <ul style="list-style-type: none"> ● FMV and exercise price ● Volatility ● Expected term ● Interest and dividend rates ■ Forfeiture rates for amortization schedules
5 Calculate and Report	Scrambling to create last minute reports and complex calculations after the audit has begun creates errors and unnecessary stress.	Choose your valuation method and determine fair values on the date of each option grant. Prepare amortization schedules and review periodic reports in advance of the reporting cycle.	<ul style="list-style-type: none"> ■ Choose a valuation model (Black-Scholes or lattice) based on the historical data available ■ Determine the amortization method (straight-line or accelerated) ■ Generate amortization schedules (using expected forfeiture rate) ■ Review reports required by FAS 123R