

Equity Methods Automates Accounting and Financial Reporting of Complex Retirement Eligibility Awards for Fortune 100 Retailer

- *Fortune 100 Retailer issuing equity compensation to 3,500 employees*
- *Multiple partial (tiered) retirement eligibility provisions*
- *Custom reporting requirements comparing current and prior QTD and YTD expenses to those forecasted*

BACKGROUND AND SPECIFIC REPORTING CHALLENGES

Our client is a Fortune 100 retail company (RetailCo) with a particularly complex set of retirement eligibility provisions. RetailCo has multiple partial (tiered) retirement eligibility provisions that operate as follows:

- At the 25-year service date, one-third of remaining unvested shares are vested;
- At the 30-year service date, two-thirds of the remaining unvested shares are vested; and
- At the 35-year service date, 100% of the award is vested.

The accounting required for these provisions involves forced “kinks” in the expense recognition line over time. That is, the tiered provisions require that the partial “kicker” from reaching 25 years of service, for example, is not recorded until the service threshold is actually reached. Thus, whereas retirement eligibility provisions usually shorten the entire requisite service period, the nature of RetailCo’s provisions actually gives rise to partial accelerations at different and discrete points in a grant’s vesting life.

Additionally, RetailCo has pro-rata vesting (either calculated at the daily-level or the quarterly-level, depending on when the grant was made). These provisions require the vesting schedule to be disaggregated so that the incremental impact of vesting an additional day or quarter can be tracked.

Needless to say, these plan provisions are not captured in the administration data. Accordingly, RetailCo could not merely plug its data into an expense amortization model; instead, significant adjustments are required to the data so that an expense amortization model will appropriately treat the specific plan features in place.

EQUITY METHODS SOLUTION

Equity Methods created an algorithm to build out an “earning schedule” that is used for the amortization and Diluted EPS calculations. This algorithm is predicated on a careful examination of the equity plan and grant agreements. Based on the various plan features, specific data adjustments are made to make the data more suitable for financial reporting purposes. Additionally, data are allocated to various “swim lanes” within the accounting models so that grants with like features are handled collected and assigned to the appropriate sections within the models.

Affecting all grants is the need to calculate expense on a daily level, and then roll these results up to the fiscal quarter level before inputting them into the actual accounting algorithms. Additionally, RetailCo requested a custom expense report that compares the current and prior QTD and YTD reports to forecasted reports that has historically been a manual process internal to RetailCo. Equity Methods used our in-house custom report

programming expertise to create this report, saving RetailCo many hours during each quarter's closing procedure. Data validation reports are also used to compare key fields between the current reporting period and the previous reporting period to determine if data have inadvertently or incorrectly changed within the administration system.

CONCLUDING REMARKS

Equity Methods is a full-service firm, possessing deep experience in plan design, equity award valuation, and financial reporting. Equity Methods' support to RetailCo represents a specific area in which Equity Methods can create unparalleled value in the financial reporting for equity compensation awards. Complex plan provisions which do not fit within any administration system and which certainly wreck "off-the-shelf" financial reporting systems are seamlessly handled in Equity Methods' process. Through the controlled adjustment of administration data to make it suitable for financial reporting purposes, Equity Methods' process involves no manual intervention from both RetailCo and Equity Methods, and thus yields a controlled and efficient end-to-end financial reporting solution.