

Modification Accounting

Our customized accounting solutions streamline and simplify your modification accounting and reporting calculations, save you time and reduce risk by leaving the spreadsheets behind.

Option exchange programs, spin-offs, and other changes to the original terms and conditions of your equity grants will often trigger modification accounting. Yet, since the adoption of FAS123(R), little progress has been made towards the development of a complete alternative for companies seeking to avoid the error-prone and burdensome process of crunching the numbers on spreadsheets or other manual processes.

SOS' custom-built accounting solutions can help. Our **Accrual/True Up, DTA/APIC, and Diluted EPS** solutions offer automation and flexibility for companies grappling

with the complexities of modification accounting. These solutions can be implemented at your site, in conjunction with any equity system, or can be run by SOS subject matter experts as a shared-services solution. In either case, the solution is tailored to meet your unique business demands, while easing your financial reporting requirements.

Grant Number	Grant Date	Expense		Fair Value per Share	Shares	Total Fair Value	Total Days	Prior Days	Prior Ratio	Prior Expense	To Date Days	To Date Ratio	To Date Expense
		Begin Date	Vest Date										
00003784	7/15/2004	7/15/2004	7/15/2008	\$ 3.35	1,500	\$ 5,025.00	365	365	100%	\$ 5,025.00	365	100.00%	\$ 5,025.00
00003784	7/15/2004	7/15/2009	7/15/2008	\$ 3.35	1,500	\$ 5,025.00	365	365	100%	\$ 5,025.00	365	100.00%	\$ 5,025.00
00003784	7/15/2004	7/15/2004	7/15/2007	\$ 3.35	1,500	\$ 5,025.00	365	365	100%	\$ -	365	100.00%	\$ -
00004582	4/15/2006	4/15/2006	4/15/2007	\$ 4.25	1,000	\$ 4,250.00	365	365	100%	\$ 4,250.00	365	100.00%	\$ 4,250.00
00004582	4/15/2006	4/15/2007	4/15/2008	\$ 4.25	1,000	\$ 4,250.00	366	366	100%	\$ 4,250.00	366	100.00%	\$ 4,250.00
00004582	4/15/2006	4/15/2008	4/15/2009	\$ 4.25	1,000	\$ 4,250.00	365	261	72%	\$ 3,039.04	350	95.89%	\$ 4,075.34
00004582	4/15/2006	4/15/2009	4/15/2010	\$ 4.25	1,000	\$ 4,250.00	365	0	0%	\$ -	0	0.00%	\$ -
00004583	1/15/2009	1/15/2009	1/15/2010	\$ 5.75	2,000	\$ 11,500.00	365	0	0%	\$ -	78	20.55%	\$ 2,861.01
00004583	1/15/2009	1/15/2010	1/15/2011	\$ 5.75	2,000	\$ 11,500.00	365	0	0%	\$ -	0	0.00%	\$ -
00004583	1/15/2009	1/15/2011	1/15/2012	\$ 5.75	2,000	\$ 11,500.00	365	0	0%	\$ -	0	0.00%	\$ -

SOS Custom Solutions for Modification Accounting

- **General Feature Overview (Common to All Solutions)**
 - The solutions store necessary information often not tracked by stock plan databases, which may include:
 - Grant relationship details (original grant(s) related to replacement grant(s))
 - Original fair value / Incremental fair value / Original DTA
 - Original and replacement vest schedules
 - Tranche-by-tranche DTA for replacement grants (only for options granted prior to the adoption of FAS 123(R))
 - Information is retrieved from:
 - Stock plan database master tables (only available with certain versions of in-house software)
 - Report output tables
 - Exports from outsourcing providers
 - Generate reports in CSV format
 - Support exchanges in which several grants are replaced by one
 - Includes grant- and participant-specific fields to allow you to slice and dice expense for cost centers, locations, salary grade, and any other parameters you choose
 - Includes calculation support for easy audit and tie outs

- Allows display of cancelled or fully-vested grants to ease period-to-period reconciliation
- Flawless spreadsheet output - no more misaligned columns or difficult-to-work-with data
- **Accrual Solution**
 - Supports both pooled and bifurcated accrual approaches
 - Supports true straight-line accrual, vest-tranche straight-line, and tranche-by-tranche (FIN 28) accrual
 - Displays accrual for each vest tranche
 - Applies estimated forfeiture rates
 - Automatic true up for changes to forfeiture rate
 - Trues up for forfeitures at vest (static) or termination (dynamic)
 - Deferred Tax Asset calculations based on grant-level or input tax rates
 - Shows expense with and without forfeiture rates grant-by-grant or tranche-by-tranche
 - Projects expense for an unlimited number of future fiscal periods
 - Supports straddle grants (grants granted prior to the adoption of FAS 123(R) with some disclosed and some recognized expense)
- **Termination True Up Solution**
 - If pooled approach is used, trues up expense at termination based on original and new vest dates reached at the time of termination
 - Subtracts expense accrued to-date to arrive at true up amount
- **DTA/APIC Solution**
 - Includes original and incremental expense when calculating DTA to reverse and excess or deficiency impact to APIC
 - Calculates Windfall/Shortfall (excess/deficiency) APIC/Tax Expense for tax provision
 - Determines APIC impact based on status of each vest tranche (forfeitures of replacement grants may impact APIC because they are “expirations” under the original terms of the grant)
 - Deferred Tax Asset calculations based on grant-level or input tax rates
- **Diluted EPS program**
 - Where feasible, leverages the Diluted EPS Calculations of the stock plan database - only adjusting calculations where necessary
 - Uses both the previously accrued DTA plus any incremental expense for the necessary tax benefit and average unamortized calculations as a part of the buy-back share calculations for diluted EPS under the treasury stock method prescribed by FAS 128
 - Recalculates impact on quarterly Diluted EPS based on modification accounting for tax benefits (and in some cases accrual)
 - Assumed Proceeds
 - ✓ Tax Benefit
 - ✓ Average Unamortized Expense
 - ✓ Total Assumed Proceeds
 - ✓ Total Buyback Shares
 - Dilutive vs. Anti-dilutive comparison and categorization
 - If dilutive, dilutive shares (outstanding less buyback) are added to the dilutive shares total.

SOS Custom Solutions for Modification Accounting: Additional Features

- Customized to your specifications
- Solutions can be implemented at your site and can be written in Microsoft Access or as Oracle scripts, or can be run by SOS subject matters to your requirements
- Training on use of the tools, and documentation providing formulas underlying the calculations are provided with these programs