

Using Customized Equity Awards Solutions to Compensate for Covid-Related Lost Wages

Retaining talented employees helps a company safeguard its value. Due to this, many companies opted to temporarily reduce salaries and/or furlough employees rather than downsizing when the COVID-19 pandemic hit, impacting businesses last year.

Amid continued economic uncertainty, interest in creative equity awards solutions focused on supporting employees and retaining talent while preserving company cash is growing. This is especially true for small and mid-sized companies.

NEW CLIENT SCORECARD

- Created new employee shareholders
- Potentially retained talent
- Preserved cash flow during economic uncertainty
- Met tight grant deadline

AST'S INTEGRATED SERVICES MODEL

AST is a leading provider of ownership data management and analytics to public and private companies as well as mutual funds. Our comprehensive product set includes transfer agency, employee stock plan administration, proxy solicitation and advisory, private company solutions, and bankruptcy claims administration services. D.F. King and Donlin, Recano & Company, Inc. are AST companies.

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CHALLENGE

In late 2020, a Nasdaq-listed medical specialties company with about 6,000 employees approached a member of AST's Equity Plan Solution (EPS) team. The company needed a customized solution to quickly pay employees who had been furloughed due to the COVID-19 pandemic.

To compensate furloughed employees for lost earnings, the company wanted to issue restricted stock, have it vest immediately, sell shares to cover taxes and deliver all net shares to the employees' accounts. The company also wanted to complete the process (which usually may take up three months) within five weeks to meet an April 1 grant deadline.

SOLUTION

AST's EPS unit deployed an all-hands-on-deck approach to execute its new client's plan and meet the tight grant deadline set by the company's board of directors. The process usually begins by uploading and reconstructing the complete history of its new client's equity awards plan prior to becoming its agent. In this case, AST reversed its process and started by creating shell accounts for the company's furloughed employees.

AST then added new grants, applied the appropriate tax rate for each account and sold the shares in the market on behalf of the account holders. The last step was loading the plan's history into the AST system.

"With such a short turnaround, changing the order of implementation was crucial to the success of the client's plan," said Jeff Cohen, executive vice president at AST Equity Plan Solutions. "Typically, uploading and reconstructing a plan is a time-consuming process that involves detailed reconciliations."

RESULTS

AST's new client is relieved to have their salary issue resolved. "Most importantly, AST's solution offered a way for the company to use equity compensation as a vehicle to show loyalty to its employees," said Cohen. Through this equity awards transaction, about \$5 million worth of shares were transferred to the company's roughly 3,000 employees who were furloughed during the pandemic.

"In addition to promoting loyalty by creating new employee shareholders, giving employees back lost wages with stock, instead of cash, preserved the company's cash flow," he explained.

Because the equity awards transaction went so well, the client asked AST to execute a similar equity awards transaction for a larger group of employees. The next round in the equity awards program will transfer shares to 4,000 employees who experienced a salary reduction during the pandemic. According to Cohen, this second transaction affirms the client's confidence in the process and support AST's team of experts provides.

