



Show Me the Money: Ways to Save in Equity Comp

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Webinar Materials

<http://www.sos-team.com/PDFS/2009Save.pdf>



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Agenda

Survey Data

Ways to \$ave

- Online Grant Agreements
- Online Statements
- Broker Choices
- Eliminate certificates
- Report Customizations
- Eliminate Manual Data Entry
- International
- ESPP/ISOs - Track DDs
- Online ESPP Enrollment



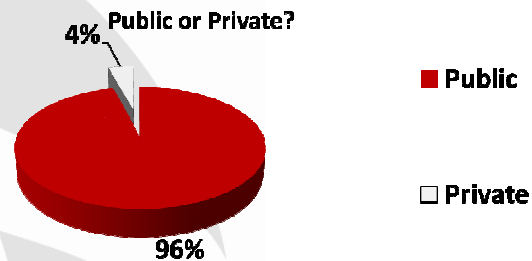
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\$urvey Data

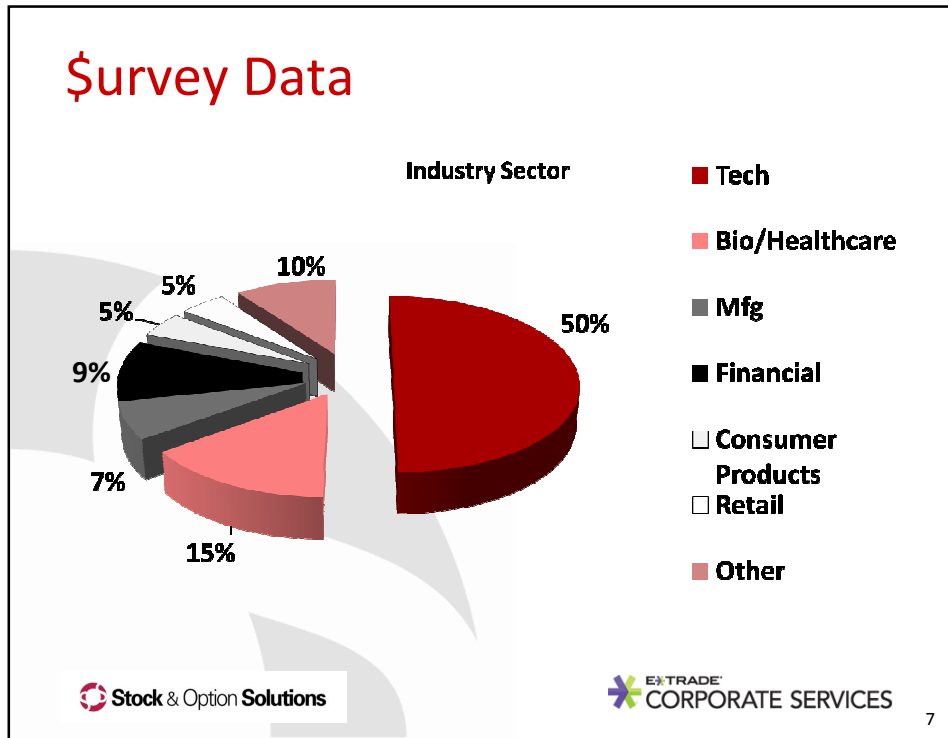
Survey begun in February 2009

91 responses from issuing companies

Follow up interviews conducted with some companies



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Why Now?

Obviously.... current economic environment
 Companies are considering changes to

- Save out of pocket expenses
- Do more with less
- Streamline & reduce

Some changes that were "unheard of" due to a given company's culture are getting a second look

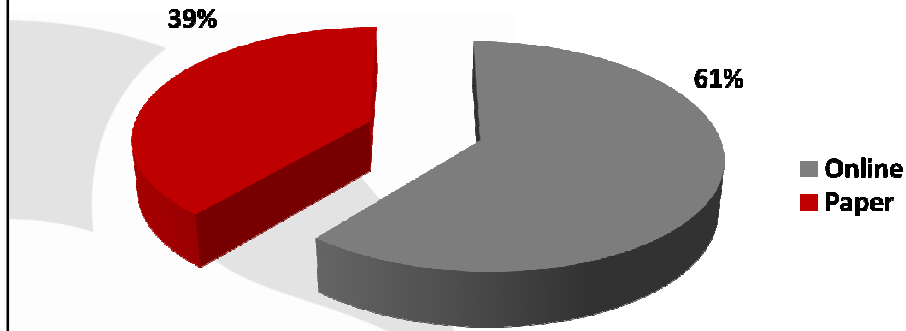
Some may seem "obvious" to many of you, but based on survey results, not obvious to all...



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Online Grant Agreements

Method of Distributing Grant Agreements

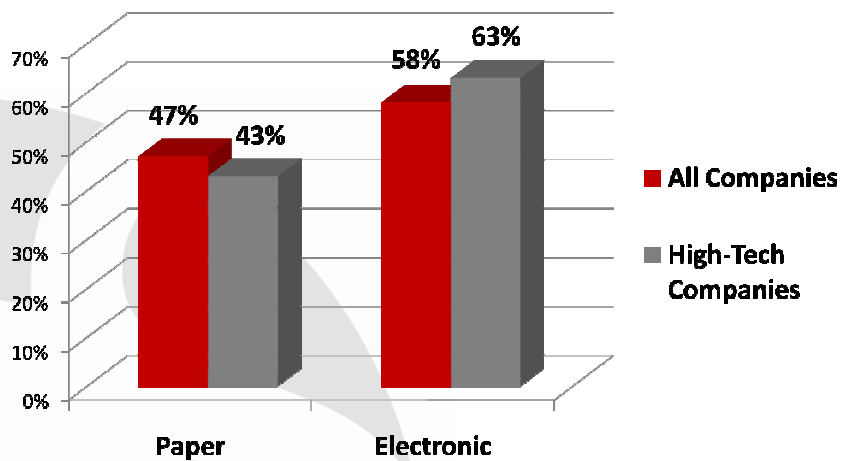


*SOS Survey Data



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Online Grant Agreements



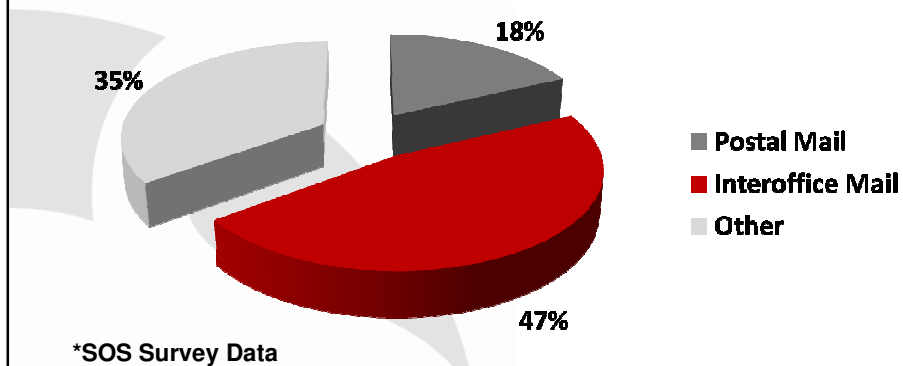
*NASPP Survey Data



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Paper Agreements

How are paper grant agreements distributed?



Online Grant Agreements

How do they \$ave?

- Paper, toner, envelopes – only nominal
- Postage
 - If distributing via postal mail / FedEx / registered mail
 - If broad-based plan, postage costs can really add up, especially internationally (\$10 per package?)
 - Return envelopes? Twice the cost!
- Time!
 - Stock plans: Printing, paper jams, reprinting, checking work, collating (cover letters, plan documents), verifying addresses, labeling, stuffing envelopes,
 - Participant: Receives agreement more quickly
 - Acceptance does not have to be entered manually
 - Remember that grant agreements must be distributed in a “timely” manner for accounting purposes



Online Grant Agreements

How do they \$ave? (continued)

- Risk!
 - Mistakes when stuffing envelopes manually
 - Participant can print at home, in some cases, avoiding printing sensitive documents to shared printers
 - Lost in the mail (outbound & inbound!)
 - Interception! (Especially international)
 - Address information, company info – could lead to identity theft

Online Grant Agreements

Other Survey Answers:

- Paper for BOD Only
- Paper for non-US participants
 - If electronic signature not acceptable
 - Consider Distributing Electronically & Print, sign & mail as alternative – still saves \$/time on postage
 - With most providers, translation requirements do not make online more difficult than paper
- Still require hardcopy signatures on the agreements
 - Show them survey data on what other companies are doing
- Managers deliver to participants
 - Can do a letter with a few details hand-delivered and still reap benefits of online distribution

Online Grant Agreements Costs

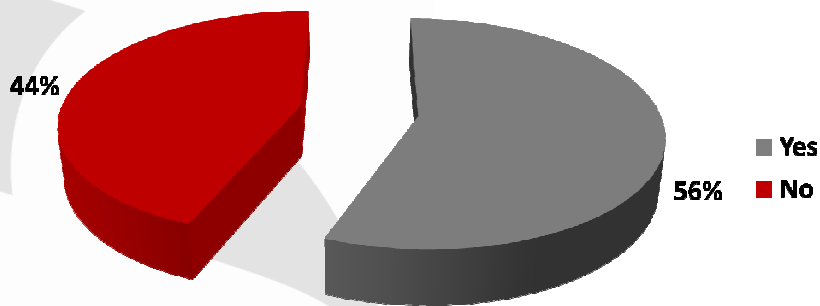
Number of Grants	750
Number of Pages	7
% of Domestic	85%
% of Int'l	15%
Mailing Time per Agreement (in minutes)	12
Agreement Entry Time per Agreement	1
Time Spent (in hours)	162.5
Print Cost Per Page	\$0.01
Cost per Envelope	\$0.015
Total Dom Postage	\$529.13
Total Int'l Postage	\$82.03
Print Cost	\$52.50
Envelope Cost	\$11.25
Total Materials Cost	\$674.91
Staff Cost per Year (includes benefits, etc.)	\$65,000
Cost per Hour	\$30.78
Total Time Cost	\$5,001.18
Total Cost	\$5,676.09



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Online Plan Documents

Does your company distribute plan documents only via intranet or website and not in paper?



*NASPP Survey Data



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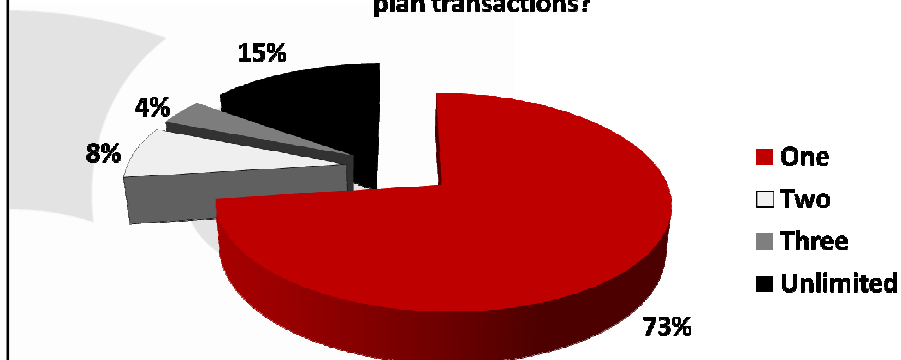
Other Online Possibilities

E-mailing statements / online statements

- Vendors now supplying functionality
 - In some cases may require upgrading to a newer version of the software
- Other solutions are available for other confirmations/statements

Broker Choice

How many different brokers can your (non-executive) employees choose from for all or some of their stock plan transactions?



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Broker Choice Changes

How does limiting broker choice \$ave?

- Less work for stock plans group/dept
 - Importing exercises from / distributing RS/RSUs to two (or more) sources
 - Reconciling with multiple vendors
 - Filtering employee data to send to only one vendor (prevents fraud & marketing to participants)
 - **One company interviewed allowed unlimited brokers – spent whole day on 15-20 exercises**
 - Now is the time to change, while there aren't as many transactions for many companies

Broker Choice Changes

How does limiting broker choice \$ave?

- Simpler/better for participants
 - Too much choice can cause confusion
 - Often save participant money because of “corporate rate” (volume discounts) on transfers and sales
 - Depending on your culture, many employees prefer self-service
 - Many brokers offer training to participants on equity compensation & additional benefits
 - Phase in gradually to mitigate employee concerns
 - Employees more understanding about cost saving measures in challenging times

Broker Choice Changes

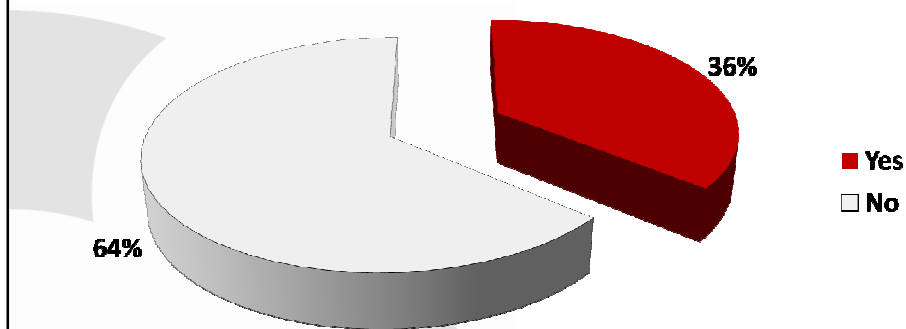
How does limiting broker choice \$ave?

- Captive relationships are valued more by provider
 - Faster/higher quality of service
 - Lower fees



Issuing Certificates for Common Stock

Do you allow participants to choose to have shares issued in certificate form?



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Issuing Certificates

How does avoiding certificates \$ave?

- Costs money to issue certificate
- Pay for mailing (FedEx/Registered mail)
- Errors in creation of the certificate
- Lost certificate
 - TA must ensure certificate not held by someone else
 - Pay 10% of value of original stock cert
 - Who pays? Participant or Company?
 - Are you willing to take the risk?
- \$aves time!
 - Write letters to TA and fax & mail to issue certificates with instructions
 - May \$ave participant value - faster turn around
 - Avoid participant disputes over time delays & value
- International Issues



Issuing Certificates

Alternatives to issuing certificates:

- Deposit shares with captive broker
 - Use as default / standard – be consistent
 - Limits # of shareholder accounts, limits costs/avoids thresholds
- Deposit shares via DRS into TA Account
 - Avoids lost certificates
 - Employees can self-serve to move or sell shares

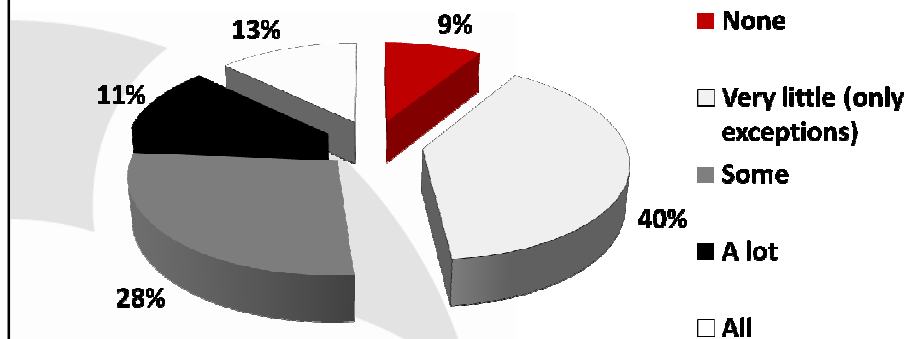
Issuing Certificates for Unvested RS

How does avoiding certificates \$ave?

- Legended stock certificates sometimes cost more
- If share withholding at vest, have to take certificate back to Transfer Agent, reissued with net shares
 - Costs on both ends
- Securing of certificates while unvested
 - Safe on premises?
 - Secure filing?
 - Who has access? All under SOX controls!
- Alternatives:
 - Hold shares in escrow at your TA
 - Issue RSUs instead of RSAs

Manual Entry

How much employee / HR / Payroll data do you enter manually into your stock plan software/system?



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Manual Entry

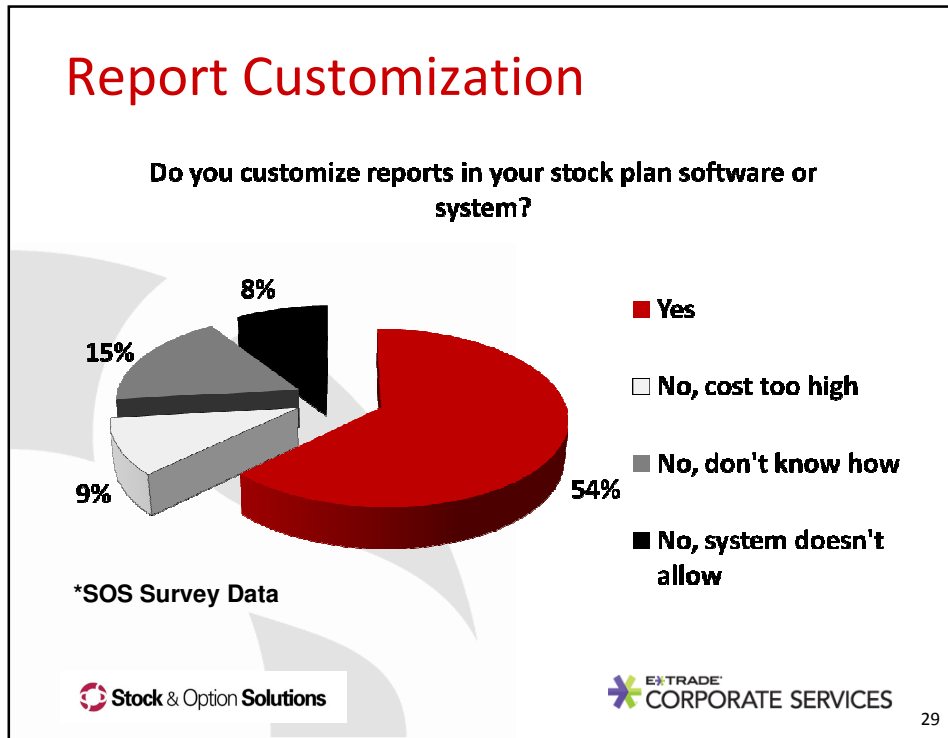
How does importing/exporting/automating data \$ave?



- Reduces risk
 - Reduces chances of typing mis-keyed entries
 - Reduces chances of grants going to wrong person
 - Reduces need for SOX controls
 - Anything automated reduces SOX controls
 - Auditors love automation
 - Reduces single point of failure
 - Often increases system knowledge across various departments

Manual Entry

How does importing/exporting/automating data \$ave?

- \$aves time
 - Fast and easy Data Entry
 - Reduces reconciliations (ongoing, quarter-close, year-close)
 - Still check but not data point by data point
- If feed is entirely automated, no chance for manual intervention, even better controls



- ## Report Customization
- ### How does report customization \$ave?
- Saves time
 - Avoids manual entry
 - Avoids manipulating data in spreadsheets once exported
 - Reduces risk
 - Less chance of error
 - SOX/Auditors don't like manual manipulation of data/spreadsheets
- 

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Report Customization

How does report customization \$ave?

- Enhance/streamline processes
- Examples
 - Exporting data in a format that can be imported into payroll
 - Avoids manual formatting of data in spreadsheet software
 - Add a user-defined field to Options & Awards report

Get Current (Versions)

Software users: Are you on the latest version of your provider's software?

If not, which new features would \$ave?

- Examples
 - Features for newer instrument types?
 - Performance shares/dividends on Restricted stock
 - Corrections for issues?
 - Workarounds no longer necessary
 - Automation tools?
 - Online participant communications, new/updated import functions

Compare cost to upgrade to savings via new features

Limited IT resources?

- Consider outsourcing upgrade

International

Cost/benefit analysis of equity in various countries

- Compare costs...
 - Employer (and employee) Social taxes
 - Special filings
 - Onerous calculations
 - Administrative burdens
- ...to Benefits
 - Are other companies offering and you can't remove and stay competitive?
 - Greater value to employees than cash?
- Tax qualified plans – better tax rates?
- Other Considerations
 - # of participants in the country
 - Number of participants is not always the right test
 - Some countries require filings regardless of # of participants



A Selection of Especially Challenging & Costly Countries

China
Denmark
India
Israel
Italy
United Kingdom



International

Review compliance status in each country

- Avoid costly penalties, interest, litigation
 - Example: UK massive penalties for failure to file form 42 correctly

Chargebacks

- What are they?
 - Grants to participants in non-US countries
 - No US tax deduction because no US tax paid
 - Expense is moved to books of the subsidiary
- How do they \$ave/benefit?
 - May result in tax deduction in that jurisdiction
 - Also good way to move cash from subsidiary to US
 - In some countries, cash movement is required to obtain tax deduction

International

Use the right advisors

- Value of specific global equity practice
- Using US counsel (or consultants) for non-US issues can result in higher costs
 - Firms that specialize have
 - Experience with the international issues you have or may encounter
 - An existing network of international advisors
 - US counsel don't always have int'l expertise
 - Example: US counsel drafted award agreements
 - » Failed to include necessary data privacy terms for Germany
 - » Left company open to potential labor litigation

Quarter Close Processes

Finding backdating transactions

- Know software/provider's function
 - Many vendors have added reports/functions to help you find these before they throw off balances
 - Run reports for grants with grant date < quarter begin date and "last modified date" > quarter begin date
- If not... Invest in a comparison tool
 - "Diff" Q1 2009 (run today) with Q1 2009 (run last quarter – saved in e-copy)

Quarter Close Processes

Conduct regular audits throughout the quarter

- At least monthly
- Reduces last minute work (and minimizes surprises)

Communicate with other departments in advance

- (Terminations from HR, global entities)

Work with your vendors

- Make sure all transactions are processed
- Any adjustments are made prior to quarter end

Prep your transfer agent

- Ensures outstanding issuances dealt with quickly

Restricted Stock & Basic EPS

Restricted Stock released during the quarter should not be counted “in full” against Basic EPS

- Should be “weighted” for time outstanding during period
- Especially important when
 - Large release occurs
 - Release is late in the quarter



Restricted Stock & Basic EPS

Begin Date	End Date	Total Days in Period	Release Date	Shares Released	Days Outstanding During Period	Percent of Period Outstanding	Weighted Shares for Basic EPS Inclusion
1/1/09	3/31/09	89	1/15/09	90,000	75	84.27%	75,842.70
1/1/09	3/31/09	89	2/15/09	90,000	44	49.44%	44,494.38
1/1/09	3/31/09	89	3/15/09	90,000	16	17.98%	16,179.78
1/1/09	3/31/09	89	3/25/09	90,000	6	6.74%	6,067.42

Restricted Stock & Basic EPS

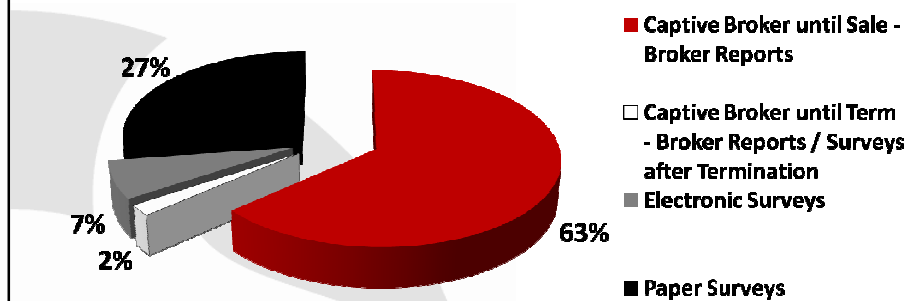
Earnings for Quarter	Common Stock Outstanding	Basic EPS Before	Without Weighting	Total Without Weighting	EPS Without Weighting	Weighted Shares	Total Common Stock	EPS After Weighting
\$12,750,000	28,000,000	0.46	90,000	28,090,000	0.45	75,843	28,075,843	\$0.45
\$12,750,000	28,000,000	0.46	90,000	28,090,000	0.45	44,494	28,044,494	\$0.45
\$12,750,000	28,000,000	0.46	90,000	28,090,000	0.45	16,180	28,016,180	\$0.46
\$12,750,000	28,000,000	0.46	90,000	28,090,000	0.45	6,067	28,006,067	\$0.46



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Disposition Tracking

How do you track ESPP Dispositions?



*SOS Survey Data



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Tracking Dispositions

How does better Disposition Tracking Save?

- Disqualifying dispositions = corporate tax deductions
- More/better data on dispositions = better tax break

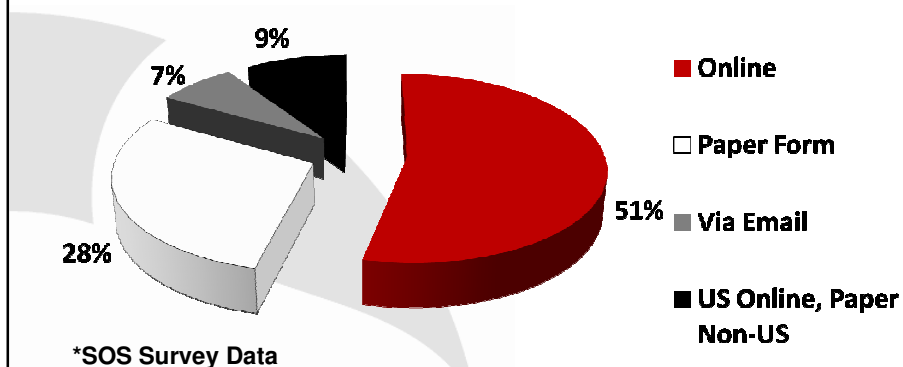
Tracking Dispositions

Ways to improve/increase data?

- Let your broker do the heavy lifting
 - Restrict transfers – require participants to hold shares at captive broker(s)
 - Choices
 - » Until sale (most aggressive)
 - » Until holding period is over (for ISO only)
 - » Until termination
 - Participants can sell at any time, simply cannot transfer to another firm
- Put your surveys online
 - Depends on culture – are your employees tech-savvy?
 - If so, may improve response rates due to ease of response

Online ESPP Enrollments

How do your employees enroll or change their election in the ESPP?



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Online ESPP Enrollments

Easy to automate

- Enrollments
- Changes to contribution %
- Withdrawals
- Individual's statements



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Making Your Case

You can't automate/change everything at once
 Prioritize – biggest cost/time savers first with lowest cost

Cost/benefit analysis is key

Data Points

- How much \$ do you spend on ...
 - Start collecting data on how much time you spend on ...
- How much time does it take you to...
 - Assign an hourly cost to your department's time (HR should be able to help with this)
- How much will it cost to implement....
- What is the ongoing fee...
- How much time will ... \$ave you?



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