



Opting for Outstanding Outsourcing

Paula Woodman, Director Client Services
Charles Schwab & Co., Inc.
Henley Hom, Principal
Stock & Option Solutions, Inc.

Disclaimer

The following discussion and examples do not necessarily represent the official views of **Stock & Option Solutions, Inc.** or **Charles Schwab & Co., Inc.** with respect to any of the issues addressed. Moreover, this presentation and the views expressed by the individual presenters should not be relied on as legal, accounting, auditing, or tax advice. The outcome of any individual situation depends on the specific facts and circumstances in which the issue arises and on the interpretation of the relevant literature in effect at the time.

Webcast Materials

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

Please note that the URL is case-sensitive!

3



Agenda

- Why has your company outsourced your stock program and what does it mean?
- What type of Outsourcing does my company want or have?
- What makes Outsourcing successful?
- How should my department be organized with an outsourcer?
- What can I review and analyze about my internal process and reconciliations?
- Ongoing partnership with the outsourced vendor
- Goal and Metrics



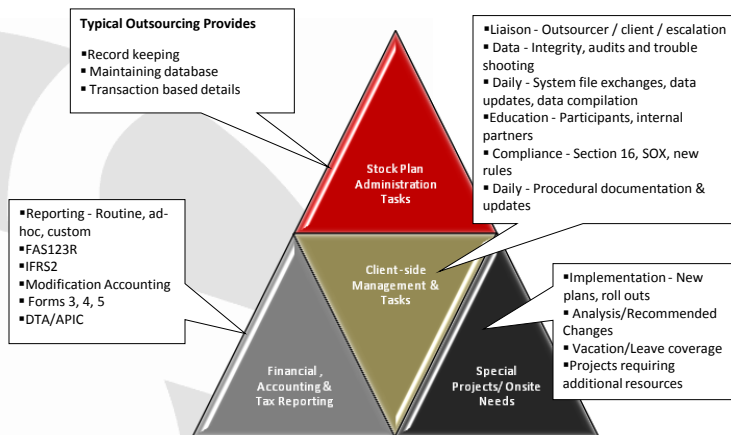
Why Do Companies choose to Outsource?

- It will save the company \$\$.
- I need to be more strategic and have several other responsibilities .
- I don't have the Expertise to handle the administration.
- I don't have the IT staff or systems to effectively and efficiently administer the program.
- I don't want to deal with the management and processing of transactions (options, restricted stock, ESPP).
- It's not a full-time job for my company but requires oversight.
- I just want the mess to go away!
- I don't want the risk(s) associated with timing or delivery!
- All of the above.



What is Outsourcing?

Partially Outsourced vs. Fully Outsourced



6



Outsourcing Success

- Identify and document roles and responsibilities with outsourced vendor
- Identify escalation points on both sides and distribute contact information
- Incorporate outsourced vendor as part of your internal team (regular communication, planning, changes)
- Have good checks and balances between the various departments and your outsourced vendor
- Share best practices and process improvements

7

 Stock & Option Solutions

Sample Responsibilities

Outsourcer Responsibility

Record keeping
Maintaining / backing up database
Implementing new plans*
Transaction-based participant support
Education, customer service, communication*
Works within defined boundaries
Compliance*
Process and procedural updates within scope of outsourcer
Special projects and implementation of new programs*

Company Responsibility

Liaison between outsourcer/client
Escalation point
Data integrity and trouble shooting file exchange and data issues
Implementing new plans*
Education, customer service, communication*
Compliance*
Process and procedural updates outside scope of outsourcer
Special projects and implementation of new programs*

**Shared responsibilities*

 Stock & Option Solutions

Sample Jobs and Responsibilities

Grant Approval Process	Issuer Company	O/S Provider
Receive authorization (UWC) from the Plan administrator such as the Board, Comp Committee, or Executive Officer.	X	
Communicate equity instruments with all detailed information to vendor/outsourcer	X	
Load data into systems		X
Distribution of Grant packages and Plan Docs.		X
Follow-up with Acceptances		X

Task/Responsibility	Issuer Company	O/S Provider
Enter and maintain Fair Market Values		X
Process Exercises and Releases		X
Tax and share withholding for U.S. and Non U.S. participants	X	X
Issuance and cancellation of shares to the Transfer Agent	X	X
Various Types of communication with participants	X	X
Determine FAS123R assumptions and audit expense	X	X



REVIEW INFRASTRUCTURE AND ANALYZE INTERNAL PROCESS FLOWS



What should I analyze and review?

Flow of Data

- What type of data does my outsourcer need?
 - Human Resources
 - Payroll and work location
 - Financial Information
- How is source data communicated?
 - Generally by Excel spreadsheet and/or Template(s)
 - E-mails or "Special Requests"
- When is the data transmitted?
 - Daily or Monthly?
 - When activity changes
- What type of confirmation or reports do I need to receive?



Does my vendor/Outsourcer have access to data?

- Address information for all employees-U.S. and Non U.S.
- Termination/Rehire Dates and Reasons
- Retirement eligibility Dates
- Section 16 Officers, Insiders, employees vs. Non-employees
- Work location and YTD Compensation
- Guidance/information for FAS123(R) Valuations
- Groupings, Cost Center, and timeline



Sound Internal Process Flow

- Global database for HR and payroll systems
- Have automated file feeds created from your HR and payroll
- Minimize changes to your termination dates and modification to your grant information
- Create or modify your plans for ease of administration
- Implement ongoing audit and periodic reconciliation as part of the process

13

 Stock & Option Solutions

Examples Audit Process and Reconciliations

- Validate who has access and authority to make or request changes to the database
- Monthly reconciliation with the Transfer Agent
 - Control Log of detailed transactions
 - Periodic reconciliation of Book Shares
- Audit Exercises and releases to payroll's W-2 income to ensure file transfer are properly working
- Validate outstanding shares with "Active" and "Terminated" employees
- Roll forwards and activity tie out by period

 Stock & Option Solutions

More Helpful Tips On Reconciliations

Types

- Period to period, quarter-to-quarter, year-to-year
- Stock Plans to HR
- Stock Plans to Payroll

Methods

- Spreadsheet functions (vlookup)
- Access database

Best Practices (seem obvious, but...):

- SAVE soft / e-copy of EACH report at period close
- SAVE back up copy of database at period close

15

 Stock & Option Solutions

Some Common Errors

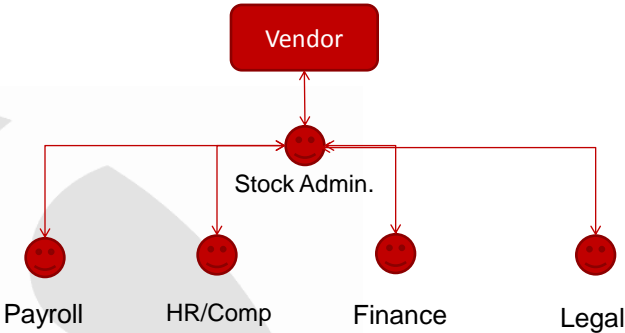
- Poor communication between departments and outsourcer
 - One department assumes it's someone else responsibility
 - Departments don't know what their responsible for
- Lack of audit and control processes
- Trying to fit a "Circle" in a "Box"
- Assuming the current processes will work with your outsourcer
- Lack of expertise/resources
 - Need to identify risk areas

 Stock & Option Solutions

BEST PRACTICES FOR WORKING WITH YOUR OUTSOURCE PROVIDER

Communicating with your Vendor/Outsourcer

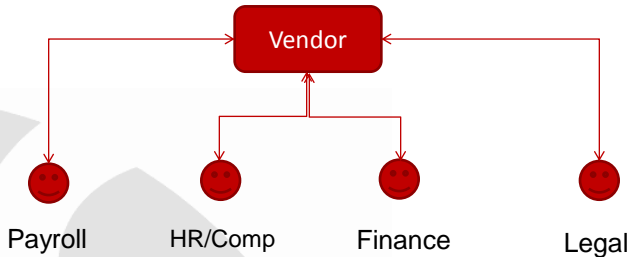
•Centralized- Stock Plan administration is point of contact for inquiries, reports, and information



Advantages	Disadvantages
More Oversight/Control of information.	Additional headcount or resources needed.

Communicating with your Vendor/Outsourcer

•Decentralized-Each department is responsible for specific function.



Advantages

•More expertise when addressing problems

Disadvantages

•More difficult to identify missed assignments

19

Common Best Practices

- Pre-Audit of data prior to any conversion or starting point
- Dedicated resources for implementation and outsourcing
- Identify what's outside the process
- Learn and follow your vendors communication process
- Create and report on measurable goals for participant communication
- Get feedback on your efforts

20

Sample Goals and Metrics

Vendor

- Response times for participant as well as corporate staff.
- Turnaround time for data input and report generation.
- Surveys to participant base for feedback.

Internal Stock Administration

- Number of correction(s) due to stock administration activity.
 - Number of Late Form filings
 - Number of W-2c's issued
- Processes and responsibilities have been documented.
- Grant process has all the necessary approvals, communicated, and tracked.
- Activity is reconciled on time between period to period closes.
- Plan information is updated and accessible to participants.

21

 Stock & Option Solutions

Tips from the Experts

- Know the standard turnaround times for data input and report generation.
- Set-up periodic calls with outsourcer/Manager.
- Be respectful and courteous to your account manager.
- Be fair and honest with all vendors. They are always interested in knowing how to improve their services.
- Set expectations appropriately. Understand what the outsourcer will and will not do for you.

22

 Stock & Option Solutions

How to Get What You Want?

- Understand the relationship between the partnership.
- Ask for it and follow-up.
- Find other clients to share your experience and knowledge
- Participate on the Advisory boards if you are invited.
- You need to be flexible and accommodating to the outsourcer as well.

23

 Stock & Option Solutions

Questions?

Contact Information:

Paula Woodman- (Charles Schwab & Co., Inc.)

E-mail: paula.woodman@schwab.com

Direct: (720) 785-8037

Henley Hom (Stock & Option Solutions, Inc.)

E-mail: hhom@sos-team.com

Direct: (408) 979-8705

24

 Stock & Option Solutions