

## Taking the Pain Out of Year-End



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## Webcast Materials

[www.sos-team.com/PDFS/yearend.pdf](http://www.sos-team.com/PDFS/yearend.pdf)



## Agenda

- Top Five Common and Painful Mistakes
  - Tax
  - Communication
  - Dispositions
  - Failure to Restock Toolbox
  - Failure to Prepare for Next Year
- Top Five Automation Secrets
  - Emailing / Electronic Participant Communications
  - Automating Reconciliations
  - Recording Webcasts
  - Stop the Spreadsheet Madness!
  - Leverage Your Provider



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## TOP FIVE YEAR-END MISTAKES



### Mistake 1: Tax Mistakes

- Sending out 1099s for terminated employees instead of W-2s
- Failing to send out 6039 participant statements
- Resetting YTD Taxes too early
  - RS/RSU vests in 2009, but doesn't "settle" until 2010 – should use SS Limit / YTD Supp from 2009
- Tax Advisors: Don't include cost basis correctly – employee taxed twice
- TAs sending out 1099-DIV for Divs on Restricted Stock
  - Should be W-2, not div income



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## Mistake 1: Tax Mistakes

- Inaccurate W-2s
  - Payroll doesn't match Stock Plan database
  - Manual data entry
- Inaccurate 1099 – MISCs
  - Accounts Payable doesn't match Stock Plan database
  - Manual data entry
  - Outside Directors!
    - Important to report correctly
- International
  - Reconciling with international HR/Payroll systems
  - 1042 for Non-US participants
  - Sending US tax forms to Non-US employees?
    - If no local payroll because of small employee base in that country

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## Avoiding Tax Mistakes

- Know your tax rules
  - W-2 for terminated employees!
    - 1099-MISC only for NON-employees, 1042 for Non-US employees
  - Educate yourself – attend NASPP year-end tax webcast - December 10th
  - If new types of equity – learn correct reporting, then educate internal partners
  - Know tax forms / requirements for non-US participants
- Tax Advisors: Don't include cost basis correctly – employee taxed twice
  - Include educational materials with year-end participant communications that explains how to fill out tax forms
    - Keep them brief, and don't give advice!
  - Point employees toward educational materials provided by your vendor!

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## Avoiding Tax Mistakes

- Vendor sending out 1099-DIV for Divs on Restricted Stock
  - Should be W-2 income, not div income
  - Talk to your vendor / TA to ensure that unvested restricted stock shares are coded differently in record-keeping system and 1099Divs will not be sent
- Audit with payroll / accounts payable – automate it! (more later)
  - Remember A/P as other internal partner with whom to coordinate
  - List of 1099 /1042 recipients
  - Don't forget to reconcile with international locations
  - Plan with payroll



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## Mistake 2: Mistakes in Communication

- Employee
  - Not providing the information they need
    - Taxation
    - Planning for future
    - How to use their equity compensation
    - Where to go with questions
  - Call with questions
  - Need duplicate tax forms
  - Too much information – doesn't get read
  - Failure to set expectations with employees re: timelines



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## Avoiding Communication Mistakes

- Employee
  - Informational package
    - Placement of ordinary income
    - Placement of taxes withheld
    - What's coming next...?
    - FAQs
    - Intranet? Pre-emptive email?
  - Report(s) – upcoming vestings, releases
  - Process for exercising, releases
  - Contact details – Stock Plan Services, Broker, Payroll, HR



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## Mistake 2: Mistakes in Communication

- Other Departments / Stakeholders
  - Don't communicate effectively
  - Failure to deliver what's expected
    - Incorrect materials
    - Not on time
  - Last minute requests (fire drills), quality suffers
  - New Players each year - Processes unfamiliar
  - Incorrect W-2s / tax forms
    - Unreported QDs/DDs
    - Multi-state participants
    - Timeline to get corrected forms from payroll provider

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## Avoiding Communication Mistakes

- Internal Departments
  - Cross-functional meetings (i.e. payroll, A/P, providers, etc.)
  - Effective project management
  - List of deliverables / schedules / deadlines / owners
  - Start early
  - Communicate often – status reports, etc.

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## Mistake 3: Disposition Mistakes

(Qualified plans only!)

- Failing to survey participants
- Failing to send out surveys in advance
- Failing to get survey responses back from participants
  - Reporting income when employee doesn't respond
- Failure to get surveys to terminated participants
- Failing to include discount from qualifying dispositions of ESPP on W-2s!



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## Avoiding Disposition Mistakes

- Educate yourself – be aware of the requirements
  - Discount from purchase (15% or 5%, etc.) is W-2 included income even for *Qualified* Dispositions
- Start sending out surveys early
  - Consider quarterly!
- Follow up with participants from which you haven't heard
- Consider putting surveys online – may increase participant (depends on your participant base)
- Updated addresses for terminated accounts – easier to do if you start early!
  - Track personal email addresses for terminated participants?

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## Mistake 4: Failure to Restock Toolbox

- Have your skills gotten rusty since last year?
- Waiting until end of year to dust off / refresh on process
- Finding your process/automation issues when days or weeks are left
- Not discussing system changes with vendors early – causes last minute issues with process / mailings, etc.
- No time to react



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## Avoiding Failure to Restock Toolbox

- Brush up your tactical skills to ensure ability to execute year-end processes efficiently
- Which skills?
  - Spreadsheet / reference functions
  - Mail merge / Word processing functions
  - Database skills
- Start dusting off processes NOW – perform dry runs, don't wait until it's time to DO the work to find the problems
- Vendor enhancements / upgrades
  - Learn changes to system that impact year-end now, not at year-end

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## Mistake 5: Forgetting to Prep for 2010

- Failing to reset YTD Taxes
- Failure to check / reset plan limits
- Failing to forecast plan lives for upcoming years – running out of shares unexpectedly?
- Failure to change / update tax rates
- Failure to review international plans / limits
- Failure to reconcile from stock plans database to HR/Payroll
  - Forgetting about decentralized HR systems
  - Backdated terminations
- Failure to discover changes in plans / compensation strategy for new year



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## Remembering to Prep for 2010

- Reset YTD Taxes
  - But not too early!
- Check / reset plan limits early
- Forecast plan lives for upcoming years
  - Calculate burn rate – compare to plan balances
  - Meet with finance folks and find out what you can do to help with forecasting
- Review / update tax rates
  - Get payroll involved – give them some ownership?

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## Remembering to Prep for 2010

- Review international plans / limits
  - Talk to international counsel now about changes for 2010
  - Use NASPP and GEO to understand changes – great sources
- Reconcile from stock plans database to HR/Payroll
  - Automate, automate, automate!
  - Quarterly, then monthly? Then weekly? Then daily –very little to catch up on
- Talk to HR about changes in plans / compensation strategy for new year
  - Buy coffee, bring donuts

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## TOP FIVE YEAR-END AUTOMATION SECRETS



### Secret 1: Emailing / Electronic Participant Statements / Communications

- Purposes
  - Required for Section 6039 (423-ESPP & ISOs)
  - Tax Documents
  - Participant Statements
  - Disposition Surveys
- Benefits
  - Saves time: No stuffing envelopes, paper jams
  - Saves money: No temps, postage, paper, envelopes
  - Reduces risk: Can't put wrong statement in wrong envelope
- Methods
  - Mail Merge
  - MS Access
  - Provider Website



## Secret 1: Mail Merge Steps

- Run report from which data will be taken
  - Provides a “one-stop shop” instead of pulling data from multiple tables / linking tables
  - Should contain email address
  - Easiest for one transaction per email
- Export Report
- Create Mail Merge Document
  - Type = email
- “Point” mail merge at Data Source
- Insert fields from Data Source onto Template document
- Preview
- Merge



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## Secret 1: Section 6039 Participant Statements Electronic Delivery

- Must comply with all the requirements applicable to issuing Forms W-2 electronically
  - Must obtain the participants' consents
  - Obtain consents in a manner which demonstrates they can access the statements electronically
  - Must be a method by which participants can revoke their consent
  - Must have a system for dealing with undelivered emails
  - IRS Reg §31.6051(1)(j) for the full list of requirements
- Since SSN is required, generally not good practice to e-mail SSN outside corporate firewall.

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## Secret 1: Practical Implementation of Email Participant Statements for 6039

1. Email request for consent to all participants
  - Include required disclosures re: duration of consent, how to revoke consent, how to get paper copy, etc. in text or as attachment to email
2. Participant can reply with consent or print attached form, sign, and return to stock plans
3. Track consent in participant record in user-defined / extra field (Yes, this is manual entry)
4. At end of year send to:
  - Only those that consented OR all
  - Be sure to send paper copy to those who did NOT consent (no reply = no consent)

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## Secret 1: Online Disposition Surveys

- Low-cost / free survey providers
  - Include ID as “optional field” when importing email addresses
  - Send email with link to survey via survey tool
  - Import response back into stock plan database (using ID as key)
- Reduce the NUMBER of paper surveys
- Ask if participant has sold any company stock this year?
  - Explain benefit to company AND importance for THEIR tax reporting
- If yes, send a paper survey
- If no, don't send
- Hold a raffle for a prize to all those who respond

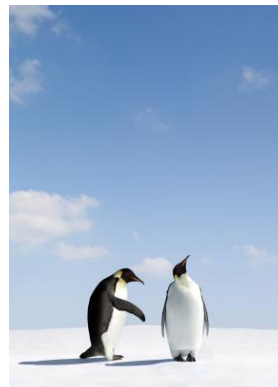


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## Secret 2: Automate Reconciliations

- 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 (seems obvious, but...):
  - SAVE soft / e-copy of EACH report at period close
  - SAVE back up copy of database at period close



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## Audience Poll

- How many know how to use vlookup()?
  - Know it well, use it often
  - Have used it before, sometimes causes me problems
  - Heard of it, don't know how to use it
  - What's vlookup()?
- How many use MS Access for reconciliations?
  - Know it well, use it often
  - Have used it before, sometimes causes me problems
  - Heard of it, don't know how to use it

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## Secret 2: Vlookup() Function

- Vlookup()
  - Value to find
    - Grant #
    - Grant # + Vest Date
  - Table (array / data source) to find it in
    - First column MUST be Value (Grant #, etc.)
    - Use select function
    - Last quarter's report?
  - Which column to return (# of column) from table
  - FALSE (want exact match, not a range)
  - =VLOOKUP(C2,[Expense.xlsx]1'!\$C\$2:\$O\$26,13,FALSE)

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## Secret 3: Record Webcasts for Employee Education

- Employees
  - Need education
  - Are less likely to READ documents about your plans / tax reporting / etc.
  - More likely to view webcasts – even if recorded
  - Record once, replay unlimited times
- Topics
  - Overview of tax forms / other communications
  - Plan Basics
  - Options / ESPP / RSU Overview
- Vendors
  - Your company is likely to have an account for online meetings already – reuse it!
  - Low-cost alternatives out there



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## Secret 3: Record Webcasts for Employee Education

- Best Practices
  - Dry Run on Live Audience
    - Incorporate questions asked
  - Use pause function, if available, between slides
  - Monitor # of employees who playback via “register” function
    - Report to management your impressive statistics!
  - Keep them short – segment the information into digestible sections
  - Post on your intranet?

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## Secret 4: Stop the Spreadsheet Madness!

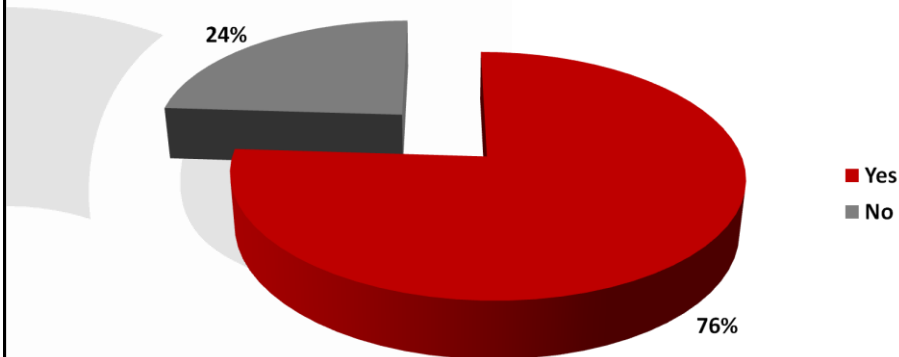
- Audience Poll:
  - Do you perform THE SAME manual manipulation of stock plan data in spreadsheets each quarter?
    - Yes
    - No, I have customized reports to my needs
    - No, my software/system provides all the reports I need

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## Secret 4: Stop the Spreadsheet Madness!

Do you use spreadsheets to calculate any final numbers used on your company's 10-Q or 10-K?



Source: NASPP Compliance-O-Meter for September 2009

[http://www.naspp.com/members/quiz/result.aspx?path\\_info=/members/quiz/result.aspx&path\\_info=/members/quiz/result.aspx&quizid=178](http://www.naspp.com/members/quiz/result.aspx?path_info=/members/quiz/result.aspx&path_info=/members/quiz/result.aspx&quizid=178)

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## Secret 4: Stop the Spreadsheet Madness!

- Level 1 Custom Reports
  - Change order of / rename columns
  - Reformat columns / remove blank columns
  - Avoid / remove merged columns
  - Your provider may have an interface that allows this online – if so learn how to use it!
    - If you have NEW year-end reporting needs – refresh your knowledge NOW
- Level 2 Custom Reports
  - Add data from a different data source (one-to-one relationships)
  - Add calculations



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## Secret 4: Stop the Spreadsheet Madness!

- Level 3 Custom Reports
  - Add data from a different data source (one-to-many relationships)
- Level 4 Custom Reports
  - Usually require database work (Access, Oracle, SQL Server, etc.)
  - Complex Calculations
    - Modification Accounting
    - Liability Accounting
    - M&A Accounting
    - DTA Reconciliation



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## Secret 5: Leverage Your Provider

- Upgrade to most recent version of your software
  - WELL BEFORE year-end
  - Newer features reduce/eliminate manual workarounds
- Attend vendor-provided (or third-party) trainings for software
- Talk to vendor's consulting group
- Talk to your account manager!



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