



Stupid Stock Plan Tricks: Saving Your Mind, Your Time, and Reducing Your Company's Risk

**Laura Reis, CEP, Stock & Option Solutions, Inc.
Sean Armijo, CEP, Stock & Option Solutions, Inc.
Paz Dizon, CEP, Tesla Motors**



Materials

- A link to the materials was sent to all registered attendees this morning.
- If you did not receive the email, materials are also available here:
- www.sos-team.com/pdfs/2011_02_Stupid_Stock_Plan_Tricks.pdf
- Please note that the URL is case-sensitive!



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Agenda

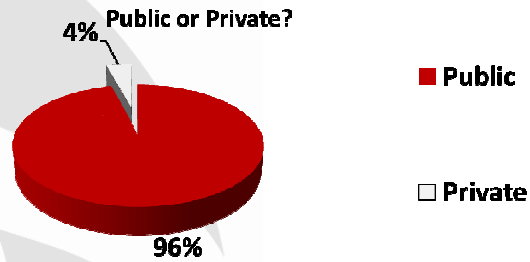
- Paper processes
- Manual data entry
- Period close reconciliations
- ESPP Enrollment
- Disposition surveys
- Section 6039 forms 3921 and 3922
- Custom Reports

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Survey Data

- Survey Data from 2009
- 91 responses from issuing companies
- Follow up interviews conducted with some companies



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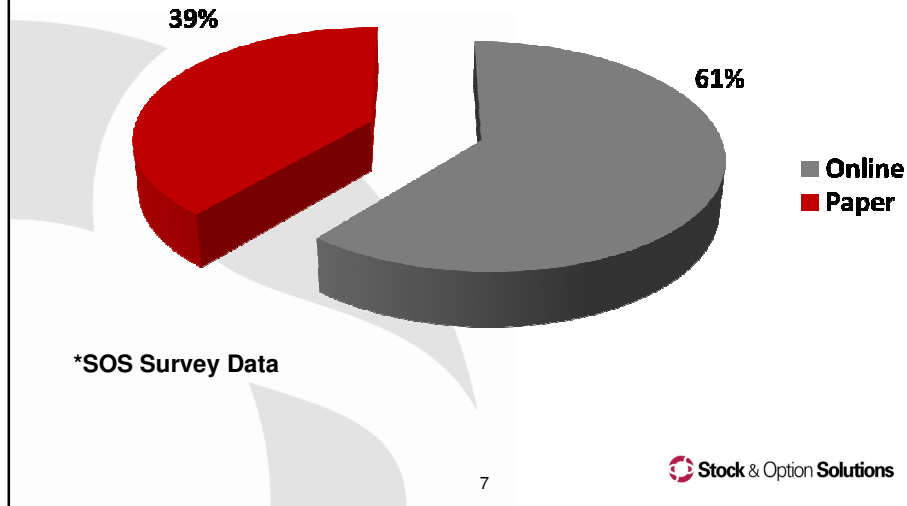


PAPER VS. ELECTRONIC GRANT AGREEMENTS

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Paper vs. Electronic Grant Agreements

Method of Distributing Grant Agreements



Why Are Companies Still Using Paper?

- Private companies
 - Not all providers / outsourcers have online abilities
- Growing companies
 - When it's just a few, paper works
 - As you grow...
- Distrust of electronic signatures?
 - Still true!
- Fear of technology
 - Until you've done it a few times, it seems *harder* not easier

Electronic Grant Agreements – Why?

- Save Money
 - Paper, toner, envelopes – generally nominal out-of-pocket cost
 - Postage
 - Can be very expensive, especially international
- Save 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 not entered manually
 - Address changes – automatic!

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Electronic Grant Agreements

- Avoid Risk!
 - Attach exact plan document / prospectus and keep what you sent – helps in litigation
 - 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

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Electronic Grant Agreements

- Other SOS 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 complicate the online process
 - Some still require hardcopy signatures on the agreements even with electronic distribution
 - Managers deliver to participants
 - Can do a letter with a few details hand-delivered and still reap benefits of online distribution

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MANUAL EXERCISE PROCESS

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Manual Exercise Process

- Private Companies
 - Notice of exercise
 - Investment representation / Lock up agreement
 - Calculation of tax withholding
 - Form of payment
- Exception Processes
 - Ex-Spouse / Beneficiaries
- Section 16 Officers / BOD
 - Outside of captive broker

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Alternatives to Manual Exercise Process

- Begin with baby steps until full automation is feasible
 - Set up electronic notice of exercise
 - When systems aren't in place, set up template to be populated by employee to ease administration
 - Prepare generic agreements when possible in advance, retain on file
 - Having the signed agreements in place can eliminate the need to have employee sign at each exercise
 - Set up routine payroll feeds to ensure proper tax withholdings
 - US more feasible, Non-US may still require intervention

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Transfer Agent Instruction Letters (DWAC)

- Manual Processes
 - Faxed copies vs. emails
 - Support documentation
 - Obtain wet signatures
- Steps to Automation
 - On-line system solutions
 - Standing authorization
 - Print to file, electronic approval signatures

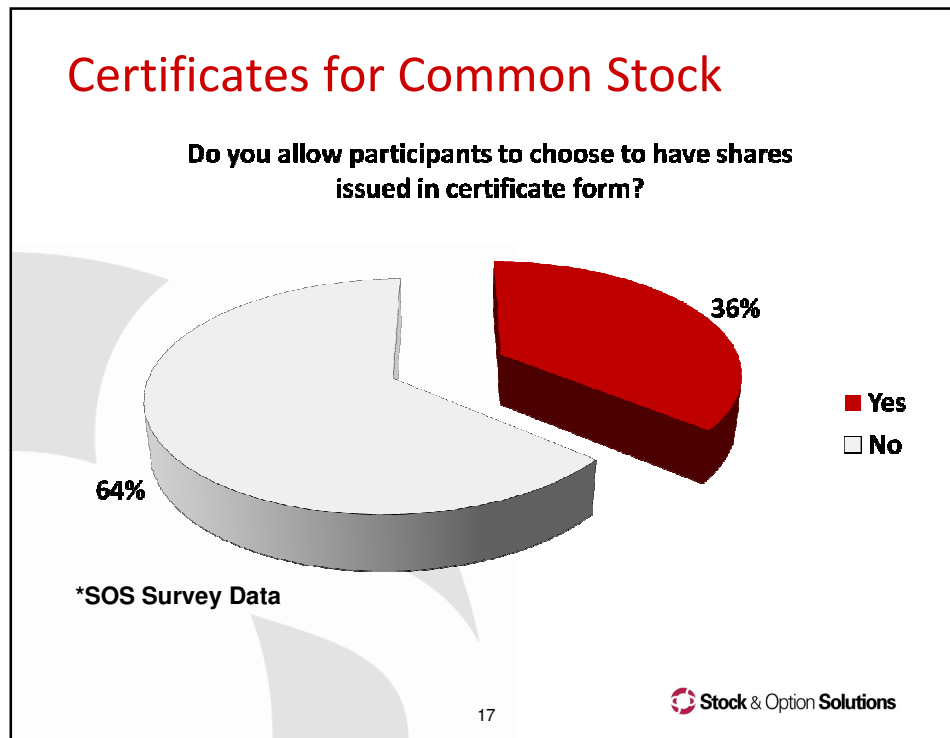
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ISSUING STOCK CERTIFICATES

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- ## Why Do Companies Still Issue Certificates?
- Restricted shares
 - Private company issuances
 - Affiliate shares require a legend
 - Custody of shares cannot be transferred electronically
 - Some lenders do not accept DRS statements as collateral
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Benefits to Avoiding Certificates

- Why eliminate certificates?
 - Section 6039 – deposit of shares at broker – avoid reporting “at transfer”
 - Costs money to issue and deliver certificate
 - Errors in printing of the certificate
 - Lost certificate - Expensive to replace
 - Saves time!
 - Participant & company time
 - Stock Splits & changes of address
 - Can go into escheatment

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Alternatives to Issuing Certificates

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

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Types of Communications

- Exercise / Purchase / Vest Confirmations
- Insider Blackout
 - Window open/closed notification
- Year-end Tax Summaries
 - Labels, cover letters
 - Manual mailing process
- Grant Acceptance Follow Up
 - Individual emails, phone calls

Ways to Get Communications Done

- Provider functionality
 - Some have reminders / emails / statements on website, etc.
- MS Word – Mail Merge
 - Easy to use for transactions where only one “row” of data is needed
- MS Access
 - Harder to learn up front
 - More powerful
- Push instead of pull
 - Employees are sent information rather than directed to logon to a website

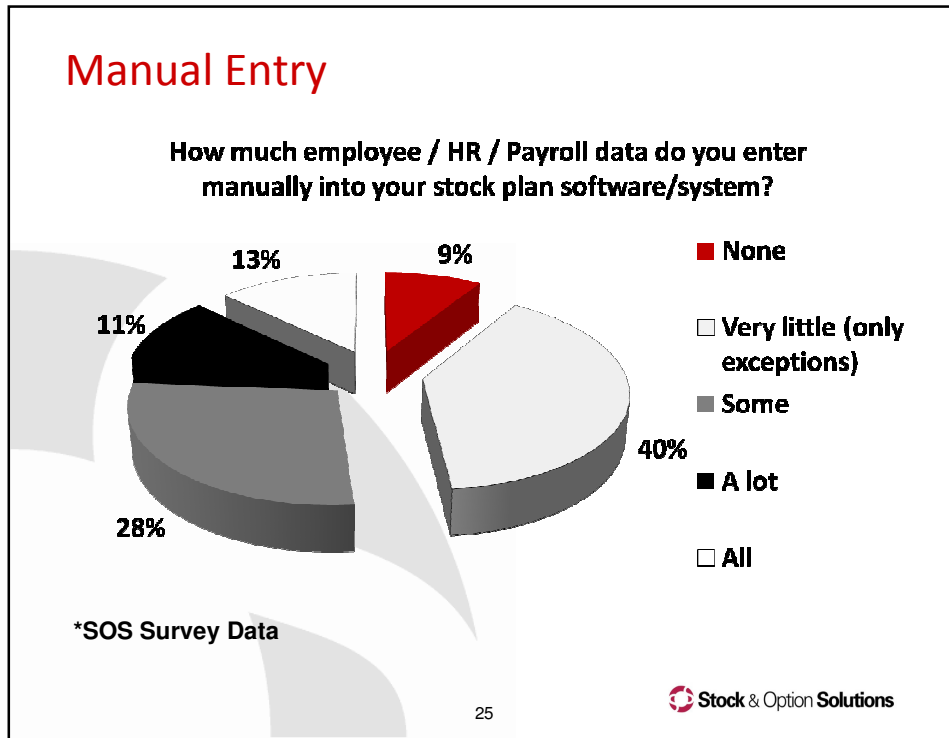
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MANUAL DATA ENTRY

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- ## Manual Entry
- Why Manual Entry?
 - Limited amounts of data to enter
 - Confidence or lack of confidence in process
 - Technical knowledge / resources
 - Not part of the stock administration department
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Manual Entry

- What are the benefits of Automation?
 - Reduces risk
 - Reduces chances of mis-keyed entries
 - Reduces chances of grants going to wrong person
 - SOX controls more supportable
 - Reduces SOX risk
 - Auditors love automation
 - Reduces single point of failure
 - Often increases system knowledge across various departments

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PERIOD CLOSE PROCESSES



Period Close Processes

- Finding backdating transactions
 - SAVE Softcopies EACH Quarter!
 - Excel!
 - PDF, if desired, for auditor and reference
 - 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)
 - Vlookup

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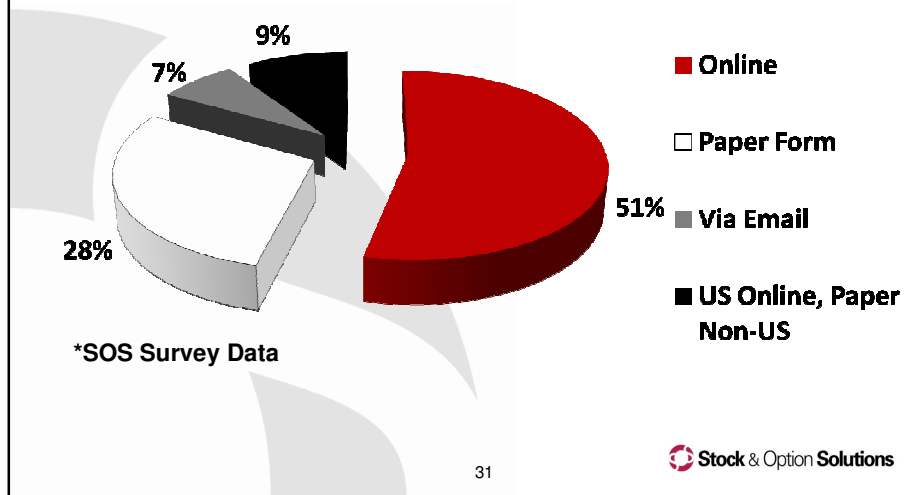
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ESPP ENROLLMENTS

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Online ESPP Enrollments

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

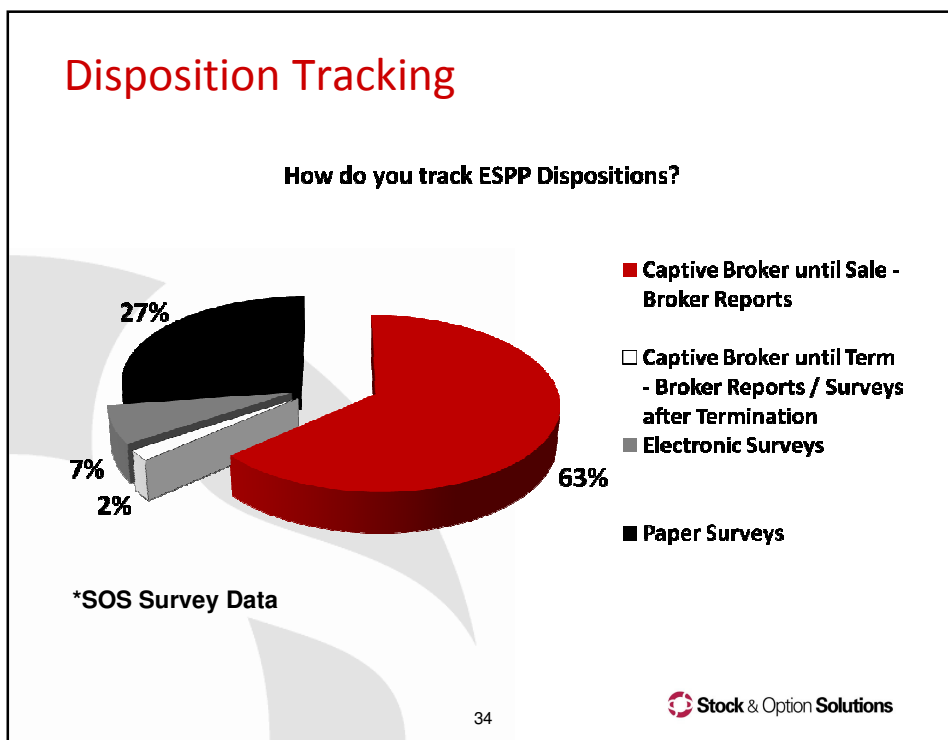


Online ESPP Enrollments

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



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Benefits of Electronic Disposition Tracking

- Do you want W-2s to be right?
 - Qualifying dispositions need to be tracked FOR ALL TIME
- Disqualifying dispositions = corporate tax deductions
 - More/better data on dispositions = better tax break
- Save on postage
- Save time
- Nearly all the same reasons as paper grant agreements....

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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

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SECTION 6039 – 3921 & 3922



Electronic 3921/3922

- Why?
 - All the same reasons for electronic communications
 - AND... **SSN is a REQUIRED field!**
 - Increases risk of paper distribution exponentially
 - Wrong form sent to the wrong person
- Extra Challenges
 - Requirements for electronic delivery are complex and include:
 - Consent obtained from participant (in a manner that demonstrates ability to access statement)
 - Disclosure re: duration of consent, how to revoke, etc.
 - Full list here: IRS Reg §31.6051(1)(j) (refers to W-2, but applies generally)

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Electronic 3921/3922

- How?
 - Methods:
 - Consent website
 - Email consent
 - Free online survey applications
 - Steps
 - Remind, remind, remind
 - Upload results into stock plan system
 - Send electronically to those who consented – paper to those who didn't

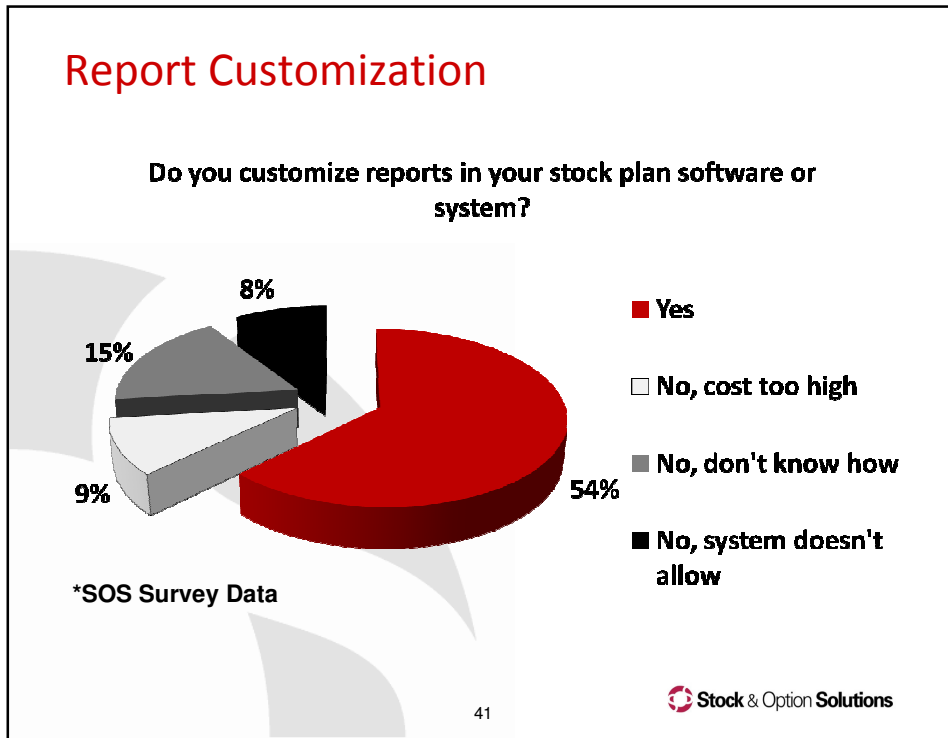
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MANUAL DATA MANIPULATION FOR REPORTS

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- ## Manual Data Manipulation
- Exporting data, reformatting, summarizing, pivot tables, etc.
 - Problems
 - Easy to make mistakes
 - Time-consuming
 - Not audit-friendly (SOX and financial)
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Benefits of Automating Data Manipulation/ Exchange

- More accurate solutions
 - Custom reports / MS Access / Crystal Reports
 - Year-to-date taxes
 - ESPP dispositions
 - Restricted stock releases
 - Total reward statements
 - Importing/exporting data / Automated exchange
 - Saves 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

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Report Customization

- 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

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Contact Information



Name Laura Reis, CEP
Title Director, Data Solutions / Outsourcing
6399 San Ignacio Avenue, Suite 100
San Jose, CA 95119 USA
Bus: (408) 979-8700
E-mail: lreis@sos-team.com



Name Sean Armijo, CEP
Title Sr. Equity Compensation Consultant
6399 San Ignacio Avenue, Suite 100
San Jose, CA 95119 USA
Bus: (408) 754-4616
E-mail: sarmijo@sos-team.com



Name Paz Dizon, CEP
Title Stock Administration
3500 Deer Creek Road
Palo Alto, CA 94304
Bus: 650.681.5971
E-mail: pdizon@teslamotors.com

