



6039: Nifty Ways to Make it Better

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Materials

- A link to the materials was sent to all registered attendees.
- If you did not receive the email, materials are also available here:
- http://www.sos-team.com/pdfs/6039_NiftyWaysToMakeItBetter.pdf



Disclaimer

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Agenda

- Nifty overview
- Meet the SOS 6039 Team / Roles
- Experiences of 2010
- Nifty ways to make it better
 - Consent website
 - Data audit
 - Participant portal
 - Electronic statements
 - Signed, Sealed, Delivered: Mailing Fulfillment
 - IRS e-file
- Questions?



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Nifty Overview

- What is 6039?
- Who is impacted by this regulation?
 - Company
 - Stock Plan Administrator
 - Employees
- How do we comply with 6039?
- When are the filings due?

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What is the IRS Section 6039 Regulation?

- The Not So Nifty Regulation:
 - Information reporting to IRS is required in addition to participant information statements
 - Special “Forms” Required for Reporting
 - IRS filing AND
 - Participant Statements
 - Expanded reporting requirements include information for ESPP statements
 - Goal is to provide necessary information for participants to complete tax returns

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Who is impacted by 6039?

- A few more tidbits:
 - Information reporting to IRS started with 2010 transactions
 - For most companies, the triggering event for both the employee statement and the IRS report will be the purchase/exercise
 - Assumes ESPP shares are deposited into brokerage account on behalf of employee upon purchase
 - Substitute forms for employee statements are allowed
 - Pursuant to instructions in IRS Publication 1179

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How do I comply with 6039?

- Filing with the IRS:
 - 3921 (ISOs) and 3922 (ESPPs)
 - Forms/instructions available on [IRS](#) website
- Instructions: <http://www.irs.gov/pub/irs-pdf/p1220.pdf>
 - If > 250 forms, must e-file with IRS
- Forms must also be used to report the same information to employees

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When are the filings due?

- *Participant reporting*: due January 31st
 - In year following the calendar year in which transaction occurred (next due date is 1/31/12)
- *IRS paper forms* filing: due February 28th
- *IRS e-filing*: due March 31st
- General filing information:
<http://www.irs.gov/pub/irs-pdf/i1099gi.pdf>
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Meet the SOS 6039 Team



- Roles at SOS
 - Logistics / Operations Management
 - The Nifty Technology
 - Data Solutions – Helping you maintain the data better and maintain better data
 - Fulfillment Solutions – a niftier way to deliver
 - E-Filing 6039, what could be better?

The problem is all
inside your head
They said to me
The answer is easy if
you
Take it logically
We'd like to help you
in your struggle
To be free
There are some
Nifty Ways

To make it better

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Experiences of 2010

- Data in need of tweaking
 - Duplicate Names / SSN
 - Incomplete / mixed addresses / country missing
 - ISOs treated as NQs
 - Leading zeros on employee data
- Parent company with multiple subsidiaries
- Data coming from multiple sources



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The logo for Stock & Option Solutions, featuring a red circular icon with a white 'S' and the text 'Stock & Option Solutions'.

Experiences of 2010

- When a company acquires another company
 - Acquirer can agree to assume the target's reporting obligations for the year
 - If the acquirer doesn't agree to assume the target's obligations, target is still required to:
 - file the returns with the IRS
 - distribute the statements to the employees

Nifty ways to make it better!



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Experiences of 2010 – Client Feedback



- SURVEY TOPICS**
- Client Experience/ Expectations
 - Project Kick-off/ Setting Expectations
 - Data Gathering / Review
 - Documentation throughout
 - Statement Preparation & Resources
 - E-Filing Services

What we Asked	Survey Says...	Coming in 2011
How well were your expectations met?	Average Score: 9.05 out of 10	Simplified contracts & partner synergy
How well did the data gathering and review process go?	Average Score: 9.14 out of 10	Pre-execution data audit & improved documentation
How satisfied were you with the creation of the 6039 participant statements?	Average Score: 9.12 out of 10	Sample cover letter and FAQs during sales cycle
How satisfied were you with the SOS mailing / fulfillment services?	Average Score: 9.13 out of 10	Extensive QA performed earlier in the process
How satisfied were you with the SOS 6039 IRS e-filing services?	Average Score: 9.27 out of 10	Updates to the project timeline



Nifty Ways to Make it Better

Consent Website

They said it's really not our habit to intrude
 Furthermore, we hope the meaning
 Won't be lost or misconstrued
 But we'll repeat again
 At the risk of being crude
 There are some Nifty Ways
 To make it better



Consent Website

The screenshot shows a web browser window with the title "Stock & Option Solutions". The page content includes a navigation menu on the left with "Home", "Tax Information", and "Transaction". The main content area says "Welcome to the 60:9 Consent collection website!" and "Your current consent status is: Yes". Below this, it asks "If you want to change your consent please select: the option below and hit 'Submit'" and provides two radio button options: "Yes" and "No". A "Submit" button is at the bottom. An "Administrator Message of the Day" box contains a note about an important message. An email notification is shown below the website screenshot, with the following text:

```

From: webdev@sos-team.com [mailto:webdev@sos-team.com]
Sent: Tuesday, November 16, 2010 11:34 AM
To: SOS-Website Development
Subject: Confirmation of Election

Date: 11/16/2010 11:34:28 AM PT

Dear Generic Admin,

You give us your consent to receive electronic email confirmation for
.....
    
```

- Customized colors, fonts, and logo
- Email notification, reminders and confirmation
- Consent data extract

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Nifty Ways to Make it Better

Data Audit

Just check out the back.....MAC

Get with the plan.....man



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Nifty Ways to Make it Better

- Data Audit
 - Multiple sources
 - Duplicate entries
 - Rehires
 - Incomplete or mixed address

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Nifty Ways to Make it Better



*Don't need to be coy, Roy,
Just get yourself free*

- Data Audit
 - Participant data
 - Missing or incomplete elements
 - Field length
 - SSN – check for same name but different SSNs and different names same SSN
 - 3921 & 3922 Audits
 - Check for missing or incomplete fields

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Nifty Ways to Make it Better

- Data Audits (continued)
 - 3921
 - Grant date is later than exercise date
 - Exercise date is not in the current tax year
 - Exercise is underwater
 - (Exercise Date FMV < Option Price)
 - Shares exercised is 0
 - Shares exercised are fractional



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Nifty Ways to Make it Better

- Data Audits (continued)
 - 3922
 - Purchase price greater than purchase date FMV
 - Purchase date not in current tax year
 - Incorrect enrollment date
 - Total purchased shares over limit
 - Purchased shares is 0
 - Purchased shares are fractional



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Nifty Ways to Make it Better

Participant Portal



Send it to us, Gus!
You don't need to discuss much
Just drop off the data keys
And get yourself free

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Participant Portal

- Year-end documentation
 - 3921
 - 3922
 - Tax statements (ESPP, Withholdings, etc.)
- Transactions
 - Exercises
 - Releases
 - Purchases
- Special Events
 - Tender Offers / Exchanges
 - Acquisition Statements

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Participant Portal

The screenshot displays the 'Participant Portal' interface. The main content area shows a table titled 'Latest Taxable Transactions' with columns for Document Type, Grant Number, Grant Date, and Transaction Date. Below this, a detailed view of a transaction is shown, including the company name 'Stock & Option Solutions, Inc.', the exercise of an Incentive Stock Option, and a table of transaction details.

Date option granted (Box 1)	Date option exercised (Box 2)	Exercise price per share (Box 3)	Fair market value per share on exercise date (Box 4)	No. of shares transferred (Box 5)	If other than TRANSFEROR, name, address, and EIN of corporation whose stock is being transferred (Box 6)
1/1/2007	1/7/2009	\$0.0	\$9.9	50.0	
1/1/2007	1/7/2009	\$0.0	\$9.9	50.0	
1/1/2007	1/7/2009	\$0.0	\$9.9	50.0	
1/1/2000	12/31/2009	\$0.0	\$9.9	1000.0	
1/1/2000	12/31/2009	\$0.0	\$9.9	1000.0	
1/1/2000	12/31/2009	\$0.0	\$9.9	1000.0	

Nifty Ways to Make it Better

Electronic Statements



They said it grieves me so
 To see you in such pain
 We wish there was something we could do
 To make you smile again

Participant Delivery

- Electronic delivery
 - Must comply with all requirements applicable to issuing Forms W-2 electronically
 - Must obtain participants' consent, with ability to revoke at any time
 - Obtain consent in a manner which demonstrates they can access the statements electronically
 - Scope and duration of consent must be disclosed
 - Provide means of obtaining paper statement, if desired

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More Nifty Technology

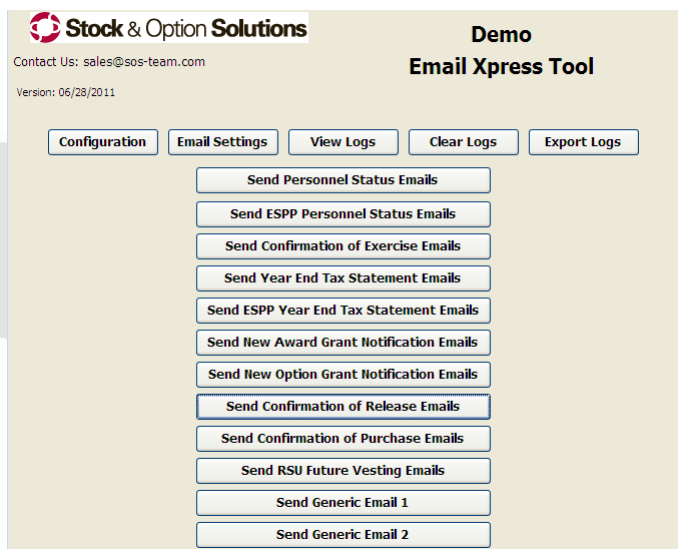
The screenshot displays the '6039 Xpress Application' interface. At the top, it shows the 'Stock & Option Solutions' logo and '6039 Xpress Application V-16.0'. Below this are navigation buttons for 'Configuration', 'Email Settings', 'View Logs', and 'Clear'. The main area is titled 'Form 3921' and contains several sections:

- Process Form 3921**: A list of buttons for 'Process Form 3921', 'Process Form 3922', and 'Process Corrections'.
- Help on Buttons:** A section explaining the functions of the navigation buttons: Configuration (Set Company Details, Path to the Data File and Email Settings), Email Settings (Set Email Subject, Memo, Sender Email ID and BCC ID), View Logs (View logs on Emails sent to Employees since the last clear), and Clear Logs (Delete the Email History).
- Create Form 3921**: A configuration panel with the following options:
 - Form Type**: Radio buttons for 'Original' (selected), 'Void', and 'Statement Correction'.
 - Employee ID**: A text input field with a note: 'To perform a task for an Employee or multiple Employees, separate the filter data (Employee ID) by a comma (,)'.
 - Output Options**:
 - IRS e-file
 - Employee Statements PDF
 - Employee Statements E-mail
 - Test Options**:
 - Test e-file
 - E-file
 - All
 - Non-Consent Only
 - Consent Options**:
 - Test e-mail
 - Send e-mail
 - All
 - Consent Only
 - Restart e-mail
- Buttons**: 'Start' and 'Close' buttons at the bottom.

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And More Nifty Technology



- Automated emails at one click
- Customized email format
- Multiple equity events

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Nifty Ways to Make it Better



*Signed, Sealed, Delivered:
Mailing the old fashioned way*

I said I appreciate that

And would you please *explain*
About the Nifty Ways

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Participant Delivery

- Paper delivery
 - Must be **postmarked** on or before January 31
 - Mailing considerations
 - Valid addresses (current and terminated employees)
 - Non-US mailing address
 - Bulk printing and mailing process, under tight deadlines
 - Printer, materials and supplies
 - Time and labor to fold, stuff and affix postage

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Nifty Ways to Make it Better

Signed, Sealed, Delivered *IRS e-File*

They said why don't we both
Just sleep on it tonight
And I believe in the morning
You'll begin to see the light

And then they filed it!

And I realized they probably were
right!

There are such Nifty Ways
To make it better!



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IRS Filing

- Requirements:
 - Types of records
 - Original
 - Corrected
 - Void
 - Files in standard ASCII code
 - Fixed width
 - Do not send paper AND e-file
 - Duplication = Penalties
 - Test files allowed
 - Generally accepted late in year preceding filing year
 - Files larger than 10,000 records should be compressed
 - WinZip & Pkzip only acceptable formats

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IRS Filing

- Electronic filing:
 - Filing Information Returns Electronically (FIRE):
<https://fire.irs.gov/>
 - Updates and changes to Publication 1220, Specifications for Filing Forms 1098, 1099, 3921, 3922, 5498, 8935, and W-2G Electronically (revised 7–2009)
 - May already file some forms electronically, so will not have to “apply”
 - If not, apply to e-file via form 4419 to obtain Transfer Control Code (TCC)

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IRS Filing

File Format

Each record must be 750 positions.



T Record
Identifies the Transmitter of electronic file

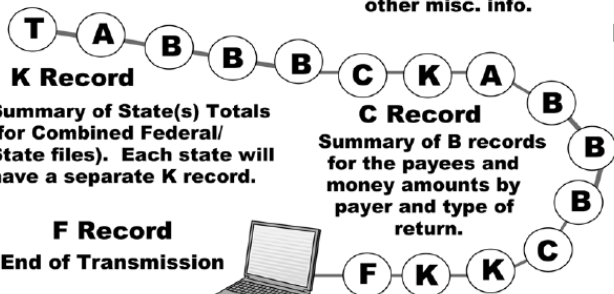
A Record
Identifies the Payer (the institution or person making payments) the type of document being reported, & other misc. info.

K Record
Summary of State(s) Totals (for Combined Federal/ State files). Each state will have a separate K record.

C Record
Summary of B records for the payees and money amounts by payer and type of return.

B Record
Identifies the Payee, the specific payment amounts and info pertinent to that form.

F Record
End of Transmission



IRS Penalties

- Penalties increased with the passage of the “**Small Business Jobs Act of 2010 (H.R. 5297)**”
 - http://www.rules.house.gov/111/LegText/111_hr5297_snamnd.pdf (section 2102)
- Failure to file with IRS
 - Due: March 31 (if electronic)
 - Late by 30 days or less:
 - Was \$15 per form, \$75,000 max
 - **Now \$30 per form; \$250,000 max**
 - Late by >30 days but filed by August 1:
 - Was \$30 per form, \$150,000 max
 - **Now \$60 per form; \$500,000 max**
 - Filed after August 1 or not at all:
 - Was \$50 per form, \$250,000 max
 - **\$100 per form; \$1,500,000 max**
- **NOW DOUBLE THAT for PARTICIPANT FILING**

Sample Substitute Aggregate Form - 3922

Stock & Option Solutions, Inc. 6399 San Ignacio Ave Suite 100 San Jose, CA 95119				Transfer of Stock Acquired Through an Employee Stock Purchase Plan Under Section 423(c) Tax Year : 2010 Form 3922 OMB No. 1545-2129 Copy B			
ORIGINAL				TRANSFEROR'S federal Identification number : 12-3456789			
Srinivas K'alakoti 886 S Gonderivine Cir Trx'Wbbdzmds, 77687 USA				EMPLOYEE'S Identification number : 123456789			
Date option granted	Date option exercised	Fair market value per share on grant date	Fair market value per share on exercise date	Exercise price paid per share	No. of shares transferred	Date legal title transferred	Exercise price per share determined as if the option was exercised on the date shown in box 1
(Box 1)	(Box 2)	(Box 3)	(Box 4)	(Box 5)	(Box 6)	(Box 7)	(Box 8)
1/4/2009	2/26/2010	\$9.00	\$10.50	\$9.89	6.07	3/26/2010	\$7.65
1/4/2009	3/31/2010	\$9.00	\$10.50	\$9.00	6.07	3/31/2010	\$7.65
1/4/2009	4/30/2010	\$9.00	\$10.50	\$9.00	6.07	4/30/2010	\$7.65
1/4/2009	5/28/2010	\$9.00	\$10.50	\$9.00	6.07	5/28/2010	\$7.65
1/4/2009	6/30/2010	\$9.00	\$10.50	\$9.00	6.07	6/30/2010	\$7.65

Instructions for Employee
 You have received this form because (1) your employer (or its transfer agent) has recorded a first transfer of legal title of stock you acquired pursuant to your exercise of an option granted under an employee stock purchase plan and (2) the exercise price was less than 100 percent of the value of the stock on the date shown in box 1 or was not fixed or determinable on that date.

No income is recognized when you exercise an option under an employee stock purchase plan. However, you must recognize (report) gain or loss on your tax return for the year in which you sell or otherwise dispose of the stock. Keep this form and use it to figure the gain or loss. For more information, see Pub. 525, Taxable and Nontaxable Income.

Account number: May show an account or other unique number your employer or transfer agent assigned to distinguish your account.

Box 1. Shows the date the option to purchase the stock was granted to you.

Box 2. Shows the date you exercised the option to purchase the stock.

Box 3. Shows the fair market value (FMV) per share on the date the option to purchase the stock was granted to you.

Box 4. Shows the FMV per share on the date you exercised the option to purchase the stock.

Box 5. Shows the price paid per share on the date you exercised the option to purchase the stock.

Box 6. Shows the number of shares to which legal title was transferred by you.

Box 7. Shows the date legal title of the shares was first transferred by you.

Box 8. If the exercise price per share was not fixed or determinable on the date entered in box 1, box 8 shows the exercise price per share determined as if the option was exercised on the date in box 1. If the exercise price per share was fixed or determinable on the date shown in box 1, then box 8 will be blank.

This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Practical Tips

- Get Started Now!
 - Get consent early!!
 - Learn the rules / requirements
 - Understand your choices
 - Discuss with internal partners
 - What is the budget?
 - Plan to get data to your provider(s) early

Nifty Ways to make it better!



Processes towards a Nifty 6039 Season

- SOS Can Do :
 - Gather consent
 - Data audit
 - Creating the file
 - Generate the statements
 - Audit of statements
 - Printing, stuffing, mailing of statements
 - Electronic delivery of statements
 - Collecting / distributing peripheral materials
 - IRS e-File



Nifty Ways to make it better!

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The logo for Stock & Option Solutions, featuring a red circular icon with a white 'S' and the text 'Stock & Option Solutions'.



Questions?



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SOS Suite of Solutions

Projects/Consulting

- Best Practice Assessment / Implementation
- Equity Accounting Assistance
- Custom Reporting
- Software Upgrades
- Stock Plan Training
- Participant Education & Communication

Transactions

- Mergers & Acquisitions
- Option Exchanges / Re-pricings
- Vendor Analysis & RFP
- Vendor or System Conversions
- IPO (pre and post)

Applications

- SOS Email Xpress
- SOS Xchange –data exchange
- SOS 6039 Xpress
- Tender Offer Website
- Online Grant Agreements
- Plan Participant Websites/Intranets

SOS People/Staffing

Tactical to senior experienced consultants

- Day-to-day assistance
- Coverage for vacancies
- Vacation, medical, maternity leaves
- Project assistance
- Backing during high-volume
- Throughout United States

Flexible lengths of assignments

- Full or part-time assistance
- On-site or remote
- Temp to perm Services

Dedicated call centers

- Tender offers
- New plan implementations
- High-activity periods

SOS Outsourcing

- A new kind of outsourcing
- Manage some or all aspects of your stock plans
- Financial, Accounting & Tax Reporting
- Special Projects and Onsite Needs



Contact Info

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