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SOS Solutions Webcast:
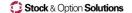**SOS ESPP Expense Application**

Please note this webcast does NOT qualify for CEP credit.

Julie Kenia, CEP, Stock & Option Solutions, Inc.
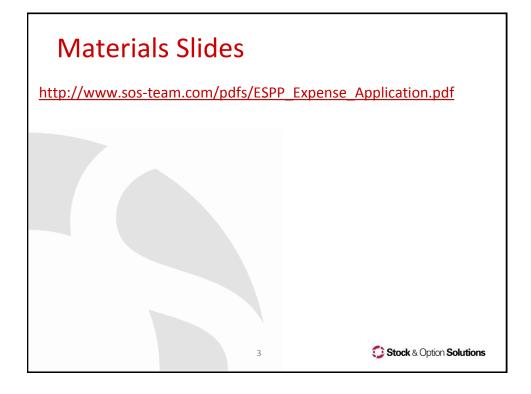
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Materials Slides

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Agenda

- ESPP Expense Overview
- What Does the Application Provide Clients
- Features of the Application
- Learn More

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ESPP Expense Overview

- Non-modification plans - simple
  - Basic stock option expensing
    - Estimate based on known factors
      - Estimated purchase cost
    - True Up based on actual outcome
      - Actual purchase cost
- Modification plans - complicated
  - New or incremental expense
    - Contribution increases – new expense
    - Reset/Rollover feature – incremental expense

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SOS ESPP Expense Application

- Bridging the gap
  - Not all equity platforms support ESPP expensing
    - No support
    - Limited support
      - Aggregate vs. Participant or Department Level
  - Support for modification accounting non-existent or limited
    - Contribution increases
    - Reset/Rollover feature

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Using Our Application

- Consistent output with detail and summary
  - Output in Excel format
    - Details at participant level
    - Summary at department level
- Reduces time required in creating expense for complicated plans
  - Systematically captures original and modification records based on plan rules and client data
- Replaces prior SOS ESPP Expense support
  - Excel file prone to human error

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How Does The Application Work?

- Client provides ESPP plan overview to SOS for evaluation
  - Plan document
  - Questionnaire
- SOS provides client with standardized input file "source data" along with instructions (paper and web meeting)
- Client sends SOS quarterly input file via secure email
  - SOS may use client's reports from their equity platform if they meet input data requirements

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How Does The Application Work? (continued)

- SOS uploads input file to Application (Access database)
- Application calculates:
  - Black Scholes Valuation for each purchase period
  - Estimated shares to be purchased
  - Estimated expense in total, by reporting period (including Forfeitures if applicable)
- SOS reviews output for completeness and provides to client via secure email

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How Does The Application Work? (continued)

- Client provides actual purchase detail following purchase date along with any updates for modification requirements
- SOS uploads purchase detail, and modifications to Application
- Modification records are created if applicable
- True Up reports are produced and reviewed by SOS for completeness prior to sending via secure email to client

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How Does The Application Work? (continued)

- SOS provides key data for auditing needs
  - Application documentation and description of all fields in output report
  - All source data as provided by client
- Availability to answer questions

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Key Application Functions - Basic

- Expense on straight line basis
  - Each purchase period within an offering is expensed individually based on client provided expected term, volatility, etc.
- Estimated shares for purchase are determined using estimated contributions, company imposed share limits and IRS $25K Limit in either Liberal or Conservative approach
- True Up is determined using actual purchase cost vs. estimated cost and the Fair Value of that purchase record

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Key Application Functions - Complex

- Contribution Increases/Decreases
    - Increases allowed in the current period are identified and modification occurs on the next reporting date in the purchase (i.e., increase effective 8/1, modification date will be 10/1)
    - Increases allowed in the next period are identified and modification occurs with the next purchase period begin date creating a second valuation record for those participants
    - Decreases are shown but ignored (no true up or modification required, used only to identify level of increase if multiple changes are allowed)

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Key Application Functions - Complex

- Resets/Rollovers
    - Second record created for each applicable period
        - Before and After valuations created
        - Incremental expense estimated
    - Multiple rollovers can be accommodated

NOTE: Current Application cannot combine contribution increases and reset/rollovers. Next phase will incorporate dual modification scenarios. SOS will identify material impact of contribution increases for client as a reference.

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Client Provides Inputs for Estimate

AsOfDate	Term1
2/2/2016	45.67%

Offering Date	Offering End Date	LookBack Feature	Price Limit	Beginning Offering Date FMV	Discount
2/2/2016	8/1/2016	Yes	No	10.50	15%
8/2/2016	2/1/2017	Yes	No	11.35	15%

Offering Date	Purchase Begin Date	Purchase Date	Share Limit Per Purchase Period	Forfeiture Rate	Expected Term
2/2/2016	2/2/2016	8/1/2016	500	10%	0.5
8/2/2016	8/2/2016	2/1/2017	500	11%	0.5

Emp ID	EmpName	Termination Date	UDF1	UDF2	UDF3	UDF4	Country
21		10/1/2015	R&D				USA
22			G&A				UK
23			R&D				USA

EmpID	OfferingDate	PurchaseDate	Deduction%	Est Contribution Per Purchase Period (USD)
21	2/2/2016	8/1/2016	5%	4071.35
22	2/2/2016	8/1/2016	3%	2627.91
23	2/2/2016	8/1/2016	5%	4912.80

PurchaseDate	ReportingBeginDate	ReportingEndDate
8/1/2016	2/2/2016	3/31/2016
8/1/2016	4/1/2016	6/30/2016
8/1/2016	7/1/2016	8/1/2016

➢ Data derived from plan rules and historical company information.

➢ Data obtained from HR/Payroll and enrollment elections
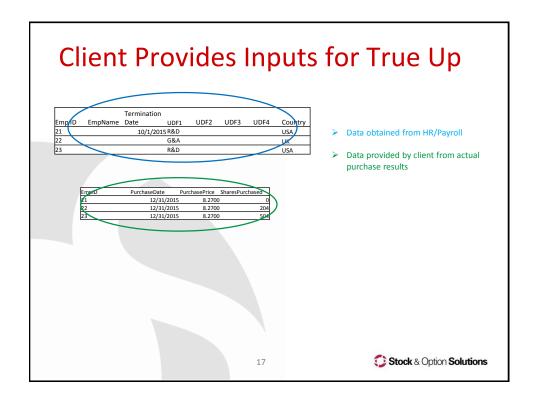
➢ Data provided by client = volatility rate for Expected Term(s)

➢ Client provides reporting dates

➢ Must use Unique Key Identifier (Employee ID)

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Estimated Expense Output

Purchase Date	Contribution %	Contribution Amount ($)	Offer Date FMV	Over $25K Limit?	Over Company Limit?	Estimated Shares (After Limits)	Fair Value	Total Expense ($)	Current Period Expense Inc Forfeitures 1 ($)	Current Period Expense Inc Forfeitures 2 ($)
12/30/2016	0.1	4309.11	7.63	No	No	664	2.9707	1972.54	991.66	980.88
12/30/2016	0.07	12055.68	7.63	Yes	Yes	807	2.9707	2397.35	1205.23	1192.12
12/30/2016	0.05	13125.06	7.63	Yes	Yes	807	2.9707	2397.35	1205.23	1192.12
12/30/2016	0.05	6003.27	7.63	No	No	925	2.9707	2747.9	1381.46	1366.44

Output includes detailed worksheet, summary page, Black Scholes valuation calculation and all source data used in the estimation.

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Client Provides Inputs for True Up

EmpID	EmpName	Termination Date	UDF1	UDF2	UDF3	UDF4	Country
21		10/1/2015	R&D				USA
22			G&A				UK
23			R&D				USA

➢ Data obtained from HR/Payroll

➢ Data provided by client from actual purchase results

EmpID	PurchaseDate	PurchasePrice	SharesPurchased
21	12/31/2015	8.2700	0
22	12/31/2015	8.2700	204
23	12/31/2015	8.2700	504

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Expense True Up Output

Estimated Purchase Cost ($)	Limit Applied?	Offer Date Fair Value	Total Expense ($)	Actual Shares Purchased	Actual Purchase Price After Discount	Actual Purchase Cost ($)	Actual Purchase Cost less Estimated Purchase Cost ($)	Decreased Contribution Amount impacting the Shares Purchased ($)	Net Purchase Cost Less Estimated Purchase Cost ($)	Variance Reason	True Up?	True Up Shares	True Up ($)	Adjusted Total Expense ($)
4126.98	No	3.0565	1525.19	0	8.27	0	-4126.98	0	-4126.98	Termination	Yes	-499	-1525.19	0
2663.1	No	3.0565	984.19	322	8.27	2662.94	-0.16	0	-0.16	Rounding and Cost Diff less than Purchase Price	No	0	0	984.19
2199.95	No	3.0565	813.03	270	8.27	2232.9	32.95	0	32.95	Salary Change	Yes	3	9.17	822.2

Output includes additional details related to the actual purchase and the true up.
Each record is tracked using the cost of the actual purchase vs. the estimated cost
to determine the appropriate true up and reason for the variance.

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Learning More

- SOS Sales Team can provide documentation and questionnaire
  - Set up an initial discovery call

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Contact Information

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