



SOS Educational Webcast: RSU Base Camp – Your Staging Area for the Climb Ahead

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Materials Slides

http://www.sos-team.com/pdfs/RSU_base_camp.pdf

Agenda



- Gathering Supplies** What is a Restricted Stock Unit and what do you need to know from the Equity Plan?

- Climbing Buddies** Who are the players involved and how are they affected?

- Safety Checks** What do you need on your checklists?

- The Descent** What is needed after the event?

- Q & A**



GATHERING SUPPLIES

Gathering Supplies - Definitions

Restricted Stock Unit (RSU)

- A restricted right to receive shares at some future date (may be subject to performance conditions)

Vest Date (a.k.a. Release Date or Lapse Date)

- The date the participant “earns” the shares. RSU is no longer subject to “substantial risk of forfeiture”

Subject to Forfeiture?

- If the participant leaves, will they keep or lose the shares?

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Gathering Supplies - Definitions

Constructive Receipt

- Actual delivery of shares

Deferral

- Defers the receipt of shares to some point after the scheduled vest date, generally for tax planning purposes

Employment Tax

- In the US – Social Security and Medicare
- Non-US – Depends on the country whether taxed at all

Income Tax

- In the US – Federal, State, etc.
- Non-US - Depends on the country, and may apply at sale date vs. vest date

DWAC

- Deposit/Withdrawal at Custodian (common type of share transfer)

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Gathering Supplies – Plan Info

What does your Plan and Agreement say?


- Retirement Eligibility
- Leave of Absences
- Part-time employment

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Vague on some issues?

- Get clarity from your Legal team
- Grant agreements can be improved to address ambiguity

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Gathering Supplies – Plan Info


Tax
Payment
Methods

- Do employees get a choice?
- Mandated methods in different locations
- Might depend on vest date versus trading window

Trading
Window

- If selling shares for tax, standard vest dates each quarter can help avoid selling in closed window

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Gathering Supplies – Plan Info

Performance RSUs (PSUs)

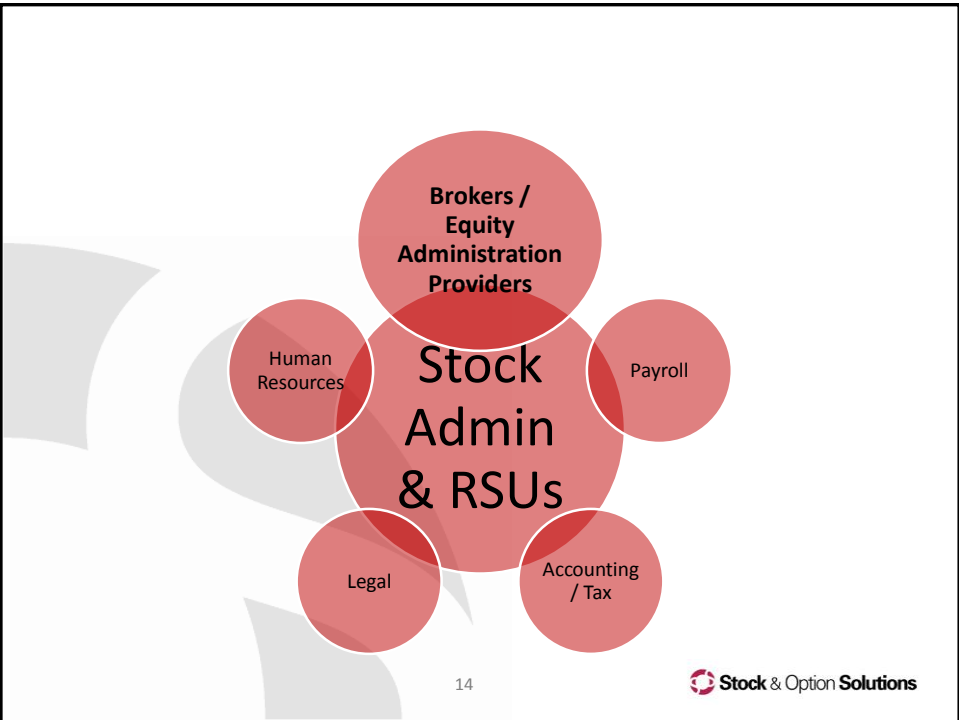
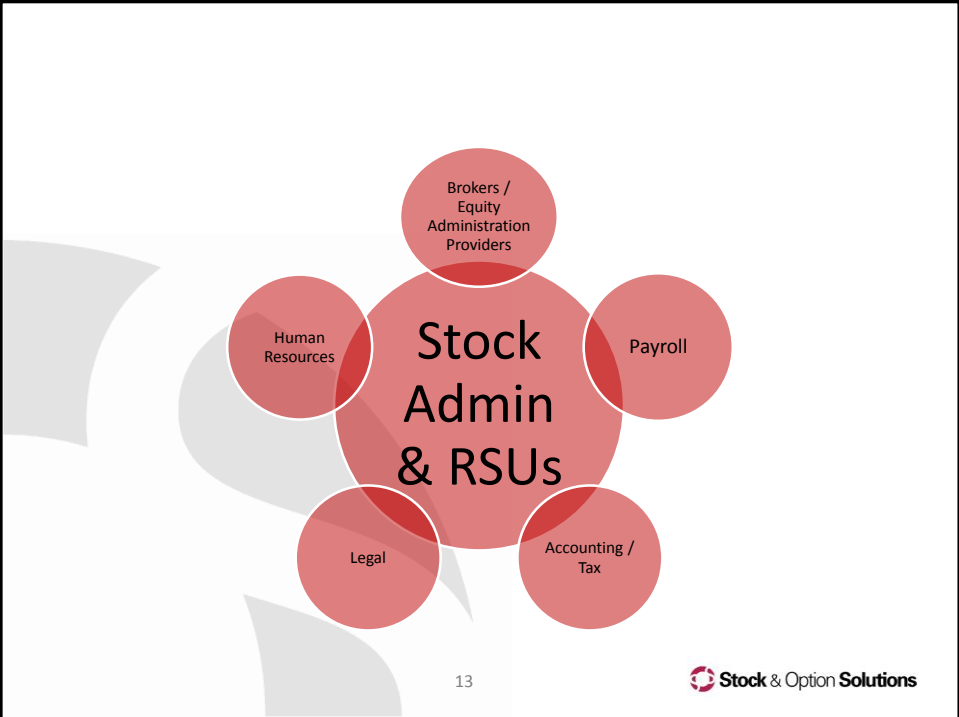
- Could have combinations of time-based vesting, metric-based performance, and market-based performance
- Check with your Equity Administration Provider for the best way to administer through the system (if it is possible)
- Accounting implications exist, so properly integrating into reporting is necessary

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CLIMBING BUDDIES

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Climbing Buddies – Brokers/Equity Administration Providers

Can typically assist with placing “block trades” when you have a big RSU release with sell-to-cover tax election

- Employees always want the best sale price possible

May help with administrative tasks

- Communicating grants and grant agreements, and collecting grant acceptance
- May offer ability to manage tax payment methods
- May manage the DWAC process after a vesting

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Climbing Buddies – Brokers/Equity Administration Providers

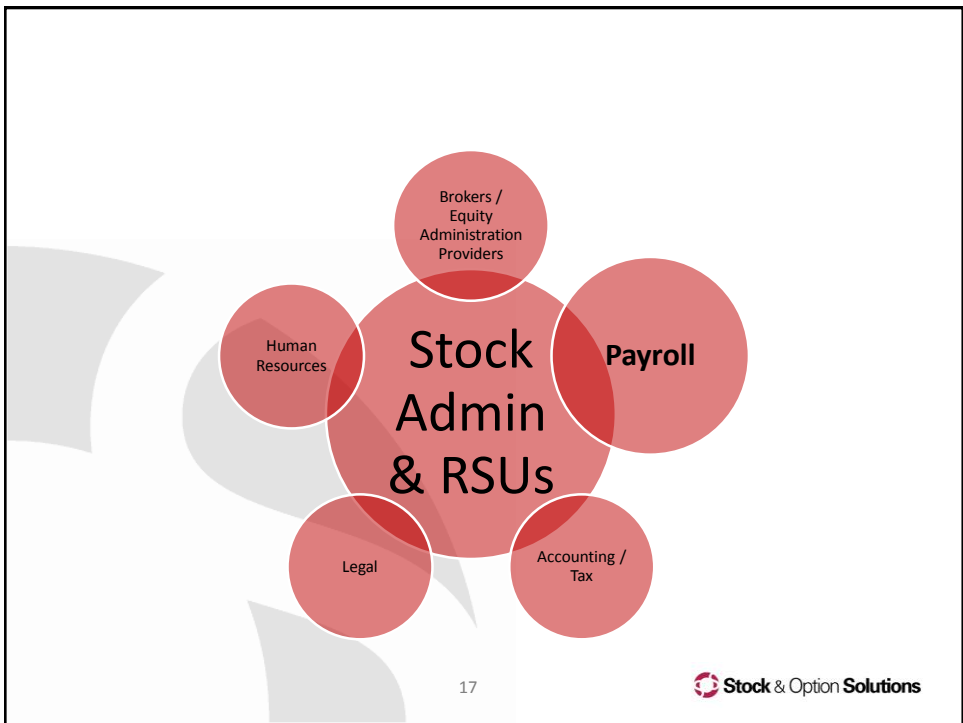
Can help multiple departments prepare for vesting event

Account features can engage employee interest in RSUs and their earning potential

Flexible in working with third party vendors and automated feeds to keep system data current

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Climbing Buddies - Payroll

Provides YTD tax information

The first group who needs to know about income and tax from an RSU vesting

- RSU events can be planned out – Payroll should be notified well in advance.
- Be aware of \$100,000 next-day reporting situations

Limited by payroll system

- May have to manually enter transactions
- Check import availability – may need to work with third party vendor

Climbing Buddies - Payroll

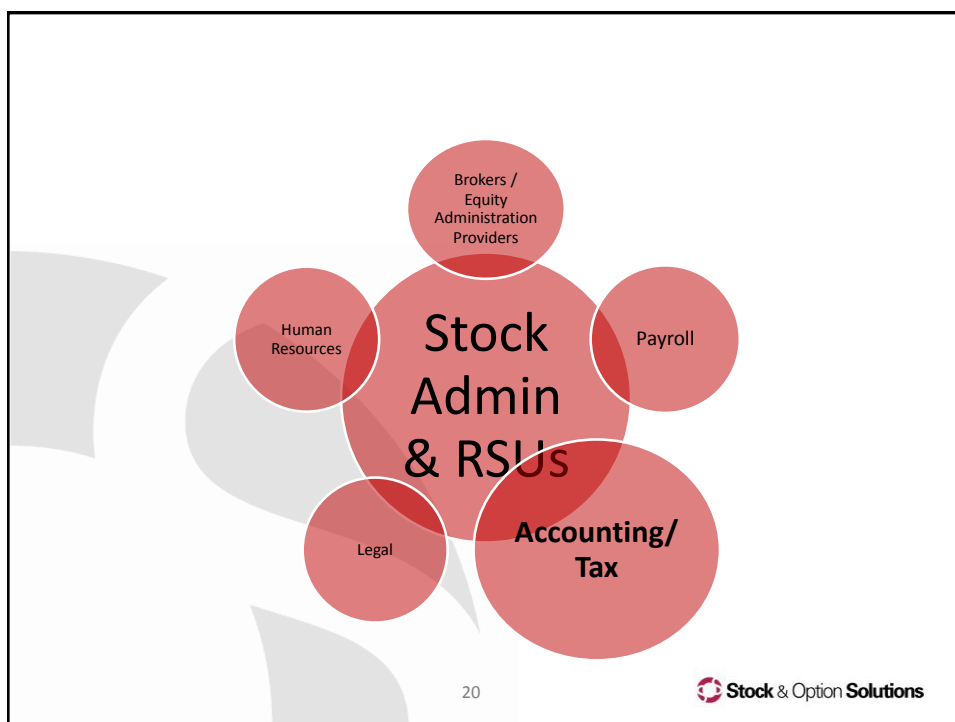
Timing of vesting vs. other bonus payouts

- Accurate data is important, but also workload!

Mobile employee issues

- Starts at grant – where do you grant RSUs?
- Outside advice and Baker McKenzie matrix recommended
- Companies have different levels of tracking and applying income and taxes – no one size fits all

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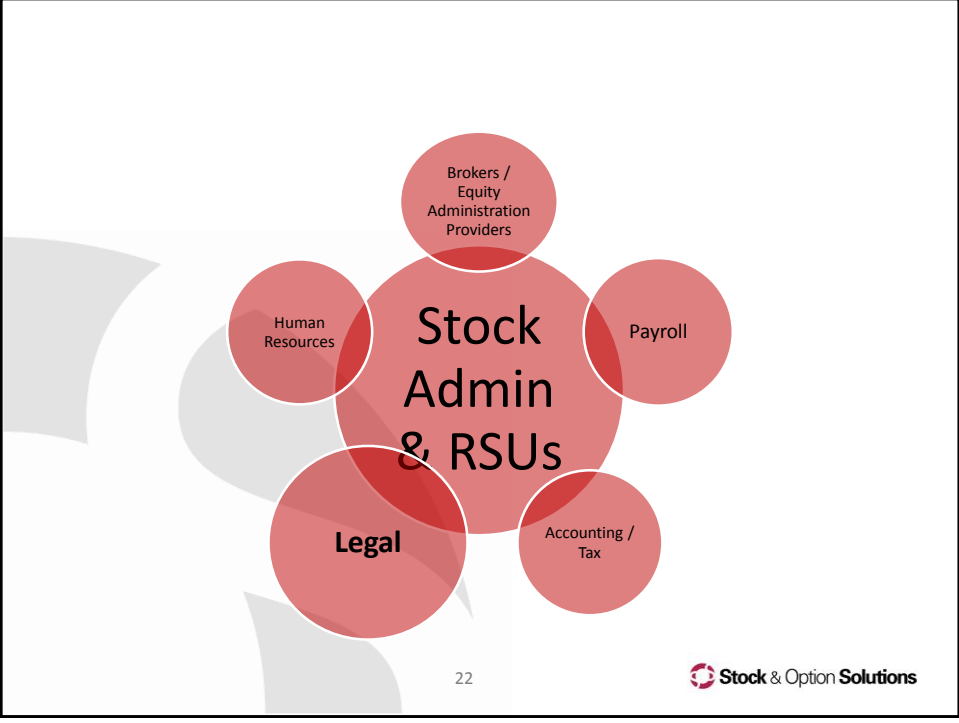
Climbing Buddies – Accounting/Tax

Mostly affected at end of reporting period, and relies on accurate data management

Second in line to be notified after RSU vest – they want to know about any money or share movement (taxes, etc.)

Generally, the company can take a tax deduction on the income reported at vest

May be source of determining performance grant vesting probability



Climbing Buddies - Legal

May be responsible for grant agreement language

Section 16 form filing

- RSUs can be reported at grant on Table I OR Table II
- Vesting does not necessarily need reporting
- Good to determine footnotes early, for prompt form drafting and timely approvals

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Human Resources

Stock Admin & RSUs

Brokers / Equity Administration Providers

Payroll

Legal

Accounting / Tax

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Climbing Buddies – Human Resources

May also be responsible for grant agreements

Front line to employee questions

Develops employee communication plans regarding grants

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SAFETY CHECKS



Safety Checks

It really is all about the Checklists!

- http://www.sos-team.com/pdfs/RSU_Release_Prep.pdf

Starts at grant

- Use checklists to make sure grants and vesting are properly added to the system
- Work with your provider to ensure everything is flowing through to reports and to employees' view

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Safety Checks

Grant Practices

- Always match up reports back to board minutes
 - Share amounts
 - Vest schedules

Grant Agreements

- Does your company require acceptance?
 - Online or paper?
 - Who follows up and when?
 - Cancel grant if not accepted?

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Safety Checks

Tax and Payroll updates

- Communicate with Payroll prior to vest, ensure YTD tax is being updated
- Confirm taxes are set up properly
 - Equity System may provide report showing estimated taxes – use this to do sanity check prior to vest
- Coordinate with Payroll on timing of RSU reports being available
 - Especially if Federal tax is going to be >\$100k

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Safety Checks

HR data

- Check for last-minute termination updates
- Know your plan and how Retirement Eligibility and LOA may affect grant vesting – make sure Equity system is properly updated

Brokerage accounts

- Ensure that accounts are set up prior to vest date
 - W-9 and W-8BEN issues can be frustrating to you and costly to the employee

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THE DESCENT

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The Descent

Auditing the vesting event

- Set up the schedule ahead of time
- Know how to run the reports consistently
 - Practice
 - Save screenshots of report parameters
- Set up tables in advance to check the output
 - Avoid “spot-checking” and set up formulas to audit every line against estimates
- Assign a reviewer if possible

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The Descent

Payroll's turn

- The faster Stock Admin can audit reports, the faster Payroll can get started
- Estimated tax payments as alternative?

Consolidate reporting needs

- Use some payroll reports to provide to Accounting
- Customize reports to have multiple uses

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The Descent

Legal's turn

- You already planned out your footnotes and had them approved, right?
- Generate the Form 4 (if needed) and have plenty of approval time available
- OR, report them on Table I at grant
 - There may be shares sold or withheld for tax to report (and still within two days)

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The Descent

Employees are cheering you on *(and they might be anxious to see those shares)*

- Post your adventure on social media or it didn't happen, right?! *#EquityComp #RSUrelease #NowICanGoOutsideForOnce*
- You've made the climb and you're coming back down. Time to tell your employees all about it – send them a notice to let them know their shares are available
- Follow up with an end-of-the-year statement
- Utilize Broker communication capabilities

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QUESTIONS?

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Additional Resources

- http://www.sos-team.com/pdfs/RSU_Release_Prep.pdf
- http://www.sos-team.com/pdfs/restricted_stock_units.pdf
- http://www.sos-team.com/pdfs/rsu_release.pdf
- <http://sos-team.com/xtra/july-2017-xtra-newsletter-volume-10-no-4/#TheUnits>

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