You’re going to need a bigger boat

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Agenda

- GPS Stock Options Project Overview
- NASPP survey data
- Administrative Models and Technology
- Grant Process
- Exercise Process
- Q&A /Wrap-up
GPS Stock Options Project Overview

- The Nonqualified Stock Option GPS was originally published in 2007
- Sponsors: Bank of America Merrill Lynch, bendystraw, Charles Schwab, E*TRADE, Fidelity Stock Plan Services, Morgan Stanley, Solium, and UBS.

Purpose
- “…designed as an administrative-focused document that makes the bridge between compliance and controls easier to navigate.”
Scope

- Limited to grants of at-the-money (exercise price is equal to fair market value (FMV) of the underlying stock as defined by the Plan on the date of grant), non-qualified (NSO) and **incentive (ISO) stock options** made to US employees of US-domiciled, publicly-traded companies with time-based vesting.

- **Administrative Model Assumptions: Hosted software platform (SaaS) and partial or full outsourcing**

- Exclusions: non-employees, IRC 409A, international and mobile employees, private companies

- Started with the original document and added/updated

- So you may be thinking “so you’ve created a paper document to talk about something we stopped granting 5 years ago and you’d be right, but…”
Flashback to….2004

99% of NASPP survey respondents reported having a stock option plan
Fast Forward to 2013-2016...
Prevalence of Stock Options Compared to Other Equity Vehicles

Prevalence of Equity Vehicles*
(*NASPP/Deloitte 2013 Stock Plan Design Survey)

- Stock Options/SARs
- Stock Awards/Grants
- Performance Shares/Units

General Industry vs High Technology
Stock Options – Current Participants

69% of the survey respondents maintain a stock option plan; below are the following types of stock options/SARs disclosed by individuals that currently receive stock option awards:
Stock Options – Type by Employee Level

NQSOs are the most commonly granted type of option/SAR. Of the companies that currently grant options/SARs to the employee levels indicated, the table below summarizes the type of option/SAR granted at that employee level.

<table>
<thead>
<tr>
<th></th>
<th>CEOs, CFOs and Other NEOs</th>
<th>Senior Management</th>
<th>Middle Management</th>
<th>Other Exempt</th>
<th>Non-Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISOs</td>
<td>20%</td>
<td>19%</td>
<td>16%</td>
<td>18%</td>
<td>28%</td>
</tr>
<tr>
<td>NQSOs</td>
<td>91%</td>
<td>91%</td>
<td>87%</td>
<td>83%</td>
<td>75%</td>
</tr>
<tr>
<td>SAR Payable in Stock Only</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>SAR Payable in Cash Only</td>
<td>2%</td>
<td>4%</td>
<td>6%</td>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>SAR Payable in Cash and/or Stock</td>
<td>0%</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Trends After the Initial Stock Option Grant

Stock Options - Timing of Additional Grants

In addition to regular annual grants, companies typically grant additional stock options as illustrated in the chart below which compares 2007, 2010 and 2013 survey responses:

- Upon hire: 93% (2007), 94% (2010), 90% (2013)
- Upon promotion: 63% (2007), 62% (2010), 58% (2013)
- For retention purposes: 48% (2007), 54% (2010), 41% (2013)
- Special one-time grant: 54% (2007), 41% (2010), 33% (2013)
- Other: 16% (2007), 11% (2010), 4% (2013)
Section 4 – Administrative Models and Technology

- Service models offered – outsourcing and partial administration
- Will examine sample controls from the document and review in admin environment

Exhibit 4-2

<table>
<thead>
<tr>
<th>ILLUSTRATIVE CONTROLS</th>
<th>ILLUSTRATIVE TEST OF CONTROLS</th>
<th>YOUR PROVIDER HELPS THIS…</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Confirm upgrade schedules, agenda, and scope of upgrades are communicated within the Company. Confirm Provider's process for notification/handling of off-cycle, minor enhancements and bug fix releases that may be deployed.</td>
<td>• Locate published schedule of the equity compensation provider’s system upgrades including past and future upgrades, enhancements, and bug fixes. Review policies and procedures to confirm future upgrades don’t significantly change internal controls and procedures.</td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 4-5

<table>
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<tr>
<td>6. Develop a process to incorporate new plans, or new plan interpretations, into the system functionality.</td>
<td>• Test subsequent transactions to ensure that the system is properly handling new plans, or new plan interpretations.</td>
<td></td>
</tr>
</tbody>
</table>
Section 5 – Grant Process

- Few significant changes from original document, other than the assumption of technology

Exhibit 5-4

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Update participant data in the platform from the human resource system regularly, preferably in an automated fashion, and immediately prior to granting options.</td>
<td>• Sample participant data in the stock plan platform and reconcile the information to HRIS.</td>
<td></td>
</tr>
</tbody>
</table>

Exhibit 5-8

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Establish procedures to notify the Participants of grants on a timely basis.</td>
<td>• Test notification process to ensure that the process is followed and conforms to FASB requirement for timely notification.</td>
<td></td>
</tr>
</tbody>
</table>
## Section 6 – Exercise Process

- Few significant changes from original document, other than the assumption of technology

### Exhibit 6-3

<table>
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<tr>
<td>2. Block all participants subject to restrictions on the exercise of the option.</td>
<td>• Sample Insiders, Section 16 executive officers, and other participants with legal restrictions to ensure the grants to all appropriate individuals have been blocked to prohibit the exercise of their options.</td>
<td></td>
</tr>
<tr>
<td>restrict handling before exercising any option. On a periodic basis, verify that the accounts of appropriate participants have been blocked.</td>
<td>• Sample exercises that required pre-clearance (such as key executives). Verify proper pre-clearance authorization was received according to the policy prior to the execution of the exercise.</td>
<td></td>
</tr>
</tbody>
</table>

### Exhibit 6-4

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<tbody>
<tr>
<td>4. On a monthly basis, reconcile the transfer of shares between the Transfer Agent and the Broker by plan. Investigate and resolve any discrepancies.</td>
<td>• Review the monthly reconciliation and note any items investigated and the resolution of the item.</td>
<td></td>
</tr>
</tbody>
</table>
### Section 7 – Tax and Payroll Issues

- **Changes: ISOs and the assumption of technology**

Exhibit 7-11

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</tr>
</thead>
<tbody>
<tr>
<td>1. Establish and document the process to transfer data from the stock plan platform into the payroll system.</td>
<td>• Sample option exercises from the stock plan platform for several days and verify that the exercise was reported in the payroll system on a timely basis and to the correct employee.</td>
<td></td>
</tr>
<tr>
<td>4. On a monthly basis, verify that the taxes withheld amount shown in the stock plan platform agrees to the payroll records. Investigate and resolve any discrepancies.</td>
<td>• Verify that the reconciliation was completed. Note trends and unusual problems.</td>
<td></td>
</tr>
</tbody>
</table>
Questions?
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