

FRS Equity Strategies

A Consulting, Outsourcing, and Educational Institute for Equity Compensation

ESPP Purchase Procedures

ESPP OPEN ENROLLMENT

Changes during an Open Enrollment period are effective the first day after the purchase date. Thorough communication to employees is invaluable.

- Prepare participant communication in advance – announcement, Q&A, Plan documents, Enrollment/ Change forms
- Plan timing of participant communication before and during the open enrollment period
- During Open Enrollment - New enrollments, Contribution changes, Withdrawals – make sure to receive an effective date for each withdrawal
- Send confirmation to employees of changes received by Stock Administration
- To simplify the process, automate as much as possible
 - Make ESPP information available online - plan documents, forms, Q&A, etc.
 - Allow participants to enroll and make changes online
- Send list of new enrollments and contribution rate changes to Payroll for next purchase period

PRE-PURCHASE

Begin preparing for your purchase six weeks or more in advance. This will help everything go smoothly on the purchase date.

Plan Document

- Ensure the ESPP plan is not near the expiration
- Ensure there are enough shares in the plan and in the transfer agent reserve
- Ensure only employees are purchasing - no temps, contractors or BOD
- Review Plan definition of Fair Market Value

Prepare ESPP Calendar/Timeline

- Meet with Payroll Dept. to review last pay date before purchase and first pay date after purchase
- Agree on date to receive final Payroll contributions
- Agree on date to receive test contribution file if you are not already receiving ongoing contributions
- Multiple payroll sites? – Make list of site contacts and agree on date to receive contribution file for each group. If a database field is available, enter a code for each location to distinguish each group's contributions.
- Make a note of Section 16 officers currently participating and plan to notify Legal of purchased shares (Note: Form 4s are not due but shares beneficially owned will increase and footnote should be included in next filing.)

International Considerations

Foreign contributions must be converted to US dollars before the Purchase. Check corporate finance policy or use the last foreign currency conversion factor from the Federal Reserve Board on the day before the purchase. Make sure each payroll site understands the conversion rate that will be applied.

Check Plan Settings in Database

- Fixed or rolling
- Subscription date/grant date – if rolling plan, are the subscription dates set appropriately for each group of employees?
- Reset feature
- Purchase price
- Carry forward or refund
- Offering Period
- Purchase Period
- Share limit by employee or other limits

Participant Data

- Ensure addresses are current in database
- Update Subscription dates, Broker and Street Name settings in database
- Enter Terminations – not eligible if terminated before purchase date
- Enter LOAs – review plan document eligibility requirements
- Enter Withdrawals
- Contribution rate adjustments – this is typically handled by payroll but may also be tracked in the Stock Administration database

Broker Accounts

- Review participant choice of brokers
- Send active participant file to broker(s) to ensure their accounts are set up and ready to receive shares from purchase
- If required, enter broker account numbers in database (if other than E*Trade)

Audit Contribution Files (*most important step before Purchase)

- If more than one payroll location, audit contributions separately for each location
- Make sure contribution files do not include previous rollover amounts
- Check participation – Did you receive a contribution for each participant? If not, did they terminate or withdraw and when?
- Notify payroll of discrepancies and make applicable corrections
- Ensure previous roll-forwards maintained in database are current and cleaned up before purchase
- Utilize software reports to audit contributions such as the Data Check, Contribution Reconciliation, and Purchase Account reports in Equity Edge
- Run a trial purchase; audit all participation and contributions carefully. Manager reviews trial purchase.

ON PURCHASE DATE

- Enter last minute terminations
- Enter Fair Market Value
- Ensure international conversion rates were applied to foreign contributions

- Run pre-purchase reports & reconcile with contribution files
- Process Purchase – after Manager has audited and signed off approval
- Prepare DWAC letter and send to transfer agent after Manager has reviewed
- Prepare and send DWAC file for broker(s)
- Ensure file is processed successfully with broker

POST PURCHASE DATE (as soon as possible after the Purchase)

- Send Purchase announcement to participants of details of purchase, include FMV on Subscription date and Purchase date with calculation of shares
- Confirmation of Purchase Statements – Make available to participants online or send
- Notify payrolls and employees of refunds due to \$25K limit or Plan maximum share limit
- Notify Legal Dept. of purchases for Section 16 officers
- Send roll-forward amounts to each payroll site – plan document will dictate if roll-forwards should be immediately refunded
- International payroll sites should receive conversion rate if roll-forward is provided in US dollars
- New Purchase Period begins – ensure payroll has new enrollments and contribution rates