Project "By the Slice"
Alphabet's Fractional Share Project

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Jennifer Kirk, Director-Global Equity Management, Alphabet (Google, Inc.)
Keirstin Wright, VP-Product Management, Morgan Stanley
Pizza Napoletana
Today on the Menu...

- Google’s Pizza
- Sample Releases (Whole and By the Slice)
- Chef’s Special: Fractional Shares (Morgan Stanley)
- Special Sauce (Charles Schwab)
- Dessert (Communications)
- Ingredients & Recipe
- Zagat Reviews
Google’s Pizza

- Google’s share price
  - Alphabet Inc. Class C
  - NASDAQ: GOOG - Jan 24, 2017
  - FMV: $823

- At time of GSU (Google RSU) vest and release, shares are withheld to cover for taxes
  - Majority of Googlers, only option is WTC
Sample GSU Share Release

- 3 GSU shares vesting
  - $823 FMV * 3 shares = $2,469 Taxable Income

- Total Taxes* = $1,080 (~1.3 shares)

* Statutory tax rate, CA employee = 43.78%
Taxes Withheld to Cover

• But we must withhold 2 shares to cover taxes
• Googler receives 1 share + $566 cash refund
  - \((2 \text{ shares} \times $823 \text{ FMV} - $1,080 \text{ tax due}) = $566 \text{ cash refund}\)
Challenge: Multiple Vesting Events

• The GSU refund for each vesting event is less than one share of Google Stock

• However, when you have multiple vestings in one day, the aggregate GSU refund can be substantially more
What if we could **withhold a slice** of pizza rather than a whole pie?
Fractional Shares Program

• With the *Fractional Shares Program*, the Googler is now able to elect either:

  o GSU cash refund, or
  o Fractional share deposited
Taxes Withheld to Cover “by the slice”

- Google withholds a partial share
- Googler receives 1.7 shares + $0 cash refund
Average Googler Profile

• Max 14 vesting events in the same day

• Average GSU refund per Googler is ~$1,100

• Average outstanding GSUs = 4.47 grants per Googler

<table>
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<tr>
<th>Release</th>
<th>Vested</th>
<th>Shares Withheld</th>
<th>Shares Released</th>
<th>Cash Refund</th>
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Morgan Stanley “Chef’s Special”

• Participant level tax elections
  o Effective for outstanding and future GSUs
  o Client override for special processing
  o New portal for all Googlers
    ➢ Election flow
    ➢ Clear view of “Allowed” and “Restricted” GSUs
    ➢ Election history
**Participant Elections**

**Current Election**
- **Your participation election**: Current Tax Election
- **Date of Election**: 03/02/2017
- **Effective From**: 03/03/2017
- **Effective Till**: This election does not expire. You may modify the election at any time.
- **Elected By**: U18FD107

<table>
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<tr>
<th>Allowable Awards</th>
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<th>Current Tax Election</th>
<th>Assured</th>
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- **Current Tax Election**: This is your present election prior to making a new election.

**Election History**
- **Election History Test**: Action Date: 03/02/2017, Action: Add, Election Method: Fractional Shares, Effective From: 03/03/2017, Effective Till: U18FD107
- **Modify**
- **Cash Refund**: Action Date: 02/21/2017, Effective From: 03/02/2017, Effective Till: U18FD107

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**Make an Election**

**Current Tax Election**
Election Portal

Drop Down Menu
- Fractional Shares
- Cash Refund
Morgan Stanley “Chef’s Special”

• Enhance existing fractional share sale capabilities
  o Flexibility to sell fractions on a tax lot level

• Support for restricted stock releases with no rounding
  o Returning fractional values to the share pool for withheld shares
  o Delivering full and fractional shares to Googlers
Charles Schwab’s Special Sauce

• Leveraged existing functionality for Employee Stock Plan Purchase (ESPP) fractional shares and applied it to restricted stock
  o This included enhancements to several systems that touch the settlement process as well as the participant website, Equity Award Center

• Schwab receives daily transaction data directly from Morgan Stanley
  o Coordinate with Morgan Stanley on changes to the data files
  o Include fractional share transactions
Google’s Dessert - Communications

• Communication to Googlers
  o Targeted Emails to eligible participants
  o Google Intranet Announcement (MOMA)
  o Internal Site with FAQs
  o Available to Googlers for March 2017 GSU Release

• TimeLine
  o Concept - December 2014
  o Mandate - December 2015
  o Live - March 2017
Ingredients & Recipe

• Internal Business Partner Sign Offs
  o Payroll, Accounting, Tax, Compensation, Communication, Internal Audit, Legal etc.

• Close collaboration with
  o Morgan Stanley
  o Charles Schwab
  o Solium
  o Computershare
Zagat Reviews
Thank You

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