

NCEO		
	<p data-bbox="500 394 1079 667" style="text-align: center;">National Center for Employee Ownership Private Company Equity Survey Results</p> <p data-bbox="521 764 1052 877" style="text-align: center;">Presenters: Corey Rosen - NCEO Barrett Scott – Stock & Option Solutions, Inc.</p>	

NCEO	Disclaimer	
	<p data-bbox="488 1297 1154 1434">The following discussion and examples do not necessarily represent the official views of NCEO or Stock & Option Solutions, Inc. with respect to any of the issues addressed.</p> <p data-bbox="488 1486 1154 1728">Moreover, this presentation and the views expressed by the individual presenters should not be relied on as compensation, legal, accounting, auditing, or tax advice. The outcome of any individual situation depends on the specific facts and circumstances in which the issue arises and on the interpretation of the relevant literature in effect at the time.</p>	

NCEO	Survey Overview	
	<ul style="list-style-type: none">• There are numerous surveys of equity compensation practices in publicly traded companies, but almost none for closely held companies.• Those surveys that do exist tend to focus on a single industry or pre-IPO firms only and, even then, just on executive equity compensation.• This survey was designed to cover a wider range of closely held companies and to look at their equity granting practices not just to top executives, but employees overall.	

NCEO	Methods and Responses	
	<p>The survey is based on 201 responses from closely held companies with equity compensation plans that are either NCEO customers or clients of several service provider firms to equity compensation companies (see list at the end of the slides).</p>	

NCEO		Respondent Characteristics	
Number of Employees			
501+: 16%	51-100: 31%	1-10: 13%	
101-500: 13%	11-30: 14%		
Years In Business			
One or less: 2%	2-3: 6%	3-5: 9%	More than 5: 81%

NCEO		Industry Characteristics	
Software: 18%	Web or other computing: 13%		
Biotechnology: 13%	Manufacturing: 12%		
Financial Services: 6%	Wholesale/retail: 3%		
Professional services: 16%	Cleantech: 16%		
Other: 13%			

NCEO	Outside Equity Investors	
	<ul style="list-style-type: none">• Angel investors: 25%• Venture Investors: 47%• Friends and family: 29%• Other investors: 11%	

NCEO	Likely Exit Strategy	
	<ul style="list-style-type: none">• Sale to another company: 57%• No strategy at this time: 27%• IPO: 10%• ESOP: 6%	

NCEO	Highlights	
	<ul style="list-style-type: none"> • 25% of companies give equity awards to everyone in the company • 56% give to at least some hourly employees • Options are the most popular type of award • On average, 15% of equity is held by non-founder employees • Half of companies use an outsider appraisal to value shares • Half administer the plan internally 	

NCEO	Who Gets Equity?																
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NCEO	What % of Equity Goes to Each Group															
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NCEO	Most Common Periods When Grants Are Given																				
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NCEO	Types of Grants		
Category	Options	Restricted Stock	RSUs, Phantom Stock, or SARs
C-level	65%	29%	25%
Other management	63%	17%	14%
Supervisory	53%	8%	8%
Hourly/non-supervisory	39%	4%	6%

NCEO	Total Stock Owned by Employees
<ul style="list-style-type: none"> • Mean % owned by founders: 38% • Mean % owned by non-founder employees: 15% • Employees other than founders have no equity in 30% of the companies 	

NCEO	Compensation Best Practices	
	<ul style="list-style-type: none"> • Clear Strategic Corporate Objectives <ul style="list-style-type: none"> • Written and tested by Management team • Board and Management Alignment • Create Plan for long term • Keep it Simple – <ul style="list-style-type: none"> • Create plan and distribution of awards that emulates company culture. • Say No to complex formulas and non strategic goal payouts. • Visibility - Create culture of continuous review of steps taken toward Corporate Objectives and Plan • Estimate the Tax and Accounting Impact • Management should budget for financial education and plan reviews annually. 	

NCEO	Who Values Shares?	
	<ul style="list-style-type: none"> • Outside appraiser: 47% • Board determination with outside advice: 20% • Fixed formula: 10% • Board determination without outside advice: 8% • Most recent financing round: 4% • Other: 11% 	

NCEO	Private Company Compliance	
	<ul style="list-style-type: none">• IRS Rules<ul style="list-style-type: none">• 409A – Deferred Compensation• 421-424 (ISO), 83B, 280G, 6039• FASB123R / ASC 718<ul style="list-style-type: none">• Equity Compensation Expense• US and State Security Regulations• Globalization of Corporations<ul style="list-style-type: none">• International Tax Regulations• International Securities Regulations	

NCEO	Who Handles Administration?	
	<ul style="list-style-type: none">• Internal administrator: 51%• Outside corporate counsel: 20%• Inside corporate counsel: 9%• Equity compensation consultant: 6%• Other: 14%	

NCEO	Administration Marketplace	
	<p>For Private Companies – historically law firms</p> <p>Marketplace Changes in last several years:</p> <ul style="list-style-type: none"> • Demand for corporate equity information growing • Increased compliance demands • Equity Administration Market is growing and more Administrators available for Private Cos. • Difficultly - Private Cos. don't have liquidity to off-set administrative costs • Award types diversified (options still majority) • International Compliance <ul style="list-style-type: none"> • Equity Wild West 	


NCEO	Administration Best Practices	
	<p>Team of Experts needed:</p> <ul style="list-style-type: none"> • Equity Registration Expert • Equity Accounting Expert • Equity Tax Expert • International Equity Compliance Expert • Equity Plan Administration Expert to implement and manage guidance from above experts <ul style="list-style-type: none"> • Administrator must be able to respond to corporate activity rapidly because Private Cos. change quickly • Concrete Documentation • Solid Equity Data Source • Vendor Management Skills & Communication 	

NCEO	Transaction Preparation	
	<p>IPO</p> <ul style="list-style-type: none"> • SEC Cheap Stock Analysis • Compensation Discussions & Disclosures • Equity Holdings <ul style="list-style-type: none"> • Documentation • Records • 409A & 280G <p>M&A</p> <ul style="list-style-type: none"> • Equity Holdings <ul style="list-style-type: none"> • Documentation • Records • Due Diligence 	<ul style="list-style-type: none"> • Dec. 2011 M&A and IPO seminar by Investment Bankers • 2011 M&A and IPOs deals cancelled or postponed because of equity administration issues • M&As had to discount sales price because of equity issues

NCEO	% Service Providers Prefer to Go to Various Groups																							
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NCEO	Notes on Service Provider Survey	
	<ul style="list-style-type: none">• 32 responses on several questions about their client practices that paralleled the company survey• Survey provider responses describing their client practices closely mirrored what the companies told us in the company survey.	

NCEO	Survey Caveats	
	<ul style="list-style-type: none">• All compensation surveys have selection bias• Most private company surveys are focused on a narrow range of industries or stages of growth• Most surveys are of consultant clients and responses may reflect their recommendations• “Pay-to-play” surveys may bias responses towards companies with more generous plans• Use surveys as reality check, not as a guide to best practices.	

	<h3 style="text-align: center;">More on the NCEO Survey</h3>	
	<ul style="list-style-type: none"> • Survey data report includes breakdowns by industry, size and region, as well as additional tables and questions not reported here. • Purchasers of the survey receive the raw data itself in an Excel spreadsheet and can search and array it in a variety of ways. • The survey is available from the NCEO for \$150 to members and \$250 to non-members. NCEO introductory memberships are available for \$90. For details, go to nceo.org/2011survey. 	

	<h3 style="text-align: center;">Questions ?</h3>	
	<p style="text-align: center;"> Corey Rosen National Center for Employee Ownership 1736 Franklin St, 8th Fl Oakland, CA 94612 510-208-1314 crosen@nceo.org </p> <p style="text-align: center;"> Barrett Scott Stock & Option Solutions, Inc. 408-979-8708 bscott@sos-team.com </p>	