



Hey Wait, Wasn't I Supposed to be Rich By Now?: Communicating Value to Private Company Stock Plan Participants

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Materials

- Available for download:
 - <http://www.sos-team.com/PDFS/private.pdf>
- Please note: URL is case-sensitive.

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Agenda

- Challenges in Communication
- Before you embark: what you need to know
- Clarifying the big picture
 - Communicating goals of equity plans
 - Clarity around 'nuts and bolts'
 - Establishing mutual expectations
- Transparency as a tool
- Presenting a value proposition
- How to Communicate
- Leveraging resources and budget

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Private Company Communication Challenges

- Private = private information
- Limited internal infrastructure/resources
 - Intranet?
 - HRIS?
- Budget
 - Cost vs. ROI/value add
 - Volume of activity justify expenditures?
- Availability of external resources
 - Limited vendor support
- Perception of value proposition
 - “It’s not worth anything to me until we’re public”

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Communication: Before you Embark

“First learn the meaning of what you say, and then speak.”

- **Epictetus**

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Communication: Before you Embark

Challenge: Not having full context for that which you communicate

- Communicating because management asked you to
- Communicating because you vaguely think it's a good idea
- Communication around the mechanics of a big event (but not the why?)
- Communication because that's the timing/circumstances that applied in the public company where you used to work

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Communication: Before you Embark

Challenge Solved:

BEFORE you communicate, be clear on *WHY* the Company is offering equity

- Meet with management to get their perspective
 - Each person may surprise you with a different view
 - Ask the 'why' questions
- Try to eliminate scenarios where a communication message involves a statement containing 'because that's what 'management decided'

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Communication: Before you Embark

Challenge Solved:

BEFORE you communicate, be clear on *WHY* the Company is offering equity

- Planning to be acquired?
- Planning to go public?
- Want to attract new talent?
- Reward/retain existing talent?
- Inspire/align talent to company goals
- Create ownership mentality?
- Other?

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Clarifying the Big Picture: The Foundation

“You can have brilliant ideas, but if you can't get them across, your ideas won't get you anywhere.”

- Lee Iacocca

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Clarifying the Big Picture: The Foundation

- Laying the proper foundation can be the difference between success or failure
- Big plans are meaningless unless the employees understand them
- The balance between 'being' private and 'keeping' everything private
 - Some information must be shared if value is to be created
 - Set the proper tone from the beginning – will you be secretive or transparent?

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Clarifying the Big Picture: The Foundation

- Foundational communication elements should include
 - Company goals
 - Equity goals
 - Relationship between company and equity goals
 - Anticipate the questions
 - “Where is the Company headed?”
 - “What does the Company hope to accomplish?”
 - “How will the Company’s objectives make a difference with respect to my equity?”
 - Knowledge of the ‘purpose’ and the path to get there is key

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Clarifying the Big Picture: Nuts and Bolts

“When your writing is filled with detail, it has a lot more impact.”

- Ivan Levison

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Clarifying the Big Picture: Nuts and Bolts

Clear understanding of the ‘nuts and bolts’ will impact participant perception of your value message

- Get detailed about what they have
- Don’t just ‘refer’ them to the legal documentation
- They won’t fully understand the value if they don’t understand the terms
- Repeat, repeat, repeat!

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Clarifying the Big Picture: Nuts and Bolts

- Award/Option Terms/Conditions
 - Factually highlight special provisions available without enticing (e.g. early exercise)
 - Ensure understanding of vesting conditions, change in employment status, expiration
 - Timing and conditions for receipt of shares or ability to exercise
 - Restrictions that prevent them from sale, and how those will be removed
 - Be sure to have them sign their agreements!

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Focusing the Big Picture: Establishing Mutual Expectations

- What should they expect from the Company?
 - What information?
 - What communication?
 - What actions?
- What do they need to do to fulfill their part?
 - Actions?
 - Contributions?

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Transparency as a Tool

Challenge: "Private companies tend to keep things, well, private"

- Transparency is key to creating a successful value proposition
- Should come from 'top down'
- The more information participants have, the more invested they will be
 - Financial transparency
 - Stock price transparency
 - Transparency in objectives and goals
 - Goals and objectives are not just a 'one time deal'
 - As things change, communication should take place

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Creating Value

"When dealing with people, remember you are not dealing with creatures of logic, but creatures of emotion."

- Dale Carnegie

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Creating Value

- First understand what is of value from the participant perspective
- It's not 'what' you say, but 'how' you say it
 - Acquire ownership in the company with little or no investment
- Using transparency to communicate value
 - Financial and stock price visibility
- Business briefings
- Identify non-IPO value scenarios
 - Acquisition? Buy Out?
- "We're all in it together"

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Creating Value

- Use key events to communicate and showcase the value proposition
 - Big vesting?
 - IPO or liquidity event near?
 - FMV creeping up?
- DON'T be silent
 - Plan for regular communications, even if nothing is happening

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Creating Value

- Small steps for big bang:
 - Company A:
 - Created annual informational statements that summarized the 'value' of all benefits, both cash and equity
 - Company B:
 - Announces the 'fair market value' of the stock to employees after each Board Meeting
 - Company C:
 - Has quarterly financial update meetings
 - Compares revenue to targets
 - Measures progress of goals compared to target
 - Forecast for next quarter
 - Key events or elements affecting goals or business

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Creating Value

Many companies try to do 'something'...

What if you combined all of these 'somethings' into a value communication strategy?

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Creating Value

- Poor communication can alter the value perception
- Company XYZ – Case Study Example
 - Worked hard to create ‘value’
 - Lack of communication combined with poor execution turned a ‘positive’ into a ‘negative’
 - What went wrong:
 - Forgot to collect vesting elections in advance of vesting event, rushed at last minute
 - At time of vesting event, incorrect tax calculations
 - Tax elections improperly applied (mix up between check and net issuance)
 - Lack of communication throughout
 - Employees were overly confused by multiple corrections

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How to Communicate

Tools and Formats:

- Leverage
 - Email
 - Establish an “inbox”
 - Letters (when necessary)
 - Printed Material (Fact Sheets, Examples, Summaries, FAQs)
 - Survey Monkey
 - Third party vendors (if cost/benefit justifies)
 - Participant statements, web site
 - Meetings at regular intervals
 - Topics include – Basics of RSA, RSU, Options, etc
 - Make it a brown bag lunch session

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How to Communicate

- Strategies to keep the message going strong
 - Training of HR personnel
 - Solidify internal partnerships
 - Proactive communication when at all possible (not reactive)
 - Get management involved
 - Not all messages need to come from the Equity person or department
 - Keep “equity” in the limelight, EVEN if nothing is happening!
 - Significant ramp up as key event nears – publicize!
 - Major vesting event
 - Significant grant
 - IPO/Acquisition
 - Other liquidity event

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Communication Musts

“I remind myself every morning: Nothing I say this day will teach me anything. So if I'm going to learn, I must do it by listening.”

- Larry King

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Communication Musts

- You've put together a great communication plan. Now what?
 - Communication is two-way
 - Listen to your participants
 - If the same question comes up several times, there may be a communication gap
 - Just because it's in the communication doesn't mean the message came across
 - Avoid "I refer you back to the agreement, which says...."
 - Adjust, repeat, adjust!
 - Communication is not just a one-time event, it's ongoing!
 - The messaging may change or evolve over time

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