

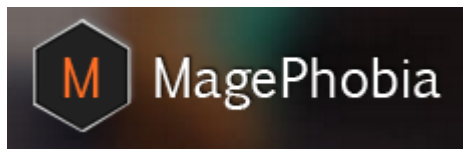
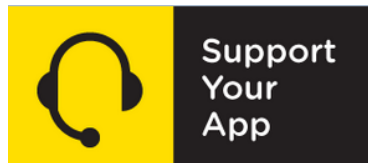


Converting Ukrainian employees to owners.

profit share, stock options, restricted stock,
phantom stock, stock appreciation rights,
ESPPs...

Кілька слів про себе

- Сервісні компанії
- Продуктові компанії



Employees => Co-Owners

- Attract key talent
- Retain key talent
- Reward key contributors
- Unify the financial vision
- Be fair

Work hard now



Get what you deserve.. later

Founder's questions?

- Will they have the access to financial records?
- What if they underperform?
- How exactly do they get stock?
- Can they sell the shares? How?
- What strings are attached?

But, what if...

You do all the work?

You bring in another guy?

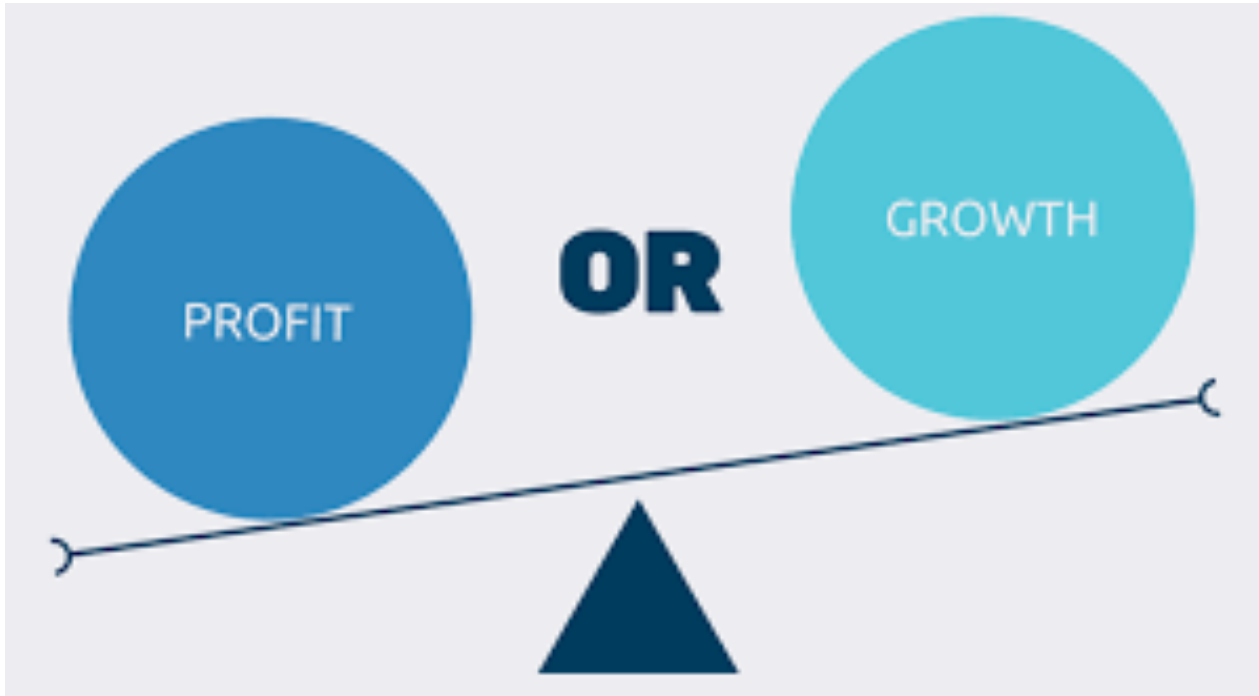
Your partner wants to quit?

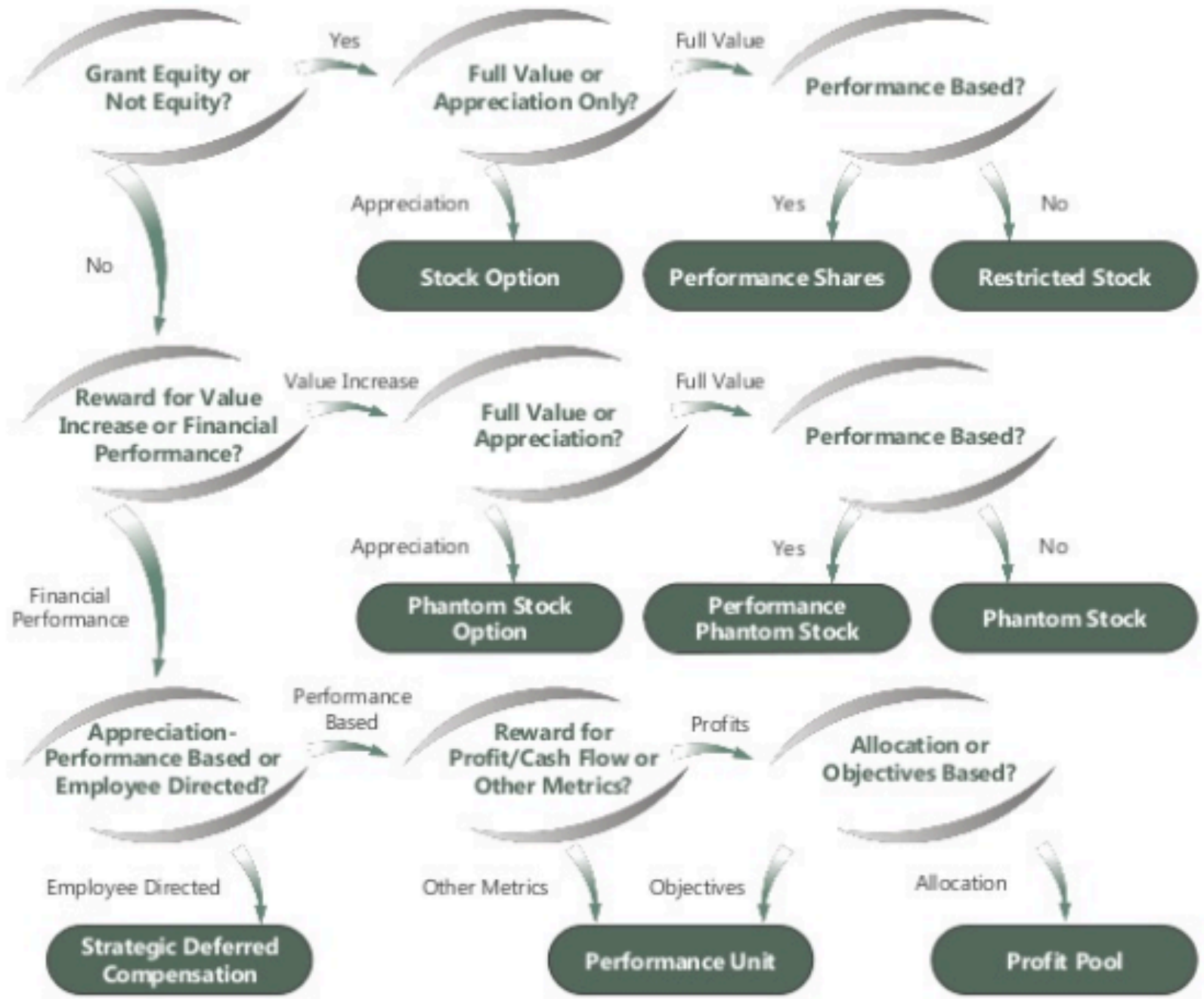
You want to quit?

Your CTO gets hit by a bus?

1,000,000 other things?

Profit vs Growth oriented





Source: To Share Equity or Not to Share Equity by The VisionLink Advisory Group

Executive (performance) bonuses

- Fixed salary plus KPIs related bonus
- Financial KPIs examples: revenue, EBITDA, profit
- Non-financial KPI examples: market share, active users, customer satisfaction score...
- Timing: quarterly or yearly
- Value: achieve short-term results and bring home more

Profit share (Profit pool)

- Allocation of profit pool (% reserve, rest in % distributed as dividends)
- Common in partnerships
- Dividend formula could be much more complicated than % of ownership
- Value – the employees convert into partners and care about firm interests
- Timing: yearly

ESOP (Employee Stock Option Plan)

- Right to purchase specified number of shares at a specific date at specific price
- Timing - employment starts
- Value – the employee will exercise the option when share value is greater than strike price
- Common for startups. 4-year vesting, 1-year cliff as an example
- ISO (incentive stock options) vs NSOs (non-qualified stock options)

ESOP (Employee Stock Option Plan)



What's up with options?

- 4 year vest; common, 1 year cliff.
- Hired-in CEO 5-8%
- .8-1.2% for CEO directs (VP)
- .25% for first-line management (Director/Manager)
- .1% for individual contributors
- .25% outside Board members



Restricted stock units (RSU)

- Right to purchase shares at fair market value or a discount, or employees may receive shares at no cost.
- With restricted stock awards, companies can choose whether to pay dividends, provide voting rights...
- Value – Employee receives the asset that may appreciate, but company does not deplete cash

Employee Stock Purchase Plans (ESPPs)

- In a typical ESPP, employees enroll in the plan and designate how much will be deducted from their paychecks.
- During an offering period, the participating employees have funds regularly deducted from their pay (on an after-tax basis) and held in designated accounts in preparation for the stock purchase.
- At the end of the offering period, each participant's accumulated funds are used to buy shares, usually at a specified discount (up to 15%) from the market value.

Phantom stock and stock appreciation rights (SAR)

- Link to ownership: award is linked to the value of stock
- Shares allocated, but not acquired officially
- Value – employee acts as he or she had an ownership interest

Phantom Stock & SAR

Phantom Stock

- Account credited with hypothetical or "phantom" shares
- Increases or decreases, based on the company's stock and phantom dividends
- No exercise, settled upon vesting
- Settled in cash or stock

Stock Appreciation Right

- Contractual right to receive cash or stock equal to the appreciation in value of the company's stock from date of grant
- No cost to exercise, unlike an option
- Settled in cash or stock

June 10, 2016 – your company is valued 1 mln. USD
You have 100 000 shares issued, each valued 10 USD.
You issue 100 phantom shares for your employee.

June 10, 2017 – your company is valued 2 mln. USD (one share is 20 USD).
Phantom stock – employee receives 100 shares or 2000 USD payout
SAP – employee receives $(100 \times 20 - 100 \times 10) = 1000$ USD payout

Accounting and taxation

- **Accounting:** Phantom stock plans are considered “liability awards” for accounting purposes (assuming they will be settled in cash rather than stock). As such, the company must recognize the plan expense over the vesting period.
- **Non-residents and U.S. stock options – Taxable or Not?** As with any tax question, the answer is “It depends.” It depends on whether the non-resident employee worked in the U.S. If the employee never worked in the U.S., the exercise of the option will not give rise to U.S. taxable income. The grant or exercise of an option may result in taxation in the resident country, according to their local tax laws.

References

- *Converting Employees to Owners: Employee Share Purchase Plans by Now Dentons*
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- <http://www.phantomstockonline.com/>
- *Equity Compensation for Startups by DrexelELC*
- *Buffer blog: How We Explain Stock Options to Team Members & How Much Money They Would Make*
- *Vimpelcom Form S-8, SEC on May 18, 2015 and 2000 Stock Option Plan*