

Equity Compensation in a Start-Up Environment

*Stock and Equity Compensation for the
Founders, the Executives and the Core Team*

Presented by

Marianne Brannock-Hill, CTP CEP

President and CEO

FRS Equity Strategies, Inc.





Agenda

- Capitalization
- Corporate Value
- Ownership
- Planning, Events
- Equity Compensation
- Considerations

Capitalization

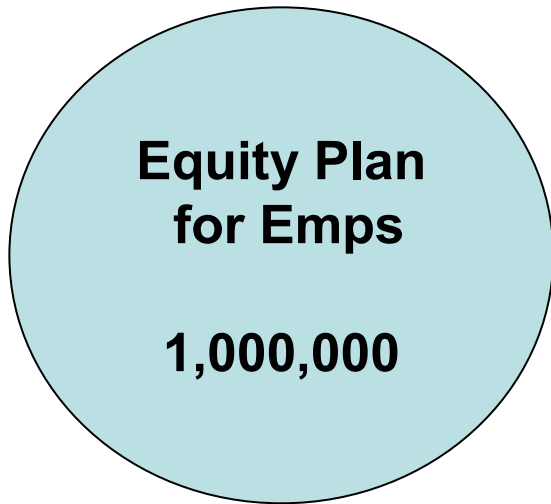
- Your business structure
 - Sole Proprietorship
 - Partnership
 - Limited Liability Corp (LLC)
 - Limited Liability Partnership (LLP)

 - **Corporation**
 - **C Corp**
 - **S Corp**



Shares Authorized

20,000,000 shares



**Equity Plan
for Emps**

1,000,000



Options granted
RSUs granted
Avail for future grants

Common Stock – 3,000,000

Founders

Restricted Stock, Options exercised

Preferred Stock - 2,000,000 (equivs to Cmn)

VC - Series A

VC - Series B

Ownership

Includes:

- Founders
- Venture Capital, Angel Fund
- Development Team
- Future Employees

Affects:

- Company's Value

Planning for:

- Growth: New hires, promos
- Events and the Unexpected



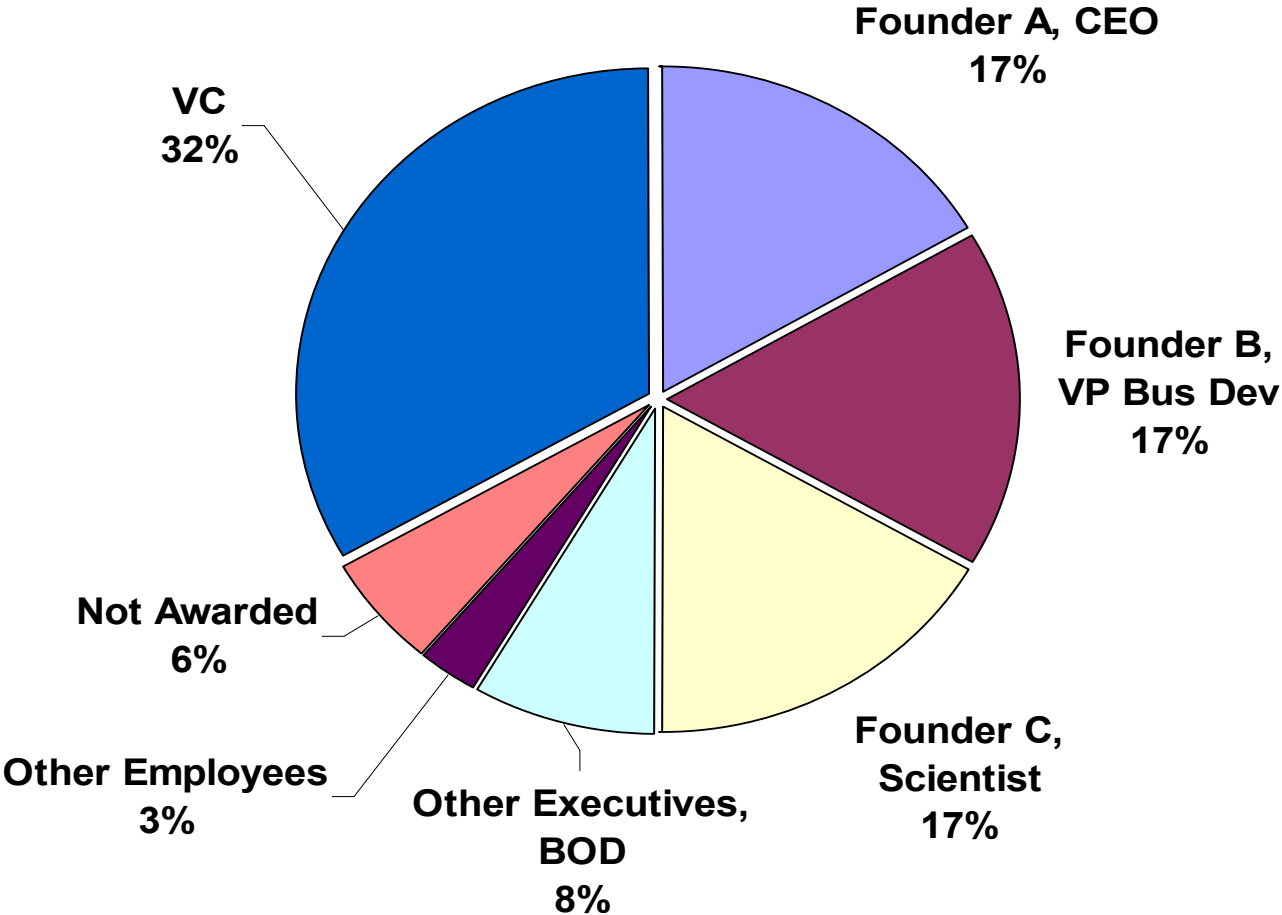
Percentage Ownership

Ownership	Shares	%
Founder A	1,000,000	17%
Founder B	1,000,000	17%
Founder C	1,000,000	17%
VC	2,000,000	33%
Other Executives	500,000	8%
Other Employees	170,000	3%
Not Awarded	330,000	6%

Total Shares

6,000,000

Ownership Percentage



Sample Capitalization Table

FULLY DILUTED

Breakdown of Ownership: Common Equivalents

<u>Overall</u>		<u>%</u>
Common Stock	16,116,300	41.69%
Series A Preferred Stock	12,839,843	33.22%
Series B Preferred Stock	5,462,041	14.13%
Series B Warrants	162,425	0.42%
2007 Stock Plan (options granted and shares available for future grants)	4,073,063	10.54%
	<hr/>	
TOTAL:	38,653,672	100.00%

Planning



- Growth
- Subsequent rounds of financing
- Expectations
- Handling personnel issues
 - Terminations
 - Founders and VC at odds
 - New Executives hired in later stages



Allow for Growth

MATRIX of COMP PLAN 2008 - 2010		
Title	Salary	Options
EVP	\$100,000	50,000
Engineer	\$80,000	40,000
Controller	\$80,000	40,000
Dir. Business Dev.	\$80,000	40,000
Purchasing Agent	\$40,000	0
Business Analyst	\$35,000	0
Payroll Admin.	\$32,000	0
Receptionist	\$28,000	0
		170,000
New hires in 2009		50,000
New hires in 2010		100,000
TOTAL OPTIONS GRANTED OVER 3 YEARS		320,000

Events and Issues

Examples:

- Second round of financing
- New awards to the 3 Founders
- Terms, new hires
- Unexpected changes
 - A Founder wants out
 - Business plan off target - VCs want greater control

Equity Compensation

<p>Options</p> <ul style="list-style-type: none">Promise of stock in futurePriced at the FMVVestingExercised at will	<p>Restricted Stock Awards</p> <ul style="list-style-type: none">Immediate ownershipVoting rightsAccountabilityVesting, releases when earnedPriced at zero, par, or FMV
<p>Performance Awards</p> <ul style="list-style-type: none">Offered to Execs, SalesEarned based on meeting goalsConsultants	<p>Restricted Stock Units</p> <ul style="list-style-type: none">Popular in public coPromise of future stockZero costVesting, releases when earnedNon-US emps



Stock in lieu of pay



Benefit and Risk to Employee

- Tax benefit to employee
 - Deferred taxation
 - Possible capital gains instead of ordinary income
- Potential for greater value
- Can lose value

Benefit and liability to Company

- Conserves cash
- Efficiency in compensation
- Less expense, less charge to earnings
- Dilution to shareholders

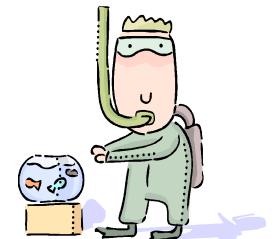
Considerations - Benefits

- Benefits to Co
 - Motivator
 - Attracts and retains key persons - Incentive to stay
 - Competitive edge
 - Cash inflow
 - Conserves cash
 - Accountability perceived
 - Positive perception by emps – adds to morale
- Benefits to Emp
 - Personal reward
 - Dream of future cash (possibly)
 - Pride in ownership



Considerations – Down side

- Liabilities to Co
 - Expense to P&L
 - Regulatory changes
 - Admin burden: HR, Legal, Finance, P/R
 - Compliance burden (as IPO nears)
 - Legal issues for disgruntled execs, emps
 - Dilution: Shareholders watching their “piece of the pie”
- Adverse Effects to Employee
 - Loss of value
 - Actual loss of money
 - Taxes paid on worthless shares
 - Options underwater
 - Dreams crushed
 - Perceptions dashed



Thank you for your participation!

Any Questions?

FRS Equity Strategies
Outsourcing, Consulting, Training
For Equity Compensation
Santa Clara, CA
www.equity-strategies.com