

Deep Dive #2: Max Eligible Compensation Overview

This section provides an illustrative example of the mechanics behind the eligible compensation cap component of the proposed ESOP equity allocation requirements.

Most existing ESOP companies allocate equity to their employees based on relative levels of payroll. A company might target a 5% “ESOP Benefit Level”, such that every employee is awarded ESOP shares with a value equal to 5% of their annual payroll.

So an employee with a salary of \$50,000 will receive \$2,500 worth of ESOP equity that year. Another employee with a salary of \$100,000 would receive \$5,000 of equity. An employee with a \$200,000 salary would receive \$10,000, and so on.

No Capping Mechanism						
Employee	Salary	Benefit Level	ESOP Award	% of Total		
				Salary	ESOP Awards	
Employee A	\$50,000	5.0%	\$2,500	7%	7%	
Employee B	100,000	5.0%	5,000	13%	13%	
Employee C	150,000	5.0%	7,500	20%	20%	
Employee D	200,000	5.0%	10,000	27%	27%	
Employee E	250,000	5.0%	12,500	33%	33%	
Total	\$750,000	5.0%	\$37,500	100%	100%	

However, consistent with our Core Principals, we are endeavoring to disproportionately benefit “rank and file” workers, with less of an emphasis on highly compensated employees. As a result, we have incorporated a \$150,000 “cap” to eligible compensation that can be considered for purposes of allocating equity. This means that any compensation above this level for any particular employee will be disregarded for purposes of determined ESOP allocations. As a result, senior management employees making hundreds of thousands (or more) will not be receiving meaningfully more equity than a rank and file worker earning only \$50,000.

With Capping Mechanism - No Size Adjustments							
Employee	Salary			Benefit Level	ESOP Award	% of Total	
	Actual	Max Eligible	Effective			Salary	ESOP Awards
Employee A	\$50,000	\$150,000	\$50,000	5.0%	\$2,500	7%	8%
Employee B	100,000	150,000	100,000	5.0%	5,000	13%	17%
Employee C	150,000	150,000	150,000	5.0%	7,500	20%	25%
Employee D	200,000	150,000	150,000	5.0%	7,500	27%	25%
Employee E	250,000	150,000	150,000	5.0%	7,500	33%	25%
Total	\$750,000	\$150,000	\$600,000	5.0%	\$30,000	100%	100%

Lastly, this cap will naturally lead to a lower dollar benefit level (in aggregate) as compared to an unconstrained allocation model as it is not awarding equity on a significant portion of executives' compensation. Therefore, the company could (if desired) increase the % benefit level to such a point that they would "break-even" with the unconstrained allocation model. By increasing the % benefit level in such a manner, one could increase the ESOP benefit to Employee A in the examples above from \$2,500 per year to \$3,125 per year (a 25% increase). This can be accomplished without moving the overall "cost" to the company as the equity to fund this incremental award is afforded by the cap applied to senior/executive employees.

With Capping Mechanism - With Size Adjustments							
Employee	Salary			Benefit Level	ESOP Award	% of Total	
	Actual	Max Eligible	Effective			Salary	ESOP Awards
Employee A	\$50,000	\$150,000	\$50,000	6.3%	\$3,125	7%	8%
Employee B	100,000	150,000	100,000	6.3%	6,250	13%	17%
Employee C	150,000	150,000	150,000	6.3%	9,375	20%	25%
Employee D	200,000	150,000	150,000	6.3%	9,375	27%	25%
Employee E	250,000	150,000	150,000	6.3%	9,375	33%	25%
Total	\$750,000	\$150,000	\$600,000	6.3%	\$37,500	100%	100%