WELCOME

Dr. Bill Castellano
Chair and Professor HRM Department
Executive Director of Rutgers NJ/NY Center for Employee Ownership
Rutgers University School of Management and Labor Relations
Rutgers Institute for the Study of Employee Ownership and Profit Sharing

- Largest research operation in the world
- More than 120 research fellows
- 10-20 competitive research fellowships per year
- A major presence in Federal and State policy
- Offer two major research conferences annually
- Home of NJ/NY Center for Employee Ownership
Rutgers NJ/NY Center for Employee Ownership

• **Raise awareness.** Communicate our research and sponsor seminars and conferences on the benefits of employee ownership.

• **Create more employee ownership.** Provide technical advice through our faculty and advisory board to increase the number of new companies offering employee ownership.

• **Improve New Jersey’s and New York’s economy.** Offer training programs and advice to help companies strengthen New Jersey’s and New York’s economy by retaining, developing, and expanding the local workforce through employee ownership.
Thank You To Our Sponsors!

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Employee Ownership Foundation

Menke & Associates, Inc
ESOP Advisors and Investment Bankers

Morgan Stanley

O'Connor Davies
Accountants and Advisors

SES | ESOP Strategies
A Stevens & Lee/Griffin Company

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<table>
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<tr>
<th>Time</th>
<th>Session</th>
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<tr>
<td>8:30 a.m. – 9:30 a.m.</td>
<td>Registration and Breakfast</td>
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| 9:30 a.m. – 10:30 a.m. | Conference Welcome General Session: Thinking Strategically about Your Equity Compensation Program.  
|                    | William Castellano, Ph.D. Department Chair/Professor Executive Director, Rutgers NJ/NY Center for Employee Ownership  
|                    | Rutgers School of Management and Labor Relations                                           |
| Session 1  
10:45 a.m. – 11:45 a.m. | ESOP Track Business Succession, the ESOP Value Proposition, and Alternatives  
|                    | John Vitucci, Principal, Employee Benefit Services, PKF O'Connor Davies                  |
|                    | Equity Compensation Track Trends in Equity Compensation Programs  
|                    | Sharmon Priaulx, Managing Director, PricewaterhouseCoopers, People and Organization and  
<p>|                    | Maria Robins, Vice President, Morgan Stanley                                             |
| 11:45 a.m. – 12:45 p.m. | Lunch                                                                                      |</p>
<table>
<thead>
<tr>
<th>Session 2</th>
<th>ESOP Track</th>
<th>Equity Compensation Track</th>
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<tr>
<td>1:00 p.m. – 2:00 p.m.</td>
<td>Valuation and Financial Fairness Considerations in ESOP Transactions</td>
<td>Offering an Employee Stock Purchase Plan Your Participants Will Value</td>
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<tr>
<td></td>
<td>Aziz El-Tahch, Managing Director, Valuation Advisory, Stout Risius Ross, LLC</td>
<td>Charles Russo, Vice President, Regional Manager, Computershare</td>
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<tr>
<th>Session 3</th>
<th>ESOP Track</th>
<th>Equity Compensation Track</th>
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<tr>
<td>2:15 p.m. – 3:15 p.m.</td>
<td>Legal and Fiduciary Responsibilities</td>
<td>Financial Wellness and Equity Plan Value</td>
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<tr>
<td></td>
<td>James G. Steiker, Chairman and CEO, SES ESOP Strategies</td>
<td>Nupur Bahal, Executive Director, Workplace Financial Wellness, UBS</td>
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<tr>
<th>Session 4</th>
<th>Company Panel – ESOP</th>
<th>Company Panel – Equity Compensation</th>
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<tr>
<td>3:30 p.m. – 4:30 p.m.</td>
<td>Menke &amp; Associates, Inc. Phil DeDominicis, Managing Director</td>
<td>Campbell Soup Company Dan Ferretti, Manager, Compensation Operations</td>
</tr>
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<td>Turtle &amp; Hughes, Inc. Chris Rausch, Chief Financial Officer</td>
<td>Johnson &amp; Johnson Jane E. Poli, Finance Manager, Equity Compensation Resources</td>
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<td>Visual Graphic Systems Inc. Paul Theodore, President and CEO</td>
<td>Public Service Enterprise Group (PSEG) James Mooney, Manager Compensation</td>
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<tr>
<th>4:30 p.m. – 5:30 p.m.</th>
<th>Closing Presentations</th>
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<td>Chris Davis, Chief Financial Officer, Managed by Q Inc.</td>
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<td>Hanna Mori, Deputy State Director, U.S. Senator Cory Booker</td>
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| 5:30 p.m. – 6:30 p.m. | Networking Reception | |
Thinking Strategically About Your Equity Compensation Program

Dr. Bill Castellano
Chair and Professor HRM Department
Executive Director of Rutgers Center for Employee Ownership
Rutgers University School of Management and Labor Relations
AGENDA

• Brief History
• Economic Drivers / Trends
• Who Owns Equity
• Why Equity: Strategic Benefits
• How to Improve the ROI on Equity Programs
• How Rutgers Can Help
Brief History of Capital Shares in the U.S.

• Washington signs law on Feb 16, 1792 to divide tax credits among cod fisherman and owners. 5/8ths going to the crew.

• Over the next 100 years Presidential administrations supported practical policies to broaden land ownership, including cheap pricing, the use of leverage (similar to the ESOP idea), and homestead grants as in Lincoln’s Homestead Act.

• The initial idea was to broaden the ownership of land to grow an independent middle class whose economic stability would support political liberty.
Brief History of Capital Shares in the U.S.

- Representative Galusha Grow said that the future of the homestead idea was in shares in corporations.

- By the end of the 1800s and in the early 1900s industrialists such as Charles Pillsbury, George Eastman (Kodak), and William Cooper Procter (Proctor & Gamble) developed a number of models similar to broad-based stock options and the ESOP using leverage.
The 21st Century Economy

- Disruptive Technology
- Increasing Global Competition
- Slowing U.S. Labor Force Growth Rate

**Major Economic Challenges**

- Below average GDP growth rates
- Greater reliance on Human and Intellectual Capital
- Income and Wealth Inequality
- Concentrated Equity Ownership

New Normal
Economic New Normal

- Slower Economic Growth
- Greater Reliance on Intangible Assets
- Need to Attract and Retain Talent
Labor’s contribution to GDP growth is disappearing, so productivity must pick up the slack.

GDP growth, rolling 5-year periods, CAGR,$^1$ %

- Employment
- Productivity

$^1$Compound annual growth rate.

Source: The Conference Board Total Economy Database; International Labour Organization; United Nations Population Division; McKinsey Global Institute analysis
COMPONENTS of S&P 500 MARKET VALUE

<table>
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<tr>
<th>Year</th>
<th>Tangible Assets</th>
<th>Intangible Assets</th>
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<tr>
<td>1975</td>
<td>17%</td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>68%</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td>80%</td>
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<tr>
<td>2015*</td>
<td></td>
<td>84%</td>
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SOURCE: OCEAN TOMO, LLC
*JANUARY 1, 2015
Decoupling of Productivity and Income Growth

Productivity Growth vs. Income Growth

Our reliance on debt has destroyed the salaries of wage earners

Economic Policy Institute
Holdings of U.S. Family Wealth, in Trillions of 2013 Dollars

Richest 10% of families: 76%
Families between top 10% and poorest 50%: 22%
Poorest 50% of families: 1.5%

Source: Congressional Budget Office, "Trends in Family Wealth, 1989-2013"
U.S. Real Weekly Wages, 1979-2016

Share of Total Assets by Asset Category, United States, 2013

Employee owners among all private sector employees, 2014 (GSS data)

2002: 20.1%
2006: 17.1%
2010: 17.8%
2014: 19.5%

24.2 million employees in 11.7 million families
Who Owns Equity

Percent By Number of Employees

- **less than 2,000**: 29%
- **2,000 - 9,999**: 32%
- **10,000+**: 38%

Source: GSS Data 2014
Who Owns Equity: Across Occupations

Source: GSS Data 2014
Who Owns Equity: Annual Wage Earners

Percent who owns stock

- <$30k
- $30k - $50k
- $50k - $75k
- $75k+

Percent who owns stock
Who Owns Equity

19% of Non-Union Workers

21% of Union Workers

Source: GSS Data 2014
Equity: How Much?

- Average, the nation: $45,000
- Median, the nation: $8,000

Mean/Median, 1st 25%: $175,000/$92,000
Mean/Median, 2nd 25%: $26,000/$26,000

Average for ESOPs nationally: $124,000

Source: GSS Data 2014
Equity: Why?

- Increased productivity
- Higher return on equity
- Lower turnover
- Greater co-monitoring of fellow workers needing help
- Greater loyalty
- More willing to work hard
- Make more suggestions and more innovative
- Higher Trust Index (Copyrighted by GPTW Institute)
Equity: Why

Equity Compensation

Employee Outcomes
- Higher Commitment
- Lower Turnover
- Discretionary Effort
- Co-Monitoring
- More Suggestions

Strategic Outcomes
- Productivity
- Innovation

Financial Outcomes
- ROE

Return on Equity Contribution

Creating an Ownership Culture to Enhance Returns

- Information Sharing
- Empowerment
- Employee Involvement
- Training & Development
- Job Security

An **HR system** refers to how different HR practices are used in combination to address three primary issues:

- **Work Environment**
- **Employee Competencies**
- **Employee Attitudes and Behaviors**

**Equity Compensation** as part of an HR system:

- **Job Design**
- **Organizational Structure**
- **Participation / Empowerment**
- **Recruitment, Selection, Training & Development**
- **Incentives and Rewards**
- **Performance evaluation**
Strategic HR Management

Strategic HR Management refers to the use of different HR practices to encourage employee contributions that facilitate the achievement of competitive advantage.
Equity: How? The Contingencies.

• Fixed pay at or above the market

• No wage substitution

• Supervision that is participative, not hierarchical

• Long-term equity + short term profit/gain sharing

• Separate diversified retirement plan.

• Lower risk equity that is granted or purchased under favorable circumstances

TWO RISKS

1. The risk of having no wealth
   • Accumulating Equity is a key driver of employees’ wealth creation.

2. The risk of not being diversified
   • Harry Markowitz (Nobel Prize, 1990) found that no more than 15% of an diversified portfolio should be in company stock.
# How to Deliver Equity Comp Information

<table>
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<tr>
<th>Delivery Method</th>
<th>Pro</th>
<th>Con</th>
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<tbody>
<tr>
<td>Live Presentation</td>
<td>Dynamic and Interactive</td>
<td>Limited Audience</td>
</tr>
<tr>
<td>Streaming Presentation</td>
<td>Dynamic and Interactive</td>
<td>Limited Interaction</td>
</tr>
<tr>
<td>E-mail</td>
<td>Fast and Large Audience</td>
<td>Static and Limited Interaction</td>
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<tr>
<td>Wiki</td>
<td>Real-time updated content &amp; Employee Engagement</td>
<td>Constant Maintenance / Monitoring</td>
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<tr>
<td>Internal Web Site</td>
<td>Large amount of information in centralized location</td>
<td>Access may be restricted or not available to all employees</td>
</tr>
<tr>
<td>Blog</td>
<td>Deliver timely and event driven information</td>
<td>Limited Scope / Quickly Outdated</td>
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<tr>
<td>Letter</td>
<td>Deliver information to participants that do not have access internally.</td>
<td>Participants may not read or incorrect address</td>
</tr>
<tr>
<td>Flyer or Handout</td>
<td>Deliver information when posting online is not an option</td>
<td>Limited Audience</td>
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Results Are Big Data Driven

• National Bureau of Economic Research with support from the Rockefeller Foundation and the Russell Sage Foundation

• General Social Survey of NORC/University of Chicago with support from the NSF and EOF and your taxes

• Great Place to Work Institute with support from the Alfred P. Sloan Foundation

• US Department of Labor Form 5500s with support from your taxes.
Measuring Success of Equity Compensation

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<tr>
<th>Workforce Mindset</th>
<th>HR System</th>
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<tr>
<td>What do you want your workforce to know about their Equity Compensation?</td>
<td>Are HR practices aligned to create a high performance culture for your company?</td>
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<tr>
<th>Strategic Talent</th>
<th>Leader Behavior</th>
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<tr>
<td>Do employees know how they create customer/economic value for your company?</td>
<td>Do leaders behavior help build and sustain a high performance culture?</td>
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Sample of Equity Comp Research Survey Questions

- Shared Capitalism Index (NBER)
- Profit Sharing as Percent of Pay (GSS and NBER)
- Individual Bonus as Percent of Pay (GSS and NBER)
- Employer Stock as a Percent of Pay (GSS)
- Stock Options as a Percent of Pay (NBER)
- 401(k) as a Percent of Pay (NBER)
- Fixed Pay at or above Market (NBER)
- Fringe Benefits (GSS)
- Grade of Company on Benefits (NBER)
- Total Compensation compared to Market (NBER)
Sample of Equity Comp Research Survey Questions

• High Performance Work Practices (NBER)
• Employee Participation in Decisions (GSS)
• Employee Training (GSS)
• Work as Part of a Team (GSS and NBER)
• Job Satisfaction (GSS)
• Co-Worker Relations (GSS and NBER)
• Job Security and Expectations (GSS and NBER)
• Responding to Shirking (GSS and NBER)
• Risk Aversion and Preferences Over Pay (NBER)
Research on Your Company

• Volunteer Research Fellows available
• Can Design and Administer your employee surveys and Analyze your Results
• Help develop Solutions to improve your ROI

• For more information contact:
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  castellano@smlr.Rutgers.edu
  www.ownership.Rutgers.edu/event