



U.S. Capital Markets: What can we learn from them?

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U.S. Markets: Overview

- **Leading U.S. Exchanges**
 - **NASDAQ** largest and most renowned U.S. stock exchange (founded in 1971, operated by NASDAQ OMX Group - acquiring the Philadelphia Stock Exchange founded in 1790, the oldest U.S. stock exchange):
 - world's first electronic stock market
 - most listed companies in U.S. market (approximately 3,200)
 - trades more volume than any other U.S. exchange (approximately 2 billion shares daily)
 - more IPOs than any other U.S. exchange (over 500 since 2000)
 - **NYSE** second largest U.S. stock exchange (dates back to 1792, operated by the NYSE Euronext group)
 - second largest U.S. market by listed companies (approximately 2,800 listed securities)
 - largest market by USD volume of listed securities

U.S. Markets: Overview

- Why so many companies list on U.S. Stock Exchanges?
 - Raise Capital (upgrade or expand)
 - Creates liquidity (market for shares, facilitates share option schemes)
 - Exit opportunity/realize profits (founders, Angel Investors, VC and PE)
 - Signals strong Corporate Governance measures to investors (regulatory compliance)
 - Good Public Relations (advertising/press coverage)

Agency Problems of Listed Companies: Aligning Interests

- Proxies for increasing shareholder value in the U.S.
 - Corporate Governance (management/boards)
 - Fiduciary duties (care, loyalty and good faith)
 - SEC regulated
 - Rule of Law (management/boards/stakeholders)
 - U.S. pioneered securities regulations
 - Established case law (common law)
 - Class action mechanism no loser pays rule
 - Contingency fees (easier to bring claims)
 - Share Option Plans (management/employees)

U.S. Share Option Plans

Value to Company

- Aligns employee's interests with those of the stakeholders
- Attracts/retains employees
- Increased employee motivation/productivity
- Defers benefit payments to employees over time
- Risk is shared with employees

Value to Participant

- Encourages employees to be proud of their work
- Employees personally gain from success of the Company
- Listing securities creates liquidity and a market for employees holding shares
- Less risk (employee can choose not to exercise option)

Typical Share Option Structures

- Contract between a company and its employees granting employees a right to buy company shares
- Fixed share option grant price (locks in current share price or other fixed price for exercising the option)
- Vesting period (typically 2-7 years, partial/full vesting)
- Special share option plans granted to management and key employees
- General share option plans granted to all employees
- Part of employee compensation package

Taxation of U.S. Share Option Plans

■ Qualified Incentive Plans

- Favorable taxation for employees and no company taxation
- No taxes paid when option is exercised
- Capital gains tax paid on spread between the exercise price and sale price by the employee when shares sold (max. rate is 15%)
- Holding requirement (two years from grant of option and one year from exercise date)
- Losses can be offset

■ Nonqualified Incentive Plans

- Favorable tax deduction for company (offsets)
- Employee pays income tax on spread between option price and market price when option is exercised
- Employee pays capital gains tax on spread between the market price at time option is exercised and price of the shares sold
- No holding requirement
- Losses can be offset

Employee Share Ownership Plans

- Retirement plan (not a share option plan)
- Deferred pre-tax compensation
- Company contributes its shares to the plan for the benefit of its employees
- Vesting period (typically 5-7 years)
- Employee does not buy or hold shares in the company directly
- Limited rights to sell the shares and reinvest in other securities (diversify employee risk/leave company)

How Estonia Can Benefit

- Employee ownership can provide benefits to growing Estonian companies and add shareholder value by aligning interests with stakeholders and increase employee retention
- More favorable taxation policies for Estonian companies and employees related to share option plans should be considered to encourage such plans
- Listing companies on the local stock exchange can facilitate employee share option plans by providing a liquid market for the shares held by employees

Thank you!

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