


The Issuer's Guide to Cashless Participation®


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Cashless Participation 101

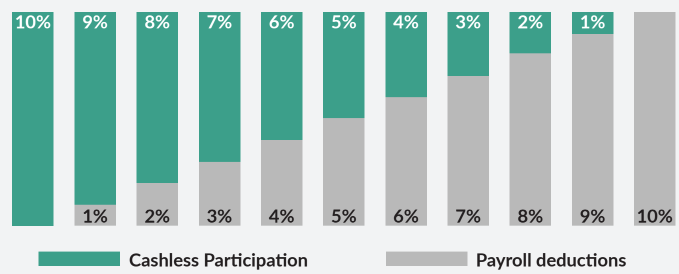
Maybe you've seen Cashless Participation mentioned in a LinkedIn post, perhaps you've seen it show up on an industry conference agenda, or maybe you're offering it at your company. Regardless of where you may have noticed it, Cashless Participation is working its way into the fabric of Employee Stock Purchase Plans (ESPPs) everywhere. And, for companies, that means the opportunity to help employees worldwide participate in their ESPPs and build a meaningful ownership stake in their company.

What is Cashless Participation?

Cashless Participation is an award-winning ESPP enhancement that public companies can use to help their employees own more meaningful amounts of company stock, without shrinking their paychecks. It makes ESPPs financially accessible to all eligible employees, rather than exclusively those more highly compensated employees who have more free cash flow. ESPPs enhanced with Cashless Participation are called Cashless ESPPs™.

It's a new way to participate

Cashless Participation helps eligible employees (EEs) own more without shrinking their paychecks. This means all EEs can afford a meaningful equity stake, not just those with disposable income.



In a Cashless ESPP, participants can elect any payroll deductions affordable to them, and their contribution is supplemented with a Cashless Participation Boost, up to a limit set by their company. **The Cashless ESPP enables participating employees to own, on average, 50% to 150% more company stock than they otherwise would have been able to afford.**

Why Is Cashless Participation Important?

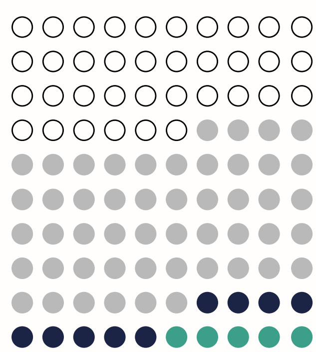
Employees in many households face severe barriers to achieving common financial goals, such as owning a home, investing in education, paying back a student loan, and saving for retirement. The COVID-19 pandemic has exacerbated and heightened financial inequities, as shown below.

Median **income across US households fell by 3%** due to the pandemic, from 2019 to 2020[1]

Inflation is rising at staggering levels around the world in 2022[2]

1.8% 2019 inflation rate

9.2% 2022 inflation rate



An estimated 64%[3] of Americans **live paycheck to paycheck.**

22% of those living paycheck to paycheck **report struggling to pay bills.**

40% of those struggling to pay bills say they **would not be able to pay a $400 emergency expense.** And this problem is not unique to America.[4]

[1] https://www.bankrate.com/personal-finance/median-salary-by-age/ [2] https://www.washingtonpost.com/business/2022/02/09/inflation-rise-prices-consumers-us-world/ [3] New Reality Check: The Paycheck-to-Paycheck Report, March 2022, by PYMNTS.com and LendingClub [4] https:www.bruegel.org/2020/05/two-months-before-the-cliff-millions-of-europeans-cannot-afford-food-and-lodging-after-two-months-without-income/

Given financial barriers, it shouldn't be surprising that many employees are not participating in their ESPP, and many of those who do are not maximizing the available benefit.

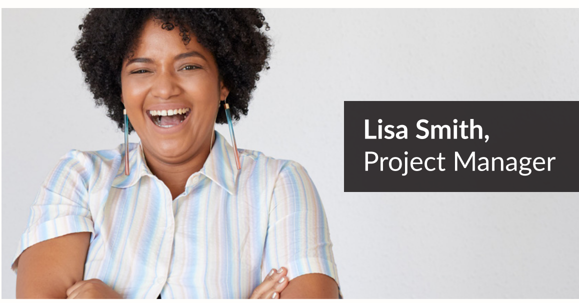
As a result, not only are a cohort of eligible employees missing out on the benefits of these programs, but companies are missing out on the benefits of higher participation levels, including **increased employee ownership, heightened employee engagement, longer tenured employees, and the market competitiveness of this benefit.** Additionally, Cashless ESPPs are a shareholder friendly way to support companies' diversity, equity, and inclusion (DEI) alongside environmental, social, and governance (ESG) goals.

So, on average, what does participation in a Traditional ESPP with a 6-month purchase period, 15% discount and lookback look like?

- **30% participation**
  across eligible employees[5]
- **8% contribution**
  is the highest average
  (other designs averaging 5-6%)[6,7]

How Does Cashless Participation Work?

To illustrate the mechanics and workings of the Cashless ESPP, we'll walk through the example of Lisa Smith, a fictitious project manager at a publicly traded company.



Lisa Smith,
Project Manager

Meet Lisa:

Lisa has been working at her publicly traded company for 3 years. She has never been able to participate in her Traditional ESPP because she's been balancing competing financial obligations. This year, however, Lisa's company rolled out a Cashless ESPP which empowered her to finally participate in the Plan.

About Lisa

Salary:
$65,000/year

Financial Obligations:

- 401(k) [max contribution]
- ESPP (1%)
- Mortgage
- Student loans
- Household expenses

Plan Snapshot

Plan Length:
6 month purchase period

Eligible Pay Contribution Allowance:
1% -15%

Features:
Look-back provision, 15% discount and Cashless Participation

Lisa's 6-month Cashless ESPP Contributions:

Given Lisa is still balancing her financial obligations, she elected to contribute 1% of her eligible pay ($325) at her company's ESPP enrollment.

$$\frac{\$65{,}000}{2} \times 1\% = \mathbf{\$325} \text{ (Eligible pay contribution)}$$

Thanks to the Cashless ESPP, Lisa was able to opt-in to Cashless Participation, giving her a Cashless Boost of 14% of her eligible pay ($4,550).

$$\frac{\$65{,}000}{2} \times 14\% = \mathbf{\$4{,}550} \text{ (Cashless Boost)}$$

Lisa's Company Stock Movement over the Purchase Period

The price at the beginning of the Offering Period was $35. The price on the Purchase Date was $50. Lisa's 15% discount was applied to the lower of the two ($35), making the purchase price $29.75 per share.

Where does Cashless Participation Come In?

After initially enrolling in her plan and opting-in to Cashless Participation, Lisa doesn't need to do anything else in support of her Cashless ESPP participation.

Once enrollment closes, Carver Edison sends Lisa's company the ESPP and Cashless Participation election data. Lisa's company uses this file for initial plan expense projections. When the company's Purchase Period begins, Lisa's 1% ($325) contribution is collected by her company in the same way it would be with a Traditional Plan.

As with a Traditional Plan, Lisa can make any plan-supported adjustments, including increases, decreases, withdrawals or termination, without penalty related to the Cashless Participation Boost.

On the Purchase Date, Carver Edison sends the $4,550 Cashless Boost directly to Lisa's company on her behalf. Lisa's combined buying power of $4,875 ($325 + $4,550) enables her to purchase 163 Total Shares.

$$\frac{\$325 \textit{ (Eligible pay contribution)} + \$4{,}550 \textit{ (Cashless Boost)}}{\$29.75 \textit{ (Purchase price)}} = \textbf{163 Shares Purchased}$$

Lisa instantly repays the Cashless Boost through an automated sale of a portion of her Total Shares. The shares she uses to pay back the Cashless Boost are called Repayment Shares, and they are sold at the lower of the fair market value on the Purchase Date and a Designated Sale Price (DSP), all as pre-determined with Lisa's company. These are shares that Lisa would have never otherwise been able to acquire at her elected payroll contribution. All thanks to Cashless Participation. All of this had been communicated to Lisa through robust EE training and educational materials that Carver Edison provided, with her company's approval, to her and her colleagues before the enrollment window opened.

Lisa was also able to use a calculator, hosted on her company's new ESPP educational center run by Carver Edison, in order to determine what her ownership would look like with the Cashless Boost (and what the Repayment Shares could look like for her).

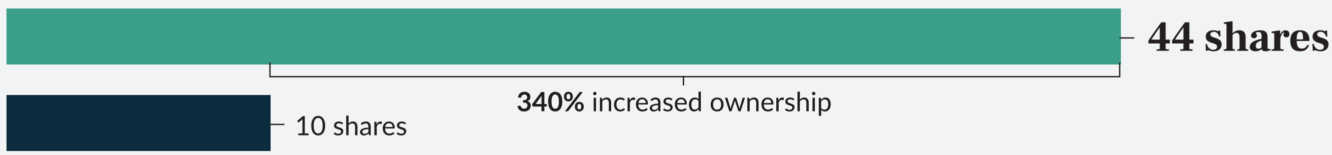
Carver Edison provides extensive communications, training, and an industry leading calculator to help employees determine what their ownership would look like with a Cashless Boost.

In this case, the DSP was 110% of the fair market value on the first day of the Purchase Period ($38.50). As such, Lisa automatically repays her Cashless Participation Boost through her 119 Repayment Shares on the Purchase Date. Lisa then gets to benefit from her enhanced share ownership, thanks to the Cashless Boost, which she sees directly in her brokerage account.

$$\frac{\$4{,}550 \textit{ (Cashless Boost)}}{\$38.50 \textit{ (DSP)}} = \textbf{119 Repayment Shares}$$

[5] https://www.plansponsor.com/equity-compensation-way-help-employees-build-wealth/ [6] 2022 Fidelity ESPP Data Analysis based on 291 Fidelity ESPP clients
[7] NASPP 2020 Stock Plan Survey

Lisa's Enhanced Ownership

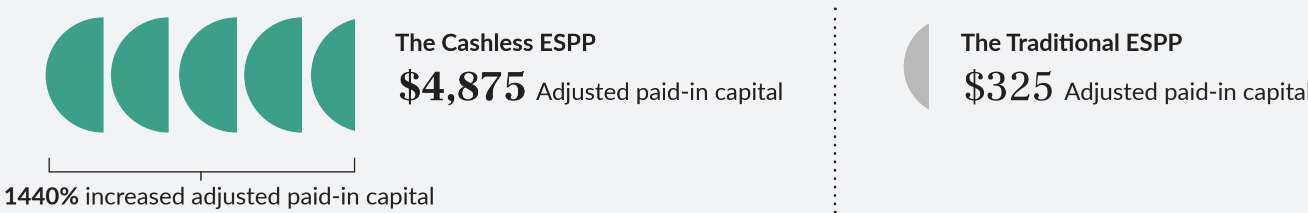


Thanks to Cashless Participation, Lisa owns 340% more shares than she would otherwise be able to afford.

Her 44 shares of company stock are deposited directly into her brokerage account - we call these Net Shares. *(Lisa would only own 10 shares without Cashless Participation).*

Lisa will have a tax impact (Disqualifying Disposition) triggered by the sale of the Repayment Shares, but **she is in an enhanced financial position, net of taxes, thanks to Cashless Participation, and she was able to plan for the tax event thanks to the calculator she used during enrollment.** *(See the Appendix for all calculations.)*

Lisa's Company's Impact



Lisa's company receives $4,875 of adjusted paid-in capital, rather than $325, thanks to the Cashless Boost. Assuming the company is profitable, it is also able to realize a tax asset due to the disqualifying disposition. Furthermore, the company is benefiting from a lower Fair Value of the Repayment Shares thanks to the DSP. (See the Financial Impact section for more details.) Following each Purchase Period, Carver Edison sends the company the final contribution data (employee contributions plus Cashless contributions) for expense true ups. At year-end, Carver Edison and the company's Plan Administrator send the company a file summarizing the Disqualifying Dispositions for import onto the W-2s.

Notably, Cashless Participation gives companies more flexibility in their plan design than ever before:

- **Manage share utilization:** Employees may access the Cashless Participation Boost up to a certain amount: either a fixed dollar amount or a percentage of eligible pay.
- **Manage expense:** Repayment Shares are less expensive than Traditional Shares thanks to the DSP
- **Financial flexibility for all and automatic enrollment option:** Companies have the ability to automatically enroll all eligible participants in the plan at zero percent, removing another longstanding barrier to participation.
- **Navigate 'no cash out' jurisdictions.**

How To Get Started With Cashless Participation

Getting started with the Cashless ESPP is easier than you may think. Though specific requirements may differ, below is a general overview capturing how to get started. Whether you currently have an ESPP, or are looking to implement a new plan, Carver Edison and Infinite Equity are here to help. We work directly with our clients to ensure each step toward implementation feels effortless.

START HERE

Is your company publicly traded?

Yes

Do you have an existing ESPP?

Yes

Review the definition of **employee contributions** in your Plan Document.
Is there flexibility to add Cashless Participation?

Yes

To do

- ✓ Draft resolutions to add Cashless Participation
- ✓ Update offering prospectus to describe Cashless Participation
- ✓ Compensation committee and/ or board approval required

No shareholder approval required

No

To do

- ✓ Draft Plan amendment to allow for Cashless Participation
- ✓ Update offering prospectus to describe Cashless Participation
- ✓ Board approval required

No shareholder approval required

More information

How do I know if my plan has flexibility to add Cashless Participation?

- Look at your Plan's definition of Eligible Contributions, does it specify payroll deductions only? Or are there other options?
- Does your Plan provide for an Offering Document?

No

To do

- ✓ Draft Plan and related documentation (e.g., offering document, Plan prospectus) to incorporate Cashless Participation

Board and shareholder approval required

No

Do you intend to go public?

Yes, Traditional IPO[1]

Yes, SPAC[2]

To do

- ✓ Draft Plan and related documentation (e.g., offering document, Plan prospectus) to incorporate Cashless Participation

Board approval required to adopt plan and shareholder approval should be obtained prior to IPO

More information

What additional information do I need to know about launching an ESPP with a traditional IPO?

- Include an evergreen provision in Plan while company is private to extend life of share pool
- Plan can be drafted so that offering period begins on day 1 to lock in IPO price for lookback; participants may be auto-enrolled subject to confirmation during enrollment window after Form S-8 is filed on IPO date

More information

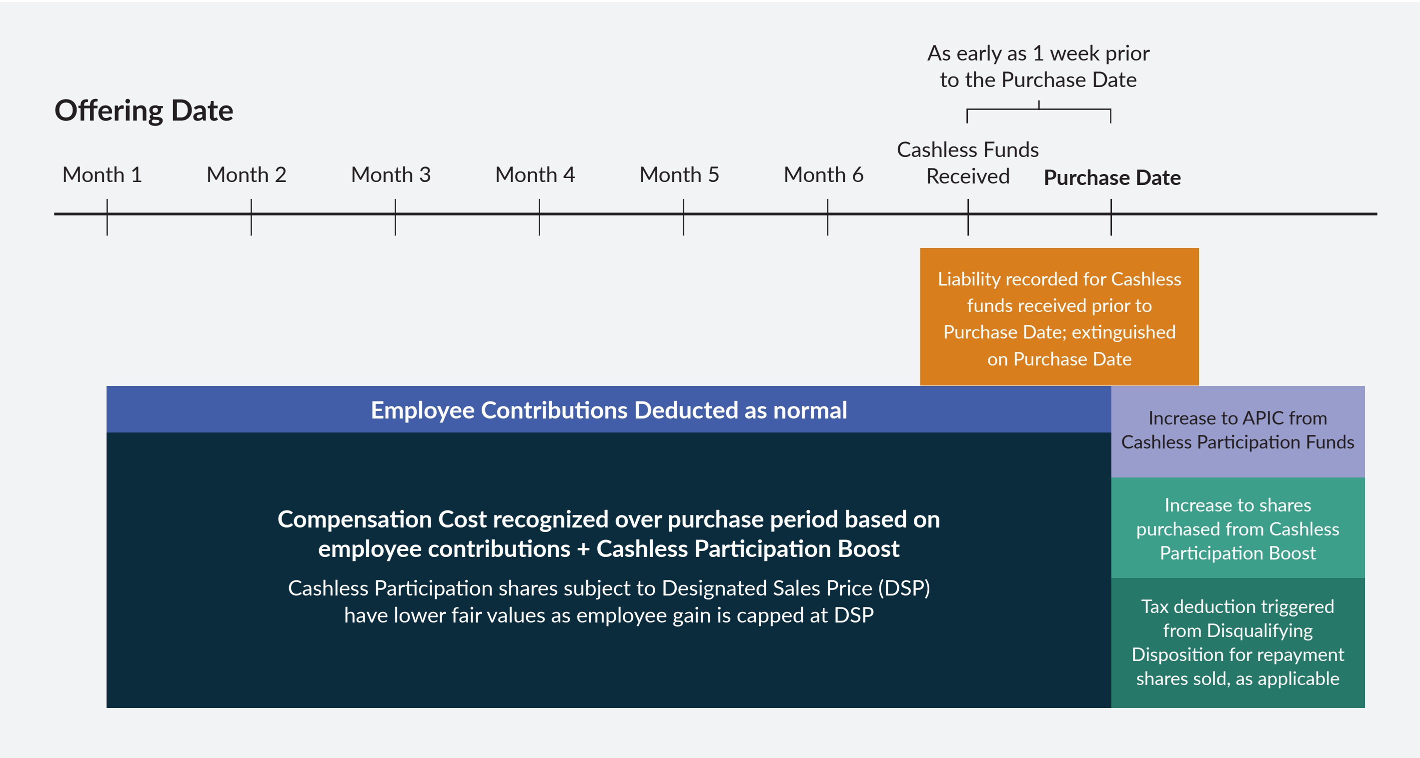
What additional information do I need to know about launching an ESPP with a SPAC?

- Include an evergreen provision in Plan while company is private to extend life of share pool
- Company must file a Super 8-K by day 5 of being public and then wait at least 60 days before it can file a Form S-8 for the Plan
- Plan can be drafted so that offering period begins on day 1 to lock in IPO price for lookback (though may have less importance than in traditional IPO context). Participants may be auto-enrolled subject to requirement that enrollment is confirmed within narrow window after Form S-8 is filed - but since Form S-8 cannot be filed for at least 60 days after IPO date, there will be missed pay cycles

[1] Initial public offering (IPO)
[2] special purpose acquisition company (SPAC)

Financial Impact

Now that you more fully understand the ins-and-outs of Cashless Participation, you may be curious about the corporate financial impact of implementing the enhancement. Below is an overview, illustrating what you can expect when it comes to the financial impact over the course of the offering period.



Contributions to an ESPP are the key driver of all the financial impacts.

The key financial impacts to note are:

- Contributions to an ESPP are recorded as additional paid in capital (APIC) and represent an increase in cash flow to the company. Cashless Participation increases these contributions, and thus increases APIC.
- Share purchased, or dilution, is directly impacted by contributions to the plan. The Cashless Participation Boost results in greater share ownership, and thus more shares purchased.
- Compensation cost is also directly impacted by contributions to the plan. Note that the DSP means that the shares purchased with Cashless Participation are essentially capped at the potential value delivered (up to the DSP), so the fair value is reduced accordingly.
- The automatic repayment shares on the Purchase Date trigger disqualifying dispositions, which result in a tax deduction for the company.

Given these impacts, a Cashless ESPP can be designed to meet a company's financial goals, balancing the positive impacts to APIC and tax deductions with dilution and compensation expense. Company limits on Cashless Participation should be carefully considered, balancing the benefits of increased ownership with company financial impacts.

Implementing Cashless Participation is more seamless than you may have thought, and we're here to help with every step of the process, whether you're simply looking to learn more or are ready for the next steps. Carver Edison and Infinite Equity provide plan communication support, financial reporting support and implementation support.

Also, the Carver Edison team provides enhanced Purchase Date support meaning your company gets even more beneficial ESPP support with a Cashless Participation Enhancement Plan.

To learn more visit **carveredison.com** or **infiniteequity.com**

The time has come for ESPPs to meaningfully benefit all employees, not just those who are already highly compensated. **Cashless Participation was created to make this a reality.**

Appendix

So how does this come together numerically?

Details	The Cashless ESPP	The Traditional ESPP
Payroll Contribution	**$325**	**$325**
Cashless Boost	$4,550	--
Total Eligible Contributions	$325 (Employee) + $4,550 (Cashless) = **$4,875**	**$325**
Participant Purchase Price	$35 x 85% = $29.75	$35 x 85% = $29.75
Total Shares Purchased	$4,875 / $29.75 = 163	$325 / 29.75 = 10
Designated Sale Price (DSP)	$35 x 110% = $38.50	--
Cashless Repayment Shares	$4,550 / $38.50 = 119	--
Net Shares	Total Shares Purchased – Repayment Shares = 44	10
Ordinary Income from Sale of Cashless Repayment Shares	119 shares x ($38.50 - $29.75) = $1,041.25	--
Residual Cash from Purchase of Shares and Sale of Cashless Repayment Shares	$57.25	$27.50
Taxes Due Later from Sale of Cashless Participation Repayment Shares (assume 24% tax rate)	$1,041.25 x 24% = $249.90	--
Net Shares Deposited into Brokerage	**44 shares**	**10 shares**
Total Value at Purchase (net of taxes)	$2,257.25 - $249.90 = **$2,007.35**	$527.50 - $0 = **$527.50**
Return at Purchase ($)	$2,007.35 - $325 = **$1,682.35**	$527.50 - $325 = **$202.50**
Return at Purchase (%)	$1,682.35 / $325 = **518%**	$202.50 / $325 = **62%**

*The above uses the following assumptions: Eligible compensation for participant during Purchase Period is $32,500 (i.e., $65,000 annual pay, over six months); a 1% payroll contribution election; and a Cashless Participation boost of 14% to make a maximum 15% contribution. Lower limitations may apply. DSP is 110% of the price at start of Purchase Period. Purchase Price is 85% of lower of the price at start of offering period ($35) and the price at Purchase Date ($50). The sale of Cashless Participation Repayment Shares produces ordinary income that may create a tax liability that is more or less than the assumed 24% rate, based on the participant's individual circumstances. Return at Purchase shows excess of value at purchase (net of taxes) over payroll contribution. Figures are rounded. Results above are illustrative and not a prediction or guarantee of any actual results.

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