LIST OF APPENDICES

Appendix A – SJF Advisory Services Heron and Rockefeller Foundation Final Report, 3/1/04

Exits and Employees Initiative – Summary of Best Practices Survey

As of February 2004

CDVC Funds Surveyed	Fund Size	Invested	Regional Focus	Total # Portfolio Co's	Still In	Exited to Date	Investment Composition	IDAs	Broad-Based Stock Options	401(k)	Home Ownership Assistance	Emp. Credit Unions	Profit Sharing & Bonuses	ESOPs	Financial Literacy Programs	Other	As of...
ACENet Ventures Fund	$2,200,000	$1,000,000	SE Ohio & NW W. VA	25	18	Loan payoffs (6)	Debt with royalties & debt with warrants										Feb-04
BCLF Ventures I, LLC	$5,030,000	$5,080,000	Northeast	13	8	2	Equity with some follow-on debt		x	x			x				Dec-03
BCLF Ventures II, LLC	$16,500,000	$8,277,207	Northeast	7	7	0	Equity & some debt		x	x			x				Dec-03
Coastal Enterprises, Inc.	$1,247,893	$1,247,893	Maine	12	3	7	Equity		x	x			x	x			Dec-03
Coastal Ventures, LP	$5,500,000	$4,666,148	ME, NH, VT	20	14	4	Equity and debt w/ warrants	x	x	x	x		x		x		Dec-03
Coastal Ventures II,LLC	$19,925,000	$6,321,022	Northeast	13	12	0	Equity and debt w/ warrants		x	x			x				Dec-03
Enterprise Corp. of the Delta	$50,000,000	$4,000,000	MS, AR, LA	8	5	0	Mostly equity / some near-equity	x	x				x				Dec-03
Kentucky Highlands Investmen	N/A	N/A	9 Southeastern counties in KY	N/A	N/A	N/A	N/A			x		x	x	x			Dec-02
Metafund Corporation	$10,000,000	$3,436,305	OK	12	10	0	Mostly Debt w/ Equity Kicker			x					x		Sep-03
Minnesota Investment Network	$15,000,000	$12,575,592	Rural MN	25	14	8	Common and preferred stock, & subord. debentures w/ warrants		x	x			x				Dec-03
Mountaineer Capital LP	$25,000,000	$10,000,000	W. VA and surrounding States	9	9	0	Equity or debt security with equity warrants and options		x	x							Feb-04
Murex Investments, Inc.	$5,200,000	$2,900,000	PA, NJ, DE	6	6	0	Equity and near-equity		x	x	x	x	x				Feb-04
Murex Investments I LP	$13,000,000	$1,500,000	PA, NJ, DE	5	5	0	Equity and near-equity		x	x		x	x				Feb-04
Northeast Ventures Corp.	$16,900,000	$15,750,000	MN	29	15	6	Equity and some debt		x	x			x				Dec-03
New York Community Investme	$0	$4,766,304	NY	52	11	31	Near-equity, equity, & debt		x	x			x				Dec-03
PCV I, LLC	$6,250,000	$3,549,960	California	N/A	N/A	N/A	Preferred stock & convertible notes	x	x	x			x		x		Dec-03
PCV II, LLC	$12,100,000	$3,511,040	California	N/A	N/A	N/A	Preferred stock & convertible notes	x	x	x			x		x		Dec-03
ShoreBridge Capital, Ltd.	$5,750,000	$4,000,000	Cleveland, OH	9	3	3	Mezzanine debt and some equity	x		x	x				x		Jun-03
SJF Ventures	$17,000,000	$8,326,688	Eastern U.S.	15	14	0	Equity and subord. debt		x	x			x			x	Mar-03
The Barred Rock Fund	$5,250,000	$2,500,000	Northeast US	11	9	1	Debt/Equity		x	x	x				x		Jan-04
TRF–DVCRF Ventures	$9,600,000	fully invested	Mid-Atlantic	10	3	5	Debt/Equity	x					x		x		12/30/03
TRF–Urban Growth Partners	$45,000,000	$11,500,000	Mid-Atlantic	4	4	1	Debt/Equity	x					x		x		12/30/03
West Virginia Jobs Investment T	$23,000,000	$16,000,000	WV	22	15	3	Mostly equity / some convert. debt		x						x		Jun-03

Note: An "x" under a wealth-building tool indicates participation in at least one portfolio company

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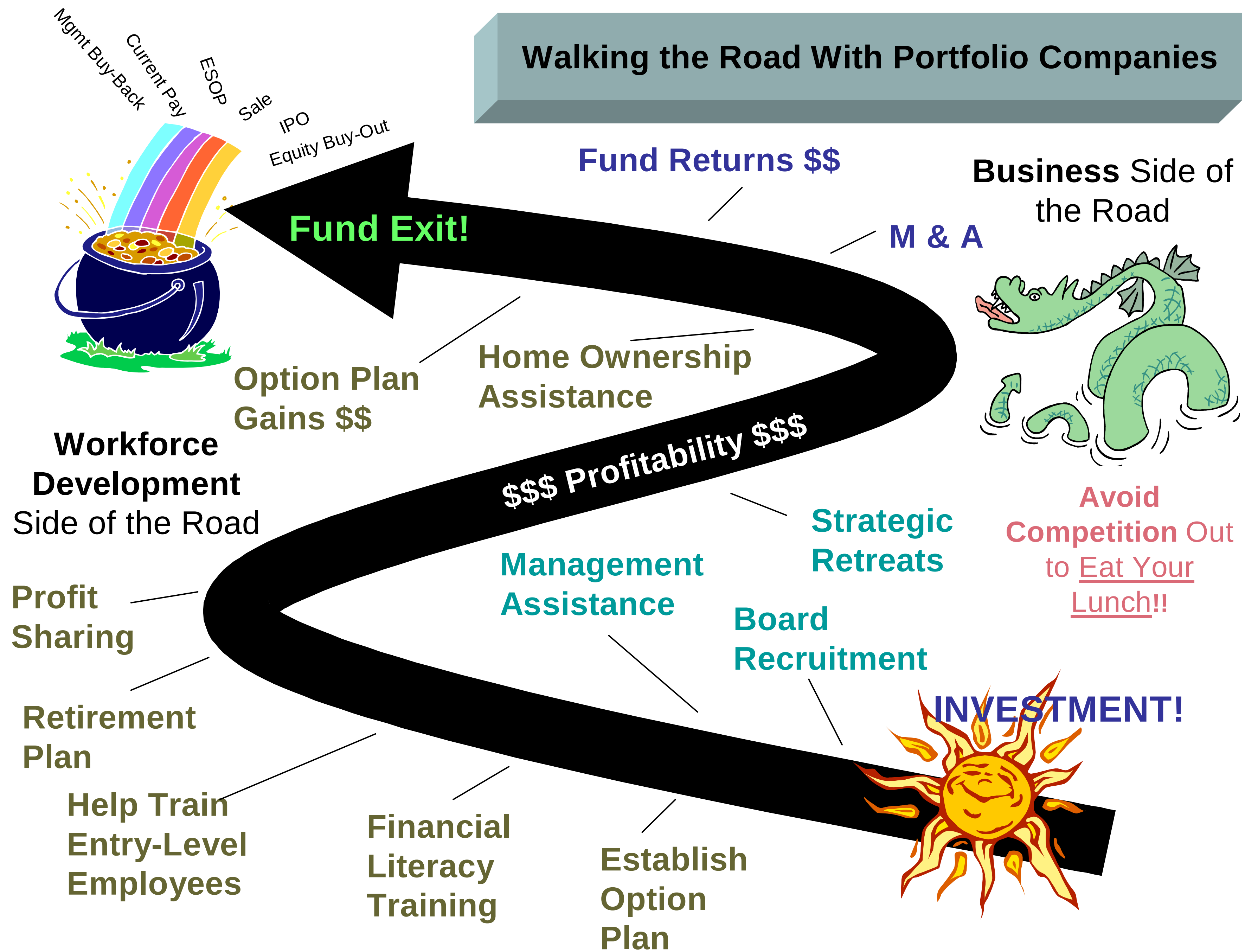
Note: An "x" under a wealth-building tool indicates participation in at least one portfolio company

Portfolio Companies Successfully Exited	Fund	IDAs	Broad-Based Stock Options	401(k)	Home Ownership Assistance	Emp. Credit Unions	Profit Sharing & Bonuses	ESOPs	Financial Literacy Programs	Other
City Fresh Foods, Inc.	BCLFV I						x			
Cooperative Home Care	BCLFV I									
Moss	CEI									
Delorme Publishing	CEI									
Architectural Skylight	CEI									
CV Finer Foods	CEI						x			
Intelligent Controls	CEI		x	x						
Soleras	CEI									
New England Audio Resource	CEI									
Freeboarders	CEI									
New England Audio Resource	CVLP									
e-Copy	CVLP									
CV Finer Foods	CVLP									
Alpine Medical	DVCRF		x	x			x			x
Accu-Search	DVCRF			x			x			
CEMA Technologies	DVCRF			x			x			
Verilaw Technologies	DVCRF / UGP		x	x			x			
Alpine Medical	DVCRF									
Diametrics Medical	NEV									
Full Circle Image	NEV									
Integ	NEV									
IntraTherapeutics	NEV									
Linguistic Technologies, Inc.	NEV									
Akkerman Manufacturing, Inc.	NEV									
Linguistic Technologies, Inc.	MINCorp		x	x			x			
StoneL Corporation	MINCorp		x	x			x			
Faribault Woolen	MINCorp		x	x			x			

APPENDIX B



Walking the Road With Portfolio Companies
Mgmt Buy-Back
Current Pay
ESOP
Sale
IPO
Equity Buy-Out
Fund Exit!
Fund Returns $$
Business Side of the Road
M & A
Option Plan Gains $$
Home Ownership Assistance
Workforce Development Side of the Road
$$$ Profitability $$$
Strategic Retreats
Avoid Competition Out to Eat Your Lunch!!
Management Assistance
Profit Sharing
Board Recruitment
INVESTMENT!
Retirement Plan
Help Train Entry-Level Employees
Financial Literacy Training
Establish Option Plan

Application of Exits and Employees Tools

SJF Advisory Services

Application of Exits and Employees Tools

Primary Goal / Tool	ISO	NSO	Phantom Stock	Profit-Sharing	IDA	ESOP	401(k)	Financial Literacy
Motivate employees	✓		✓	✓		✓		
Motivate board and contractors		✓						
Build employee wealth	✓	✓	✓	✓	✓	✓	✓	✓
Least complex plan			✓					
Share in exit gains	✓	✓	✓					
Employee ownership	✓	✓				✓		
Retirement savings						✓	✓	

APPENDIX D: Explanation of Broad-Based Stock Option Plans

Instrument	Description	Up-Front Cost to Employee	Tax Consequences to Employee	Tax Consequences to Employer	Administrative Restrictions	Pros/ Cons	Additional Comments
Incentive Stock Options or ISO (aka Qualified Stock Options or Statutory Stock Options)	An option to purchase company stock at a specified price for a specified period of time that qualifies for favorable tax treatment under IRS Code Section 422.	Employee pays cash to exercise options.	Taxed when stock is sold. Eligible for capital gains treatment if stock is disposed of after statutory holding period. If sold before end of holding period ("disqualifying disposition"), employee forced to recognize ordinary income <u>and</u> capital gain.	Employer cannot deduct income declared as capital gains. Employer can deduct income declared as ordinary in a year of a "disqualifying disposition." Employer does not have to withhold payroll taxes.	IRS Code Section 422, including: (1) options may be granted only to company employees; (2) option plan must be approved by shareholders; and (3) option price cannot be less than FMV of stock at time of grant. Not subject to ERISA.	***Pros***: Favorable tax treatment for employees. Most commonly used option. ***Cons***: Cash required to exercise option. Some risk to employees due to statutory holding period. Cannot be used for contract employees or board members. Less favorable tax treatment for employers.	Incentive Stock Option Plans can be discriminatory (i.e. they do not have to be offered on the same terms to all employees). Cash-less exercise may be allowed in the plan, or employers can provide Stock Appreciation Rights (SARs), to assist low-income employees in this purchase.
Non-Qualified Stock Options or NSOs (aka Non-Statutory Stock Options)	A stock option that does not qualify for favorable tax treatment under IRS Code Sections 422 or 423.	Employee pays cash to exercise options and for taxes on the phantom gain at the time of exercise.	When option is exercised, employee recognizes ordinary income subject to applicable taxes (unless the option has an ascertainable FMV at the time of issue). Stock eligible for capital gains treatment when sold.	The employer receives a tax deduction for the amount of ordinary income recognized by the employee. Employer withholds income taxes and payroll taxes.	Not subject to ERISA.	***Pros***: Greater flexibility for employers with respect to plan design, ability to offer option price at less than FMV. Can be used for contract employees or board members. Employer can deduct ordinary income recognized. ***Cons***: Cash required to exercise option. Reduced tax benefits for employees.	Cash-less exercise may be allowed in the plan, or employers can provide Stock Appreciation Rights (SARs), to assist low-income employees in this purchase.

Instrument	Description	Up-Front Cost to Employee	Tax Consequences to Employee	Tax Consequences to Employer	Administrative Restrictions	Pros/ Cons	Additional Comments
Employee Stock Purchase Plans (ESPP)	A plan under which a company allows employees to purchase stock at up to a 15% discount. Provides favorable tax treatment under IRS Code Section 423.	Employees pay cash to purchase stock; usually managed through direct payroll deductions.	Tax benefit received on payroll deduction. Income taxed when stock is sold. Eligible for capital gains treatment if held through statutory holding period. Employee recognizes ordinary income if exercise price was less than FMV at time of issue or if sold before	Employer cannot deduct income declared as capital gains. Employer can deduct income declared as ordinary in a year of a disqualifying disposition. In the case of a disqualifying disposition, the employer will have to withhold income tax and payroll taxes.	IRS Code Section 423 applies, including: (1) options can only be granted to company employees; (2) plan must be approved by shareholders; and (3) options must be granted to all full-time employees with more than 2 years history. Not subject to ERISA.	***Pros***: Favorable tax treatment for employees. Flexibility on option pricing. ***Cons***: Cash required to purchase stock. Statutory holding period applies.	Usually used in public companies. Regulations mandate that options be awarded to all, not just upper-management. The discounted price built into most ESPPs means that employees may be able to profit even if the stock price has gone down since the grant date.
Phantom Stock	A right to receive a cash bonus equal to either the value of a specified amount of company stock or the increase in that value over a period of time.	There is no cost to the employee. Employee account is credited with stock "units" instead of actual stock. Upon trigger event (ie: termination of employment), the employee receives cash bonus equal to the stock value or increase in value since time of award.	Cash bonus is taxed as ordinary income at the time it is received.	Employer receives a tax deduction for the amount of ordinary income recognized by the employee. Employer withholds income taxes and payroll taxes. Employer must recognize compensation expense as the value of the award increases.	Companies have to be careful they do not inadvertently create a de facto ERISA plan. In order to avoid being subject to ERISA regs, phantom stock should apply only to select employees (such as designated non-management employees)), and should not allow deferral of payments.	***Pros***: No cash outlay required by employee. Can provide employees with advantage of stock ownership and dividends without dilution of actual company ownership. ***Cons***: Avoidance of ERISA regs can limit impact of plan. No favorable tax treatment for employees. Company must have cash to pay out phantom options at time of liquidity event.	Primarily used in companies that want to share the economic value of equity, but not equity itself.

APPENDIX D (CONT.)

Instrument Description Up-Front Cost to Employee Tax Consequences to Employee Tax Consequences to Employer Administrative Restrictions Pros/ Cons Additional Comments

Instrument	Description	Up-Front Cost to Employee	Tax Consequences to Employee	Tax Consequences to Employer	Administrative Restrictions	Pros/ Cons	Additional Comments
Non-Employer Stock Options	An option to purchase the stock of a company other than the employer.	Employee pays cash to exercise option and pay taxes on the phantom gain at time of exercise.	When option is exercised, employee recognizes ordinary income subject to applicable taxes (unless the option has an ascertainable FMV at the time of issue). Stock eligible for capital gains treatment when sold.	Employer receives a tax deduction for the amount of ordinary income recognized by the employee; the employer withholds income taxes and payroll taxes (same as non-qualified stock options)	Employer must purchase the stock on which the options are being granted. Granting options under a non-employer SOP usually results in an annual charge to earnings, as compensation expense increases in line with stock appreciation.	***Pros***: If company stock has slow growth, provides additional opportunity for employee incentivization. ***Con***: Can be expensive, difficult to manage as employer.	For private companies, provides employees with stock that can be sold on the market as opposed to stock in their privately held employer.
Employee Stock Ownership Plans (ESOPs)	A defined contribution employee benefit plan in which a trust is created to buy and hold company stock. Shares of the trust are then allocated to individual employee accounts.	In almost every case, ESOPs are a contribution to the employee, not an employee purchase. The average ESOP contribution is 6%-10% of pay.	Employees pay tax only on distributions, which are taxed as ordinary income. Distributions are not taxed if rolled into an IRA or a successor plan. If distribution occurs when employee is under 59 1/2 years (55 if terminated), the employee pays an additional 10% excise tax. Dividends allocated to an employee's ESOP account are taxed at the time of allocation as ordinary income but are not subject to excise tax.	Contributions up to 25% of the covered payroll are generally tax deductible to the company (can deduct the full value of contributed stock). A corporation that repays an ESOP loan gets to deduct principal as well as interest (the entire contribution). Dividends are also tax deductible.	Company must formally adopt ESOP plan. IRS must approve plan's tax qualified status. Subject to ERISA.	***Pros***: Savings grow tax-deferred. No up-front cost to employees. Align employee incentives with company's long-term success. ***Cons***: The law does not allow ESOPs to be used in partnerships and most professional corporations. Private companies must repurchase shares of departing employees, and this can become a major expense. The cost of setting up an ESOP is substantial -- \$20,000+. Company	Recently, the average size of companies with ESOPs has been shrinking, as larger public companies have begun to terminate long-held plans. 5% of ESOPs are in public companies (median # of employees: 2,100). The median number of employees at private companies with ESOPs is 125. Over 80% of all ESOP participants also are in another company sponsored plan, often a 401(k) plan. Company owners can defer tax on the sale of stock to an ESOP if the ESOP holds 30% or more of the

APPENDIX D (CONT.)

Instrument	Description	Up-Front Cost to Employee	Tax Consequences to Employee	Tax Consequences to Employer	Administrative Restrictions	Pros/ Cons	Additional Comments
401(k) Plans	401(k) plans allow employees to make tax-deferred contributions to a trust and direct their investments among a variety of choices, getting their money back at departure or retirement.	Employees can contribute up to $11,000 per year. The contributions are withheld from an employee's paycheck. Companies can "match" employee donations in a variety of ways.	Employee contributions and employer matches are not subject to tax at the time they are made. Low-income employees who contribute to a plan are be eligible for a tax credit on up to $2000 in contributions. Employees are taxed on the entire amount (both the contributions and the gain) as ordinary income upon withdrawal at retirement.	Employer 401(k) contributions are deductible. Small businesses (100 employees or less) are eligible for an annual tax credit of 50% on up to $1000 of administrative costs for the first three years of a new plan. Other employers can deduct as a business expense costs related to the establishment and maintenance of a retirement plan.	Third party administrators maintain 401(k) plans. 401(k) Plans must comply with ERISA. Employers must undergo certain compliance tests each year to ensure non-discrimination. Employees must be provided with a Summary Plan Description and annual statement of account information. If the company's stock is offered, employees must receive the stock fund's prospectus.	***Pros***: A good benefit for employees. Company does not have to match immediately - can set up match at a later date. ***Cons***: Administrative burden.	Employer contributions generally take 1 of 3 forms: 1) a flat fixed-dollar amount; 2) a fixed % of each participant's pay; 3) a rate related to the employee's contribution to the plan. Many employers require employees to have worked for one year before they can enroll in the plan. Employees may legally withdraw 401(k) funds for allowable expenses (tuition, mortgage payment, medical expenses); cost of administering a withdrawal program can be cost-prohibitive to small companies.

Definitions

Stock Appreciation Rights (SAR)

A right, granted to an employee, to receive a bonus equal to the appreciation in the value of the company's stock for a predetermined number of shares over a specified period.

(SARs are very similar to phantom stock except that they can be exercised anytime after they vest as opposed to phantom stock payments which are usually made at a fixed, predetermined date)

Employee Retirement Income Security Act of 1974 (ERISA)

Designed to protect the retirement assets of Americans, by implementing rules that qualified plans must follow to ensure that plan fiduciaries do not misuse plan assets.

1) Requires plans to provide participants with important information about plan features and funding. The plan must furnish some information regularly and automatically. Some of this information is available free of charge

2) Sets minimum standards for participation, vesting, benefit accrual and funding. The law defines how long a person may be required to work before becoming eligible to participate in a plan, to accumulate benefits, and to have a non-forfeitable right to those benefits. The law also establishes detailed funding rules that require plan sponsors to provide adequate funding for the plan.

3) Requires accountability of plan fiduciaries. ERISA generally defines a fiduciary as anyone who exercises discretionary authority or control over a plan's management or assets, including anyone who provides investment advice to the plan. Fiduciaries who do not follow the principles of conduct may be held responsible for restoring losses to the plan.

4) Gives participants the right to sue for benefits and breaches of fiduciary duty.

5) Guarantees payment of certain benefits if a defined plan is terminated, through a federally chartered corporation, known as the Pension Benefit Guaranty Corporation.

6) Protects the plan from mismanagement and misuse of assets through its fiduciary provisions.

APPENDIX D (CONT.)

Capital Gains Treatment
Lump-sum distributions of qualified plan balances that accrued before 1974 may be eligible for capital gains treatment.
In other words, the distribution may be taxed at a rate of 20 percent, regardless of the recipient's ordinary income tax rate.
IRS Code Section 422:
1) option price must be set at Fair Market Value (FMV) of stock
2) can only be given to employees
3) option must be exercised within 3 months of employee leaving company and must be exercised within 10 years of grant
4) plan must be approved by stockholders
5) ISO agreement between employee and employer must exist
6) not subject to ERISA
IRS Code Section 423 (this section is more liberal than Section 422):
1) must be approved by shareholders
2) exercise price must be the same for all employees
3) exercise price cannot be less than 85% of FMV at the time of grant
4) options must be exercised within 5 years of grant
5) not subject to ERISA
Disqualifying Disposition
When stock is sold before the end of the statutory holding period
Statutory Holding Period
The later of two years after the employee's receipt of the option or one year after the employee's receipt of the stock
Potential New Sources
National Center for Employee Ownership web site (nceo.org)
Stock Options: An Authoritative Guide to Incentive and Nonqualified Stock Options (2nd edition) by Robert R. Pastore
Compensating employees with nonemployer stock options (from The Tax Adviser). Journal of Accountancy, July 2000. By Nicholas Fiore
Factors to Consider When Choosing Between ISOs and NSOs
1) If in the year in which gain is recognized there is little or no difference between ordinary income and capital gain marginal tax rates, one of the principal advantages (taxation at a capital gains rate) of the statutory stock option is removed.
2) The company obtains a deduction on exercise of a nonstatutory option equal to the income recognized by the employee. The company generally receives no deduction in the statutory stock option context unless there is a premature disposition by the employee.
3) The statutory option is still arguably preferable for the key employee because no income is recognized on the exercise of the option (unlike the situation with the typical nonstatutory option); income recognition of a statutory option is deferred until the employee disposes of the stock.
4) Nonstatutory options provide the employer with flexibility in plan design (because of lack of qualification rules). As a result, employers can tailor nonstatutory options to meet their particular needs. For example, nonstatutory options may be granted to non-employees, such as valued outside contractors or non-employee directors.
5) There is no requirement that the option price of a nonstatutory option be equal to the fair market value of the stock at the time of the option grant. Thus, the grantor of the nonstatutory option has complete freedom in setting the option price and the bargain purchase element.
6) Unlike statutory options, nonstatutory options can be granted pursuant to a plan that is effective for longer than 10 years, and the options can be outstanding for periods over 10 years from date of grant.
7) Nonstatutory options may be fully transferable, and there need not be any restrictions on the amount of options that can be exercised in a single year nor when the employee can dispose of the option stock after exercise.

APPENDIX D (CONT.)

When to consider a Phantom Stock plan
1) The company's owners want to share the economic value of equity, but not equity itself.
2) The company cannot offer conventional kinds of ownership plans because of corporate restrictions, as would be the case, for instance, with a Limited Liability Corporation, partnership, a sole proprietorship, or an S corporation concerned about the 75-owner rule.
3) The company already has a conventional ownership plan, such as an ESOP, but wants to provide additional equity incentives, perhaps without providing stock itself, to selected employees.
4) The company's leadership has considered other plans but found their rules too restrictive or implementation costs too high.
5) The company is a division of another company, but can create a measurement of its equity value and wants employees to have a share in that even though there is no actual stock.
6) The company is not a company - it is a nonprofit or government entity that nonetheless can create some kind of measurement that mimics equity growth that it would like to use as a basis to create an employee bonus.
ESOP Considerations
The employer must first conduct a feasibility study (extra cash flow to make contributions, contributions are deductible, repurchase obligation). Have an appraiser prepare a formal valuation report. Have an attorney prepare a formal plan document. Decide who will serve as the ESOPs trustee and who will administer the ESOP (can hire a professional trustee). In the case of a leveraged ESOP, financing must be secured. A10.
Broad-based Stock Option Plan
NCEO Definition: a plan that actually grants stock options to over half of a company's employees over a period of time.
The law requires that at a minimum the contributions vest at a rate of 20% a year and that employees are fully vested within 7 years.
ESOP contributions can be allocated to employees in proportion to compensation, or years of service, or a combination of both. Allocations must vest before an employee is entitled to receive them.
ESPP "look-back feature" allows employees to purchase shares at up to 15% off the price either at the beginning or end of the period in which they have set aside money to buy shares.
Section 1042
Section of the Internal Revenue Code allowing sellers to certain ESOPs to defer taxation on the gain of the sale of their stock by reinvesting in other securities called "qualified replacement securities."
Who qualifies for Section 1042?
Owners of stock in closely held "C" companies who have held that stock for at least three years prior to the sale. The ESOP must own 30% of the total value of shares in the company after the sale. Corporations do not qualify for Section 1042, but partnerships, estates, taxable trusts and individual owners do. The shares sold to the ESOP do not qualify if they were acquired as part of an employee benefit plan or though certain types of stock options.

APPENDIX E

<u>Table of Contents and Summaries of Articles Relating to IDAs and Asset Building</u>

Summary: This study of IDA design, implementation and administration was conducted during the first two years of a national policy demonstration (the American Dream Demonstration – ADD) that was established to test the efficacy of asset building initiatives for low-wealth individuals, households and communities. The evaluation of ADD is a six-year study (1997-2003) of IDAs at 13 sponsoring organizations nationwide.

Summary: This paper analyzes savings by low-income people that use IDAs for home purchasing, post-secondary education or self-employment. The study finds that in IDAs, higher match rates are associated with an increased probability of continued participation but also with a decreased level of savings.

Summary: The testimony addresses individual accounts and how it relates to asset-building for the poor. Specifically, one section (p. 2) discusses IDAs and how these accounts demonstrate that low-income individuals can save and benefit from progressive asset accumulation.

Summary: This is a summary of a large study known as the "American

Dream Demonstration" that has been conducted at 13 sites in the U.S. since 1997. This paper may be a good source for some quotes.

5. **Michael A. Stegman, Robert Faris, Oswaldo Urdapilleta Gonzalez, *The Impacts of IDA Programs on Family Savings and Asset-Holdings*, Center for Social Development, Washington University in St. Louis, 2000.** **Tab 5**

Summary: This paper supplements the national IDA pilot program "Down payment on the American Dream Demonstration." The subject examines if there was a financial impact on the net savings and assets of participants because they joined IDA programs.

6. **Mark Schreiner, Michael Sherraden…., *Savings, IDA Programs, and Effects of IDAs: A Survey of Participants*, Center for Social Development, Washington University in St. Louis, January 2001.** **Tab 6**

Summary: This survey report comes from the 11 foundations that fund the "American Dream Demonstration." The report relies on cross-functional data from current and former IDA participants in the American Dream Demonstration to address questions re: IDAs and their effectiveness as tools to help build assets and savings.

7. **Individual Development Accounts, from StateAction.org (www.cfpa.org)** **Tab 7**

Summary: A brief summary of IDAs, what they are, how they work and why they are important tools for asset building.

8. **Carl Rist and Jennifer Malkin, *IDAs and Small Communities: Self-Sufficiency Through Building Assets*, National Center for Small Communities: Small Community Quarterly Fall 2001** **Tab 8**

Summary: A brief overview of how IDAs are useful tools for asset building. The authors highlight IDAs in rural Kentucky to demonstrate why IDAs and classes on economic literacy can be integral to helping improve the finances of the poor.

9. *Finding Paths to Prosperity,* **National Endowment for Financial Education (NEFE), the Corporation for Enterprise Development and the Fannie Mae Foundation, 2001.** **Tab 9**

Summary: A new curriculum to aid IDA programs in the provision of financial education. "Finding Paths to Prosperity" includes a Facilitator's Guide with CD ROM and a workbook for participants. The curriculum provides 10-session outlines as well as information about developing effective training sessions, using participatory training techniques, adapting materials for low-literacy audiences, and other topics.

10. **Mark Schreiner, Margaret Clancy, Michael Sherraden,** *Saving Performance in the American Dream Demonstration, A National Demonstration of Individual Development Accounts, Final Report,* **Center for Social Development, Washington University in St. Louis, October 2002.** **Tab 10**

Summary: ADD is a demonstration of IDAs in 14 programs across the United States. It ran for four years (1997-2001) and the research takes place over the course of seven years (1997-2003).

11. **Michelle Miller and Debbie Gruenstein,** *Encouraging Savings, Financing Individual Development Account Programs,* **The Finance Project, Financing Strategy Series, October 2002.** **Tab 11**

Summary: This brief describes three strategies for financing IDA programs: accessing federal funds, making use of state-controlled resources, and obtaining private resources.

12. **Larry W. Beeferman,** *The Promise of Asset-Development Policies, Realizing the Promise: Individual Development Accounts,* **Asset Development Institute.** **Tab 12**

Summary: Larry Beeferman of the Asset Development Institute describes the movement and his views on why asset-development policies are vital to economic equality.

13. J. Larry Brown and Larry W. Beeferman, "From New Deal to New Opportunity," *The American Prospect* vol. 12 no. 3, February 12, 2001 **Tab 13**

Summary: This article discusses the genesis of the concept of asset development as an approach to lifting working families out of poverty, and current thinking on this strategy.

14. Robert Kuttner, "Sharing America's Wealth," *The American Prospect* vol. 14 no. 5, May 1, 2003. **Tab 14**

Summary: This article discusses conflicting ideologies regarding the current socioeconomic gap in the United States. Politically, conservatives emphasize entrepreneurship exclusively as the key to getting ahead in society, while liberals emphasize social programs that still encourage an entrepreneurial spirit. The article traces the history of this debate and suggests that asset development may help resolve socioeconomic inequity.

15. Georgia IDA Contacts **Tab 15**

Summary: Gathered from the Center for Enterprise Development (CFED) website, www.idanetwork.org.

16. Pennsylvania IDA Information. **Tab 16**

Summary: Gathered for Sun and Earth. Includes program specific information from: Impact Services Corporation, Women's Opportunity Resource Center, and Child Care Workers' IDA Project. Also includes a list of Pennsylvania IDA contacts from the Center for Enterprise Development (CFED) website, www.idanetwork.org.

17. Additional information on IDAs. **Tab 17**

Summary: Includes statistics, notes from IDA conversations, background on IDAs, contact information.

APPENDIX F

5. **Bo Wilkins and Michael Brink, *SERP Swaps Can Help Maximize Wealth from Non-qualified Plans for Execs*, NATIONAL UNDERWRITER, Mar. 4, 2002, at 8.** **…44**

Summary: The article discusses SERP Swaps (or Benefits Swaps) as methods of accumulating wealth without facing excessive income, estate, and/or gift taxes. The concept is probably more well suited for use with highly compensated executives, since most low-income individuals probably want any wealth which is paid out to be liquid (instead of available only to their heirs upon death).

6. **Catherine M. Daily and Dan R. Dalton, *The Problem with Equity Compensation*, THE JOURNAL OF BUSINESS STRATEGY, July/Aug. 2002, at 28.** **…49**

Summary: The article reveals the results of a study conducted to examine the relationship between executive equity and company performance. The study found that there was no evidence that higher levels of executive equity result in better company performance. The article thus questions the value of equity-based compensation plans for executives.

7. **Charles E. Whalen and Chuck Nixon, *Firm Ownership: A Share of the Business*, CONSULTING – SPECIFYING ENGINEER, Dec. 2001, at 11.** **…57**

Summary: The article explains various approaches for shareholder agreements, and methods for compensation of departing shareholders upon events such as mergers.

8. **Corina Trainer, *Compensating Employees with Non-employer Stock Options*, FINANCIAL THE TAX ADVISER, July 2000, at 468.** **…63**

Summary: The author outlines the use of Non-qualified Stock Options in compensation programs for employees. She elaborates on the differences between Non-qualified Stock Option plans in which employees gain rights to purchase the company's stock, and Non-employer Stock Option plans in which employees gain rights to purchase other companies' stocks. The implications of each type of plan are also discussed.

9. Elizabeth Opalka, *Split-dollar Life Insurance: Changing Rules, Unresolved Issues*, COMPENSATION & BENEFITS MANAGEMENT, Summer 2002, at 38. **...67**

Summary: The author explains the current tax implications of split-dollar life insurance policies that are sometimes used within employee compensation strategies. Split-dollar life insurance policies entail an arrangement in which the employer and employee split both the costs and benefits of a life insurance policy.

10. Floyd J. Griffin and Jerry Fox, *Facing Up to the Labor Shortage*, COMPENSATION AND BENEFITS REVIEW, Sept./Oct. 2000, at 34. **...76**

Summary: The article takes a look at one construction company's unique solution to its problems with employee retention. The company began an apprentice program to hire, train, and retain workers. Along with this program, the company instituted an ESOP program which has been quite successful.

11. James Cramer, *Let them Eat Stocks: A Solution to Downsizing*, THE NEW REPUBLIC, Apr. 26, 1996, at 24. **...87**

Summary: The author explains an intriguing form of compensation for laid-off employees, where laid-off employees are paid severance in stock options rather than in cash. He argues that these employees would have the opportunity (should the companies stock succeed) to make exponential gains in wealth at no extra cost to the employer. He explains that history has shown that companies often lay off many employees in order to make future gains, and that these laid off employees should have a right to some of those gains.

12. James H. Ray, *Using Stock Options to Build Employee Wealth*, AFP EXCHANGE, Summer 2000, at 46. **...93**

Summary: The author describes the differences between Incentive Stock Options and Non-qualified stock options. He also discusses methods for implementing each type of program.

Summary: The article lays out a series of steps for designing an effective employee pay program. The steps include identifying a business's priorities, assessing market pay practices, understanding employee perspectives, and selecting and developing a well-tailored pay plan.

Summary: The authors examine and explain the benefits and costs of phantom stock plans.

Summary: The authors provide an explanation of the Economic Growth and Tax Relief Reconciliation Act ("EGTRRA") and the benefits that the Act provides for non-profit organizations in compensating and retaining their employees. Changes in EGTRRA have enabled non-profits to provide better retirement plans, in particular, for their employees.

Summary: The article presents a general overview of what constitutes a stock option plan and evaluates why different companies use stock option plans to differing degrees.

FINANCIAL EXECUTIVE, Mar./Apr. 2002, at 54.

Summary: The article explains the effect that a poor economy has had on stock options. Many stock options haves gone "underwater," meaning that the value of the stock has decreased below the exercise price, making them useless to the option holder. Some companies are re-issuing their options at lower prices as a result. The article also makes a case for well-tailored compensation programs for individual businesses and particular groups of employees. Not all businesses have the same "culture" and not all levels of employees have the same interests. A compensation program should be designed for the particular culture of the company and the various interests of its employees.

18. Sue Burzawa, *Mellon Financial Offers Employees Various Ways to Gain Equity Ownership*, EMPLOYEE BENEFIT PLAN REVIEW, July 2002, at 36. ...138

Summary: The author examines a broad-based stock option program and an employee stock purchase program implemented by Mellon Financial Corp. for its non-executive employees. Participants in the stock option plan received a video and enrollment guide explaining the option program. The stock purchase program allowed non-executive employees to purchase company stock at a 15 percent discount.

19. Tara E. Silver-Malyska, *Stock-based Compensation Alternatives*, EMPLOYEE BENEFITS JOURNAL, Dec. 2001, at 22. ...144

Summary: The article provides a really clear summary of common stock option strategies and their tax consequences. The article takes a look at Incentive Stock Options, Employee Stock Purchase Plans, Non-statutory Stock Options, Stock Appreciation Rights, Phantom Stock Plans, Performance Share Plans, and Restricted Stock.

20. William J. Wiatrowski, *Putting Stock in Benefits: How Prevalent Is It?*, COMPENSATION AND WORKING CONDITIONS, Fall 2000, at 2. ...156

Summary: The article examines the prevalence of stock option plans in the market, presenting statistics and explanations of various types of stock and employee ownership plans.

APPENDIX G

<u>Table of Contents and Summaries of Articles Relating to Employee Ownership</u>

Summary: This article is directed towards firms with fewer than 20 employees and plan to stay small and not go public. The article discusses why small firms should embrace share ownership, explains various forms of broad-based options, and illustrates how much plans cost.

Summary: This article addresses the question frequently asked by company leaders whether or not a company is too small to have an employee stock ownership plan. This article provides an overview on how to estimate and calculate the cost of an ESOP.

Summary: Short example of how an ESOP benefited a local company in Massachusetts. CEO believes ESOP has helped improve company sales.

Summary: Kruse, a professor at the School of Management and Labor Relations at Rutgers University, has conducted extensive research on employee ownership and workforce development. This article summarizes the growth of employee ownership plans and how such plans improve employee attitude and behavior, increase organizational commitment, and augment productivity levels within a firm.

5. **Douglas L. Kruse, James C. Sesil and Joseph R. Blasi, *Sharing Ownership via Employee Stock Ownership*, Discussion Paper No. 2001/25, United Nations University: World Institute for Development Economics Research, July 2001.** **Tab 5**

Summary: This article summarizes the findings from empirical studies done on employee ownership and broad-based stock option plans over the last 25 years. This study focuses on employee attitudes and behaviors, firm performance and employee wages and wealth.

6. **Edward O. Welles, *Motherhood, Apple Pie & Stock Options*, Inc: The Magazine for Growing Companies (www.inc.com), 1998.** **Tab 6**

Summary: The author discusses the use of stock options in companies and how stock option plans can be useful in building long-term value if properly utilized by management. Also discussed is the issue of employees who do not understand how options work and the lack of financially literate employees who prefer to cash out options rather than not exercising their options and building long-term incentives.

7. ***ESOP Companies Outperform Stock Markets in 2001*, PR Newswire Association, LexisNexis, August 19, 2002.**

Summary: Recent survey conducted by the Employee Ownership Foundation found that 71% of ESOP Association company members outperformed the DJIA and NASDAQ. **Tab 7**

8. ***How to Choose an Employee Stock Plan for Your Company*, The National Center for Employee Ownership (www.nceo.org), 2002.** **Tab 8**

Summary: This article explains the basics of broad-based employee ownership, including ESOPs, stock option plans, ESPPs, and 401(k) plans. It also highlights how public and private companies utilize such plans differently and touches upon the use of phantom equity

9. *How an Employee Stock Ownership Plan (ESOP) Works*, **The National Center for Employee Ownership (www.nceo.org).** **Tab 9**

Summary: A general overview of the variety of ways employee ownership can be accomplished. The article also reviews ESOP rules, uses of ESOPs, and caveats.

10. *Largest Study Yet Shows ESOPs Improve Performance and Employee Benefits*, **The National Center for Employee Ownership, (www.nceo.org), 2002.** **Tab 10**

Summary: This article summarizes the largest and most significant study, to date, on the performance of employee stock ownerships plans. The study, conducted by Douglas Kruse and Joseph Blasi, of Rutgers University, has found that ESOPs appear to increase sales and improve company survival rates.

11. *Phantom Stock*, **Inc: The Magazine for Growing Companies (www.inc.com), October 21, 1999.** **Tab 11**

Summary: This article explains "mirror" or "phantom" stock plans and how they are useful in motivating and retaining key employees without sharing ownership of the company.

12. *Pilot Survey on the Incidence of Stock Options in Private Industry in 1999*, **Bureau of Labor Statistics (www.bls.gov), October 11, 2000.** **Tab 12**

Summary: In 1999, the BLS conducted a pilot survey of all private industry employees who received stock options. The study breaks down information by executive vs. non-executive, salary and industry in order to demonstrate the differences in stock option availability.

13. *Steps to Setting up an ESOP*, **The National Center for Employee Ownership (www.nceo.org), 2002.** **Tab 13**

Summary: A general review for setting up an ESOP.

14. **Ronald J. Gilbert, "The ESOP Decision." A portion of this article is excerpted from *Employee Stock Ownership Plans: Business Planning, Implementation, Law and Taxation*, co-authored by Mr. Gilbert, Robert W. Smiley, Jr. and Davis M. Binns, published by RIA Group.** **Tab 14**

Summary: The article considers the impact of an ESOP on 1) the selling shareholder, 2) the company, 3) other existing shareholders, and 4) the employees.

15. ***The Employee Ownership 100*, The National Center for Employee Ownership (www.nceo.org), 2002.** **Tab 15**

Summary: A list of America's largest companies that are over 50% employee owned through an ESOP, stock purchase plan, or other broad-based ownership plan.

16. ***ESOP Facts and Figures*, The ESOP Association (www.esopassociation.org), 2003.** **Tab 16**

Summary: A list of ESOP-related facts.

17. ***All About Employee Ownership*, Foundation for Enterprise Development and Beyster Institute for Entrepreneurial Employee Ownership (www.fed.org), 2003.** **Tab 17**

Summary: The article covers the steps for designing and employee ownership plan and identifying an approach that best suits the company's strategic needs. Includes a description of performance-based plans, broad-based plans and leveraged employee stock ownership plans (ESOPs).

18. **Shared Equity Strategies Inc. brochure.** **Tab 18**

Summary: SES is a consulting firm specializing in equity sharing strategies including stock compensation plans and ESOPS. Includes an interview with Michael Golden.

19. **Divesh Gupta, "An Overview of Phantom Stock Plans," Duke Law Community Economic Development Clinic, November 5, 2002.** **Tab 19**

Summary: Covers the advantages and disadvantages of phantom stock plans.

20. **EvCo's Phantom Stock Plan.** **Tab 20**

21. **Employee Stock Option Fact Sheet, The National Center for Employee Ownership (www.nceo.org), 2002.** **Tab 21**

Summary: An overview of stock options.

22. *Are Stock Options in Your Future?"* **Knowledge @ Wharton, Finance and Investment.** **Tab 22**

Summary: The article considers the effectiveness of stock options, and the advantages of different types of stock options.

23. **David Leonhardt, "Option Math: Why So Many to So Few?" New York Time, July 16, 2003.** **Tab 23**

Summary: The articles studies cases of widely-held and closely-held stock options at a variety of companies.

24. **"New Ways to Retain and Reward Employees," Knowledge @ Wharton, Finance and Investment.** **Tab 24**

Summary: This article explores the pros and cons of expensing stock options as well as other techniques for motivating and rewarding employees.

25. Smith, Anderson, Blount, Dorsett, Mitchell & Jernigan, Stock Option Overview. **Tab 25**

Summary: Smith Anderson is a law firm. They have provided basic information about stock options as well as answers to questions about stock options.

26. Employee Stock Options Study, The National Center for Employee Ownership (www.nceo.org), August 24, 2001. **Tab 26**

Summary: NCEO conducted a national study on the impact of stock options on employees.

APPENDIX H

SJF Advisory Services

SJF Advisory Services provides resources and expertise to help SJF Ventures portfolio and prospect companies succeed, including:

HIGH PERFORMANCE WORKFORCE SERVICES

- Assistance with employee benefits such as health insurance.
- Resources to help with employee recruitment and training.
- Local, state and federal tax incentives.
- Information on worker safety; financial literacy; open book management; employee ownership; affordable housing, transportation and childcare; and diversity training.

> "SUPERIOR HUMAN CAPITAL PRACTICES ARE NOT ONLY CORRELATED WITH FINANCIAL RETURNS, THEY ARE, IN FACT, A LEADING INDICATOR OF INCREASED SHAREHOLDER VALUE." - WATSON WYATT'S SECOND HUMAN CAPITAL INDEX STUDY.

EMPLOYEES AND EXITS INITIATIVE (ASSET BUILDING)

- Identification of Individual Development Accounts (IDAs – matched savings accounts for first-time home ownership) and financial literacy training to help employees build assets.
- Tools on how to use broad based stock options, ESOPs, Phantom Stock and other profit sharing to assure employees have a stake in company success.
- Help for employees to access the Earned Income Tax Credit.

> "THERE IS ENCOURAGING EVIDENCE FROM IDA PROGRAMS ACROSS THE COUNTRY THAT LOW-INCOME FAMILIES, WITH PROPER INCENTIVES AND SUPPORTS, WILL SAVE REGULARLY AND ACQUIRE PRODUCTIVE ASSETS." – CORPORATION FOR ENTERPRISE DEVELOPMENT.

SUSTAINABLE BUSINESS ADVANTAGE INITIATIVE (SBAI)

SJF Advisory Services seeks to demonstrate that operating in a socially and environmentally responsible manner is the best path for business success. To further this mission, we provide the following services:

- Online resources to help you operate more sustainably by using environmental best practices, increasing efficiency and reducing costs.
- A sustainability tracking and evaluation system that can integrate with internationally accepted environmental tracking systems as your company grows.

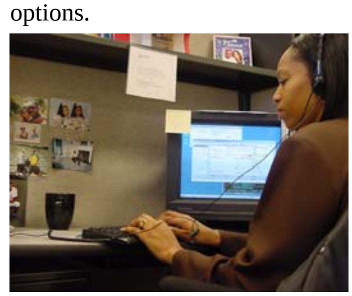
> "A SMALL BUT GROWING NUMBER OF COMPANIES ARE USING THE INNOVATIVE STRATEGIES OF SUSTAINABLE ENTERPRISE TO FUEL SUBSTANTIAL GROWTH OF THEIR BUSINESSES IN NEW MARKETS." - CENTER FOR SUSTAINABLE ENTERPRISE.

OUR MISSION

To promote self-sufficiency for low-income individuals by assisting sustainable enterprises to create, retain and enhance long-term jobs f the residents of economically distressed communities.

EXAMPLES OF ASSISTANCE

- Linking a company with an IDA program offered by the United Wa that provides a 4:1 match for first-time homeownership.
- Researching grants/low interest loans and entry-level employee recruitment resources.
- Identifying sources for business mentors and for assistance in becoming a certified Minority Business Enterprise.
- Researching health insurance options.



- Working with Duke Law School's Community Economic Developm Law Clinic to develop & impleme broad-based stock option plans.
- Assisting with HR issues.
- Helping a company evaluate day care options for employees.
- Helping a firm obtain SBA HUBZone status.

For more information: Anne Claire Broug

APPENDIX I

You are managing a small entrepreneurial company on a lean budget. Employee compensation and benefits are significant line items. SJF Ventures is considering an equity investment in your company, but recommends more generous employee benefits. Why will generous benefits strengthen your bottom line? What types of benefits can you offer to make your company more successful? How can SJF work with you to provide these benefits?

WHY?

"Superior human capital practices are not only correlated with financial returns, they are, in fact, a leading indicator of increased shareholder value." -Watson Wyatt's second Human Capital Index study

Recruitment and Retention

Most of the companies that SJF finances say that hiring and retaining good employees is one of their top concerns. The U.S. Department of Labor estimates that businesses spend millions each year recruiting and hiring hourly employees – half of whom leave within their first six months – and a recent study by the Rutgers University and the Saratoga Institute shows that direct and indirect turnover costs are on average 1.5 times the annual salary of any given position.[1] Providing competitive wages, health insurance and some form of profit sharing such as broad-based stock options can save companies millions of dollars annually in avoided recruiting and hiring costs.

Performance

Generous employee benefits, including some form of employee ownership, can lead to increased employee motivation and productivity and can directly impact the bottom line. A study prepared by the United Nations University, summarizing the findings from 50 studies over 25 years, found that employee ownership is linked to 4% to 5% higher productivity on average.[2] In addition, the Watson Wyatt study quoted above compares 750 companies at two points of time to analyze the correlation between human capital management and shareholder value and found that those companies that did better financially employed certain programs (e.g., broad-based stock options) that low performers did not.

Sense of Ownership

Giving employees some form of ownership in a business, coupled with a clear understanding of how their specific job contributes to the bottom line and a way to make their voice heard can be a truly winning combination. According to author Jack Stack, employees in this situation "know they're part of something bigger than what they do on a day-to-day basis. They belong to something, and it belongs to them. They have ownership, and it's a two-way street."[3]

WHAT?

"We provide a good place to work with above average wages for the area. People have been able to buy cars and homes as a result of working here. " – Bob Joyce, CEO of SJF portfolio company Salvage Direct

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[1] Rutgers University Graduate School of Management and Saratoga Institute study, 2002.

[2] Sesil, James, Douglas Kruse, and Joseph Blasi. *Sharing Ownership via Employee Stock Ownership.* United Nations University and World Institute for Development Economics Research. July 2001.

[3] Stack, Jack, and Bo Burlingham. *A Stake in the Outcome, Building a Culture of Ownership for the Long-Term Success of your Business.* April 2002, page 4.

APPENDIX J: Resources for Employees

Resource (web site/publication)	Cost	Comments
Fairmark.com	*Free*	*Information on how stock options work and related tax issues; message board where questions about equity compensation can be answered*
MyStockOptions.com	*Basic service is free; $99 a year for premium service, incl. more info. and tools**	*Helpful articles on options strategies. Includes calculators to figure after-tax gains from exercising stock options. Also allows investors to compare potential returns from holding onto options or exercising them.*
Smeal.psu.edu/faculty/huddart	*Free*	*Has tool that compares the value of exercising today to waiting until later. Uses mathematical model to indicate whether it makes sense to exercise or wait.*
The Stock Options Book (National Center for Employee Ownership)	*$35*	*Overview of stock option plans, including a definition, issues around implementation, and tangible/intangible benefits.*
Center for Personal Financial Education (www.gettingfiscallyfit.org)	*Free*	*Information on home- and car-buying, saving and investing, and other general personal finance issues.*
FederalReserveEducation.org	*Free*	*Information-based web site dedicated to Personal Financial Education; includes basic information on consumer banking and protection, the importance of savings and benefits of compound interest, & other topics.*
Consumer Credit Counseling Service (www.cccs.org)	*Free*	*Offers in-person, phone, and online budgeting, money management, and credit counseling.*
AmericaSaves.org	*Free*	*Uses information, advice, and encouragement to assist those who wish to pay down debt, build an emergency fund, save for a home, save for an education, or save for retirement*
dallasfed.org/ca/pubs/eta.pdf or dallasfed.org/ca/pubs/etaspanish.pdf	*Free*	*Explains Electronic Transfer Accounts in English and Spanish*
The Beehive (http://www.thebeehive.org/)	*Free*	*Online tool in English and Spanish for learning about basic money management, savings, taxes, and investment, along with sections on health, school, jobs and family.*
Citibank Seminar Series	*Free*	*Seminars about more than 2 dozen financial topics offered at Citibank retail locations and through "BankatWork" programs in English and Spanish*
"Everything You Always Wanted to Know about Credit but Didn't Ask:	*Free*	*Workbook designed by CitiFinancial designed to help customers understand and effectively use credit. Call* 1-800-995-2274 *for a copy.*
USECREDITWISELY.COM	*Free*	*Includes educational material covering credit basics, how to create and stick to a budget, and how to work through difficult financial times.*

** Premium service is available free of charge through some employers and financial institutions.*

Source: First four resources, Wall Street Journal, February 10, 2004.

APPENDIX K

The SJF Advisory Services 2003 Mission Impacts Report (Published February 2004) can be found by clicking on the link above or via SJF's website. To access the report via the website, visit www.sjfund.com and click on "About SJF". A link to the report is located at the bottom of the page in the "Community Impacts" Section.