EQUITY
INCENTIVES
LIMITED

Case study: Maelor Plc

Background

Maelor Plc is a pharmaceutical company, which listed in November 1997 on the Alternative Investment Market, specialising in the research and development of new medical products. Once Maelor has successfully developed and tested a new product, it is outlicenced to a distribution partner, the profits being shared between the parties.. The company has a small number of highly skilled staff, including five directors, retention of whom is considered to be key.

An unapproved share option scheme, implemented prior to flotation, already existed for some directors, but there had been promises to extend the share incentive scheme to all employees by a certain date, requiring the company to act quickly. This meant that it would be impossible to wait for the new tax-effective share plans which were to be introduced by the Government in 2000.

Objectives

- To honour a prior commitment to directors
- To honour an existing commitment to employees
- To offer share based rewards throughout the company, with the flexibility of offering additional options to key staff or directors
- To make awards subject to specific corporate performance targets
- To ensure that any plans set up at the initial stage do not preclude the use of any new plans to be introduced by the Government at a later date
- To comply at all stages with ABI Guidelines on the percentage of share options to be granted under employee share plans
- To comply with all Stock Exchange regulations regarding share dealing in close periods, etc.

Principal Steps: Stage One

An unapproved share option plan was established, enabling options to be granted immediately to directors and employees before the beginning of a "close period", when neither directors nor employees can deal in shares. In addition, at the time of this plan being set up, the company's share price was rising, and it was considered important to grant options quickly and at as low a price as possible. Certain corporate performance criteria were set.

A Company Share Option Plan (CSOP) was established to grant options to all employees. This allows options over a maximum of £30,000 of shares to be granted per employee, and any gain on the option is free of income tax. Directors may only exercise their options on the achievement of specific performance targets.

Rules of the existing unapproved option scheme were amended to allow options to be exerciseable on or following retirement.

Granting further options to certain directors under the unapproved option scheme was delayed, because it was more tax-efficient to use the Enterprise Management Incentives (EMI) Plan, to be introduced in July 2000.

Limits were placed on the number of options to be granted under both schemes so that options under any or all share plans (including any new plans to be implemented at a future date) did not exceed 10% of the Company's issued ordinary share capital, in accordance with ABI Guidelines.

Principal Steps: Stage Two

An EMI Plan was established as soon as possible after it became available under new legislation in July 2000. This tax efficient Inland Revenue approved plan permits grants of options over a maximum of £100,000 per employee (less whatever has already been granted under other Inland Revenue approved plans). Initially, the EMI plan at Maelor was used to grant options to two directors.

Where the grant of such options would have breached the level permitted in the legislation, the two directors were granted the balance of options under the unapproved plan.

The company considered whether to establish a Share Incentive Plan (SIP) enabling employees throughout the company to buy shares in Maelor out of pre-tax salary, and to be granted further free shares, again subject to corporate performance targets. However, following the Budget 2001, the restriction limiting EMI options to 15 employees per company was lifted, and it was decided to extend EMI to all employees in place of a SIP.

Benefits of this transaction

- Tax efficient reward for directors for past performance in bringing the company to market
- Immediate rewards for directors and employees to honour past promises
- Immediate grant of options takes advantage of rapidly rising share price
- Incentivisation for employees and directors with regard to specific corporate performance targets
- Flexibility of share plans allows for additional future grants of shares or options for new employees or directors
- The company has obtained shareholder approval for an NAESP so retains the flexibility to introduce this plan at a future date.

Who are we?

Equity Incentives has substantial experience in all aspects of employee benefits, including equity incentives. The Managing Director, Graeme Nuttall, is a member of the HM Treasury advisory group which helps the Inland Revenue introduce new share schemes including EMI. Through membership of the **Global reward plan group** we implement international share schemes.

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