Fairness For Shareholders Who Bust Their Butts

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Every day I thank the universe for my inexperience.

Why do I say that? Because one of the distinct advantages of not focusing one's energies on becoming CEO of a big company – big, at least, by Israeli standards – is that you aren't a prisoner of expectations. Or convention.

For example, from the day we started this business, we had at least two goals that might seem contradictory based on conventional wisdom. But they made perfect sense to us. The founders wanted to retain control of the company, yet at the same time we wanted to allocate as many shares as possible to those who would be instrumental in helping us succeed. And we started to do that in our very first year of operation.

We saw no tension in that structure at all because the spirit of Conduit was to reward contribution – and the best way to do that was to keep as much ownership out of the hands of venture capitalists as possible. There simply wouldn't have been enough shares to go around.

Flash forward. We've now built an extremely broad base of shareholders at every level of the company. And we're also fortunate enough to have earned a price tag north of a billion dollars, brought to light by a recent J.P. Morgan investment. So we were faced with the question of how best to give equity holders an opportunity to generate some liquidity.

This was very consistent with the impulse behind our original concept. Giving people the opportunity to realize profits is a natural outgrowth of wide equity distribution.

To be totally candid, two immediate situations – one specific and the other a general economic reality – triggered my interest in finding a new model for realizing shareholder value. The specific event was the recent sale of stock by an early investor in the company to a new buyer. The second situation was the current buzz about technology IPOs – Facebook being at the top of the list – and the wealth-creating opportunities they represent for employees. (It's a loud buzz and hard to ignore.)

Still, with Conduit, heading straight for the public markets is not our goal, and I believe I've made that clear before. I cannot honestly think of anything much worse than the distractions and strategic compromises that would result from having to manage this company for the short-term horizon of shareholders and analysts, rather than our long-term success.

Options, we know, can be wonderful. They are mechanisms to spread opportunity. I'm reminded of a recent series on National Public Radio (in the U.S.) that recounted the history of Silicon Valley. I learned that the eight innovators who founded Intel only left Fairchild Semiconductor – a company they started – because they weren't granted options.

Fairchild's investors "…didn't understand things like giving stock options to employees," Arthur Rock, who is the granddaddy of all venture capitalists, recalled. "Their attitude was very much like everyone else on the East Coast. Companies could give out a few options, but only to top executives. They were all very staid and white-shoe."

But as terrific as options are, they shouldn't put an employee's assets in the deep freeze until an IPO event. I want the people who are helping to make our company great to have the opportunity to realize the economic rewards of their success in real-time, not deferred time. And the opportunities for that are limited.

True, there are secondary markets like SharesPost and others, but I don't consider them a long-term, fair-value solution. (And apparently, neither does the SEC.)

So, we set out to find a solution that would work for our company and our employees. Our goal was to find a way to allow shareholders to sell some of their shares in parallel with other shareholders, while maintaining our status as a private company.

The concept we came up with is an apparatus I call a "co-sale." The mechanism gives vested shareholders the opportunity to divest some of their shares in a pro-rata relationship to other shares that are being sold, including those of the founders. Which is in keeping with our founding spirit.

The co-sale is an adaptation of the well-known structure of the tag-along sale to fit our particular situation. With this mechanism in place, shareholders get matched proportionately to a selling shareholder, within the same class of stock.

This solution reflects our culture of shared upside. Since we did that before our shares had value, it seemed like simple justice to create a mechanism that would allow employees to benefit from after the shares gain value. So we modified our Articles of Association to accommodate the co-sale mechanism.

In designing the co-sale mechanism, we were assisted by a smart team of advisors, including Harvard Professor and corporate governance expert Lucian Bebchuk. I asked Professor Bebchuk if he would give me a quote for this piece, and he replied:

"I was impressed by how much Ronen and his team strived to design a win/win/win mechanism that would be fair and beneficial for all involved. Their commitment, I believe, paid off, producing an arrangement that should be expected to serve shareholders, employees, and the company."

In that wonderful public radio story I mentioned, Andy Grove explains why the two words "exit strategy" make him cringe. I couldn't agree with him more. As I've said many times before, making an exit is not a part of our agenda. That makes the co-sale mechanism the most reasonable and fair way for us to allow all those who bust their butts every day to turn some of their equity into cash – without having to exit.