ShareSoc
UK Individual Shareholders Society

PO Box 62, Chislehurst, BR7 5YB
Phone: 020-8467-2686
Email: sharesoc@btconnect.com
Web: www.sharesoc.org

11 March 2012

The Issues raised by the LTIP Award at Intercede

ShareSoc (the "UK Individual Shareholders Society"), has launched a Shareholder Action Group in relation to Intercede Group Plc (see press releases here: www.sharesoc.org/press_releases.html). This note provides more details on the problems as we perceive them with the LTIP award that the company made in 2011.

Intercede announced a Long Term Incentive Plan ("LTIP") in August 2011. Shareholders have subsequently protested very strongly about the terms of this plan, particularly after they learned the full details. Both ShareSoc and a number of individual shareholders spoke against it at the subsequent Annual General Meeting in September and have communicated with Richard Parris, Executive Chairman, and other directors on the subject but to no avail.

Our objections to the LTIP are as follows:

1. The LTIP grants share options at the nominal price of 1p. This is very bad practice – see note 2 below.

2. Two of the main beneficiaries as disclosed in the scheme announcement are Richard Parris (Executive Chairman at 567,029 options) and Jayne Murphy (PDMR at 302,536 options). It is not at all clear why Mr Parris requires this additional incentive when he is already a major shareholder in the company (he holds over 11% of the shares). Nor was it disclosed in the announcement that Jayne Murphy is actually Mr Parris's wife.

3. The company did not put the LTIP award, or indeed any "Remuneration Resolution", to a vote of shareholders to get their approval for these arrangements. Neither do they appear to be willing to do so at a future AGM as they have not responded to our request to consider this. Although this is an AIM company which is not bound by the Combined Code, many AIM companies have introduced such resolutions. We are not aware of any consultation with their shareholders, institutions or otherwise, (except those represented on the board) on this matter and the company appears to be avoiding a wider consensus on it.

4. The LTIP performance criteria were not initially disclosed and are in essence illogical (see Note 4 below).

We particularly deplore the lack of response to shareholder's concerns on this matter. Indeed the latest communication from their PR Adviser states: "*it is not Company policy to respond to individual shareholders or shareholder societies on matters that have not already been disclosed to the wider shareholder base*". In other words they do not seem to have heeded the demand for more shareholder engagement, particularly on remuneration issues, that has been espoused by many of late.

We would also prefer to see a non-executive Chairman present rather than have an Executive Chairman who is the main beneficiary of the proposed scheme. Non executive Chairmen are recommended by the Combined Code for good reason and we do not believe this LTIP scheme would have been put in place if there had been one present at the time.

We do not wish to inhibit the growth of this company, which potentially is a UK company with a world leading technology position, and hence we can see merit in introducing an LTIP to enable the incentivisation of other senior managers in the company. But in summary this is a poor remuneration scheme which potentially diverts substantial value that is rightly the property of the shareholders into the pockets of management.

Notes

1. Intercede Group Plc is an AIM listed software company that is focussed on identity management and security.

2. Granting options at nil or nominal cost are contrary to the guidelines on Remuneration issue by the Association of British Insurers (ABI). To quote from their guidelines on share option schemes:

"*The price at which shares are issued under a scheme should not be less than the mid market price (or similar formula) immediately preceding grant of the shares under the scheme.*

Options granted under executive (discretionary) schemes should not be granted at a discount to the prevailing mid-market price."

3. Mr Parris has argued that the LTIP is justified because:

A – If the shares were priced at other than a nominal cost, he would not be able to afford to exercise them. This is a very weak argument because many executive directors find themselves in this position and obviously they can usually arrange to sell some immediately to pay for the rest or borrow the funds required to realise the profit available on the shares.

B – He requires the award to incentivize him to remain with the company as he is otherwise underpaid in relation to market salaries for the job he is doing. To quote again from the ABI guidelines: "*Experience has shown that retention awards for main board directors rarely work. Retention concerns on their own are not sufficient grounds for remuneration to increase*". Neither do we accept that Mr Parris is currently underpaid. In any case as Mr Parris is a founder of the company, has devoted his time over many years to it, is clearly dedicated to making it a success, and has a substantial shareholding, we think it unrealistic to suggest that he would prejudice his interest by quitting.

C – He needs to maintain his shareholding above 10% because of tax reasons (for example to retain entrepreneur's relief if the business is sold). This argument also does not stand up to scrutiny.

4. Although the performance criteria were not initially disclosed, it was later revealed to be based on exceeding growth in earnings per share of RPI plus 5%. Apart from the fact that this is a very weak hurdle, this is a company that needs to grow revenue in the short term so a focus on earnings is not appropriate. It has a great opportunity to become a "gorilla" in its market space if there is investment in product development and sales/marketing activity. One explanation for the low hurdle which was given was so as "to encourage investment", but in that case why not use another basis? These kinds of companies, at the stage they are in, tend to be valued more on revenue than on profitability so that would be a more logical basis, or combined with a profit element.

So in essence, the LTIP is not about rewarding performance but seems to be aimed more at realising additional shares for Mr Parris and his wife if the company was sold (when presumably the options would crystallize).

5. It has been argued that a number of companies have made nil/nominal cost share option awards in the last year (a list of some of these companies is given below). In reality these seem to be mainly AIM or PLUS Markets companies and ShareSoc deplores the apparent spread of this practice. We will encourage our members to challenge such schemes whenever they are put forward.

Date	**Company**	**Exercise Price**	**Market Cap**	**Share Price at the Time**
24 October 2011	Consolidated Africa Mining plc	1p	£13.63m	2.98p
30 September 2011	Vane Minerals plc	1p	£2.94m	1.13p
26 September 2011	Quayle Munro Hldgs	0p	£26.26m	575.00p
22 September 2011	Synairgen plc	1p	£12.87m	21.00p
05 September 2011	Monitise plc	1p	£245.56m	34.75p
28 July 2011	Expansys plc	1p	£26.02m	2.25p
22 July 2011	The Mission Marketing Group plc	0p	£11.59m	16.00p
13 July 2011	Trap Oil Group plc	1p	£56.48m	27.50p
23 June 2011	Tangent Communications plc	1p	£9.26m	5.25p
21 June 2011	Tribal Group plc	0p	£43.22m	46.13p
08 June 2011	Imagelinx plc	1p	£1.45m	0.50p
11 May 2011	Tri-Star Resources plc	1p	£31.68m	0.73p
27 April 2011	Xaar PLC	0p	£177.63m	244.00p
19 April 2011	Deltex Medical Group plc	1p	£24.38m	17.63p
14 April 2011	Verdes Management plc	1p	£1.52m	0.38p
24 March 2011	Frenkel Topping Grp	0.5p	£7.81m	14.25p
07 February 2011	Westside Acquisitions plc	1p	£0.45m	0.40p
24 January 2011	ATH Resources	1p	£13.83m	34.50p