

VisionLink

The Five Essentials of Pay For Performance

Building Unified
Financial Visions



THE VISIONLINK
ADVISORY GROUP

March 24, 2009

Today's presenter

Ken Gibson

Senior Vice President

949-265-5703

kgibson@vladvisors.com



Building Unified
Financial Visions



THE VISIONLINK
ADVISORY GROUP

We're happy to provide a copy of today's slides. Information will be provided at the close of the presentation.

For questions during today's presentation:

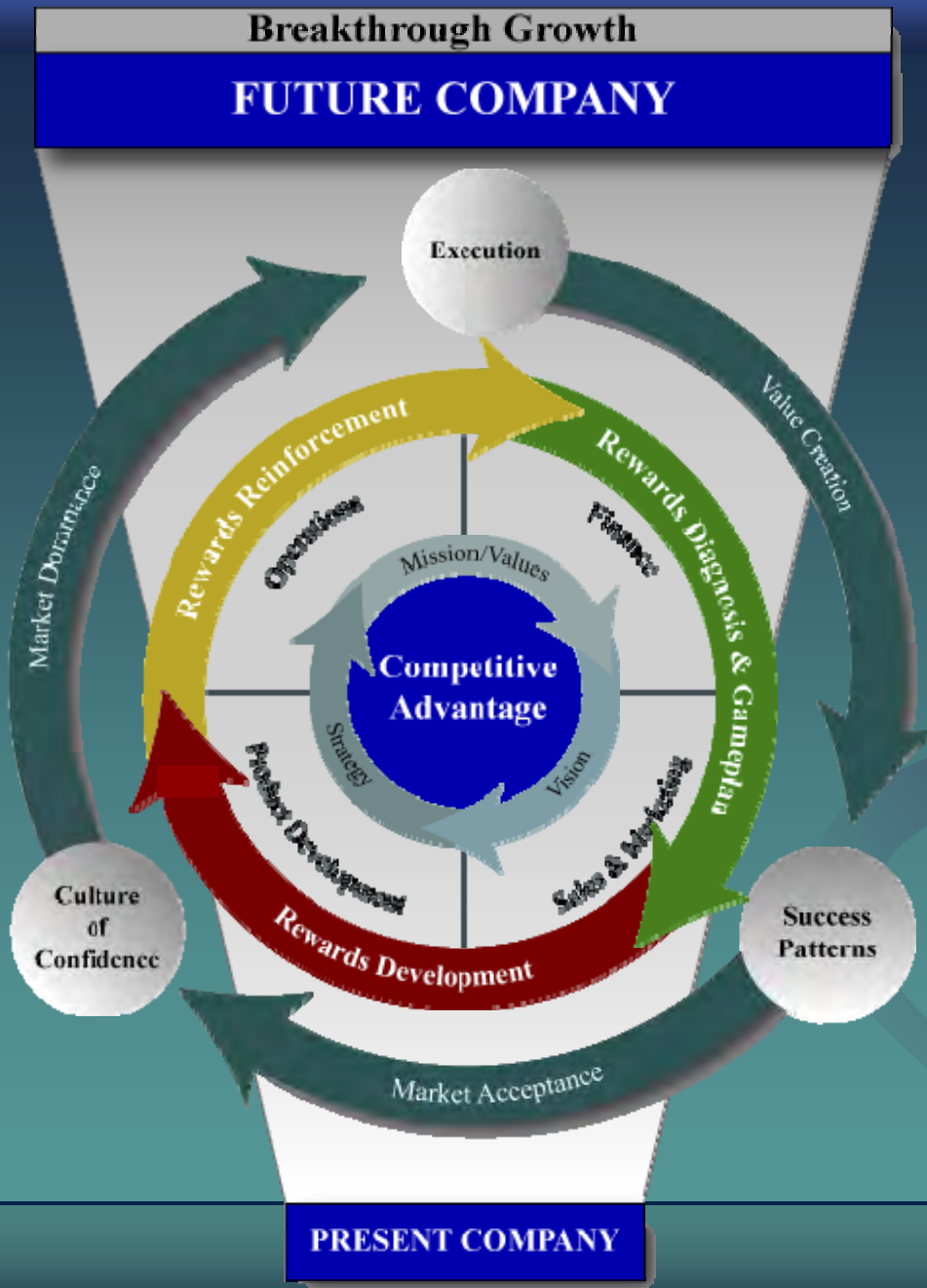
*Use the question panel
to the right of your screen*

Pay For Performance Objectives

- Recruit and retain highest quality employees
- Communicate and reinforce the values, goals, and objectives of the company
- Engage employees in the organization's success
- Reward contributors for successful achievements

Why Worry About Pay For Performance?

- What does it do for you?
- What do you get out of your efforts?
- Is it effective?



Building Unified
Financial Visions

The Five Essentials

1. Must tie performance awards to shareholder financial objectives
2. Must employ the proper mix of compensation elements
3. Must result in meaningful dollars
4. Must embrace performance that employees can impact
5. Must effectively communicate and reinforce

Essential #1

*Must tie performance
awards to shareholder
financial objectives*



Essential #1

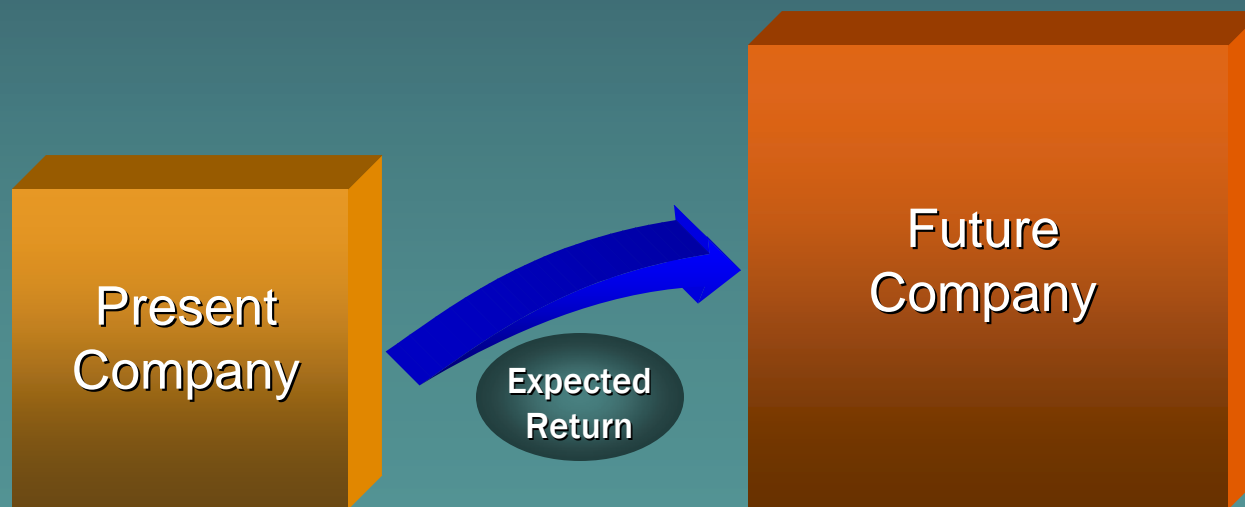
- All companies have a financial responsibility to shareholders
- Compensation should be evaluated like any other investment by the company
 - “Should we invest in a new machine or in our bonus plan?”

Essential #1

- Does the incremental investment contribute to company financial success?
 - Hard dollars – more revenues, profits, cash flow, stock value, etc.
 - Soft dollars – increased productivity, turnover reduction, improved client service, etc.

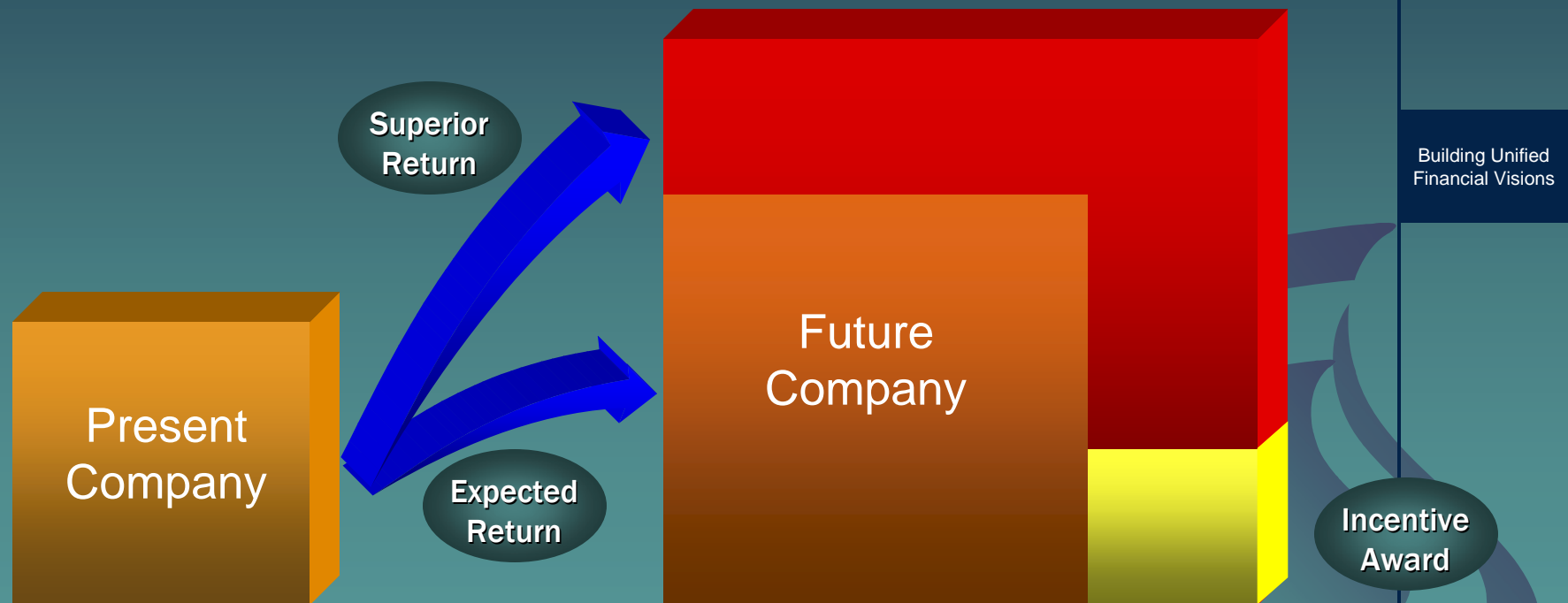
Essential #1

How should we think about compensation as an investment?



Essential #1

How should we think about compensation as an investment?



Tally Sheet

Year	1	5	10
Value Created for Shareholders	\$ 5,000,000	\$ 35,000,000	\$100,000,000
Cash Incentives Paid to Employees	\$ 350,000	\$ 2,650,000	\$ 9,750,000
LTIP Vested Value for Employees	\$ 0	\$ 1,950,000	\$ 5,680,000
Total Paid or Vested for Employees	\$ 350,000	\$ 4,600,000	\$ 15,430,000
% of Value Created Paid or Vested	7%	13%	15%

Building Unified
Financial Visions

Essential #1

Example Investments

Hard or Soft Dollar Expectation	Compensation “Investment”
Enhance annual profits	Short-term incentive plan (annual bonus)
Double revenue in 4 years	Performance Unit Plan tied to revenue growth
Increase shareholder value	Phantom stock option plan
Secure executive longevity	Deferred compensation plan with vesting schedule

Essential #1

Sample plan with a direct
shareholder alignment

Phantom Stock

Essential #1

Phantom Stock

A long-term incentive designed to create the mentality and financial rewards of ownership without diluting equity.

- Establish a hypothetical stock price
- Determine whether company will grant shares or artificial options
- Determine eligible group
- Target an overall range of grants (based on concrete objectives)
- Begin systematic process of issuing grants

Essential #1

THE VISIONLINK SOLUTION™

Owner/Shareholder Vision



Employee's Vision



COMMON THEMES

Owners want to:

Grow share value

Maximize abilities of key employees

Provide a quality product/service

Minimize liability and exposure to risk

Recruit and retain key employees

Focus employees on strategic goals/plans

Build a legacy

Exit the business and unlock equity

COMMON THEMES

Employees want to:

Develop and apply unique abilities

Be rewarded for superior performance

Enhance their income and growth opportunities

Protect their families financially

Provide for their retirement

Participate in the growth of the company

Earn opportunities for professional growth

Build wealth and save taxes

Building Unified
Financial Visions

Essential #1

*Must tie performance
awards to shareholder
financial objectives*





Essential #2

*Must employ the proper mix
of compensation elements*

Building Unified
Financial Visions

Essential #2

Biggest compensation mistake in “growth” companies:

The lack of an effective balance between short-term and long-term incentives

Essential #2

What is the proper mix of pay elements?

Salary	Bonus	Retirement
Stock Options	LTIP	
Deferred Compensation	Core Benefits	
Executive Benefits	Phantom Stock	

Building Unified
Financial Visions

Essential #2

Does the mix of compensation vehicles support:

The company's needs?
The employees' needs?

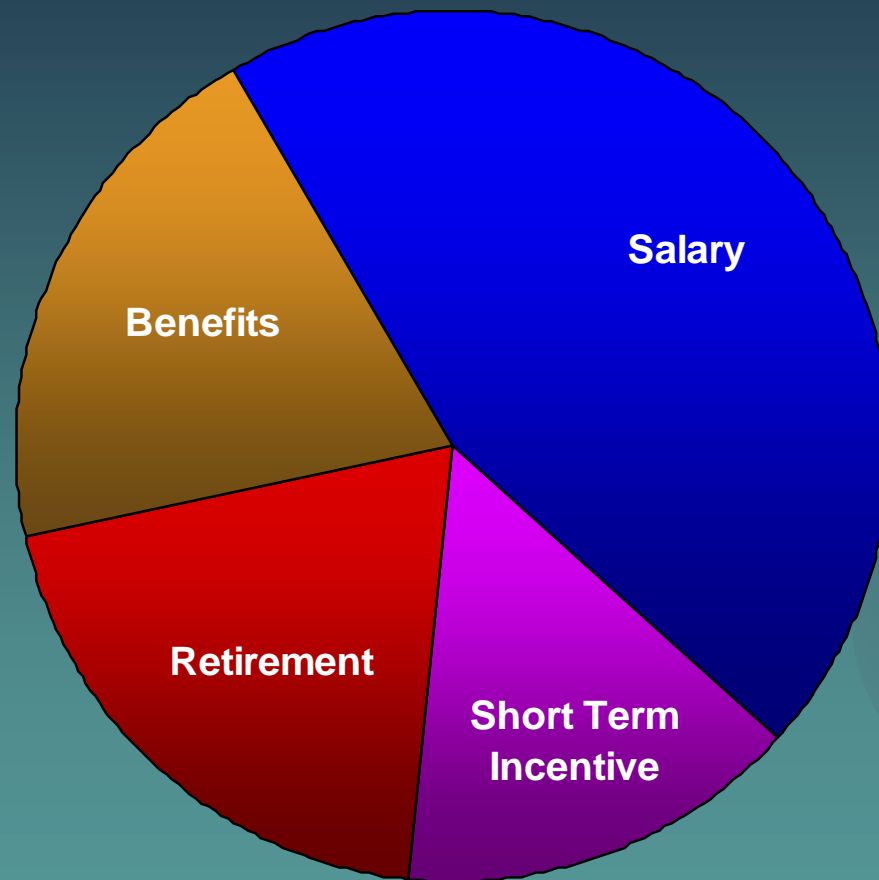
Essential #2

Why vary the mix?

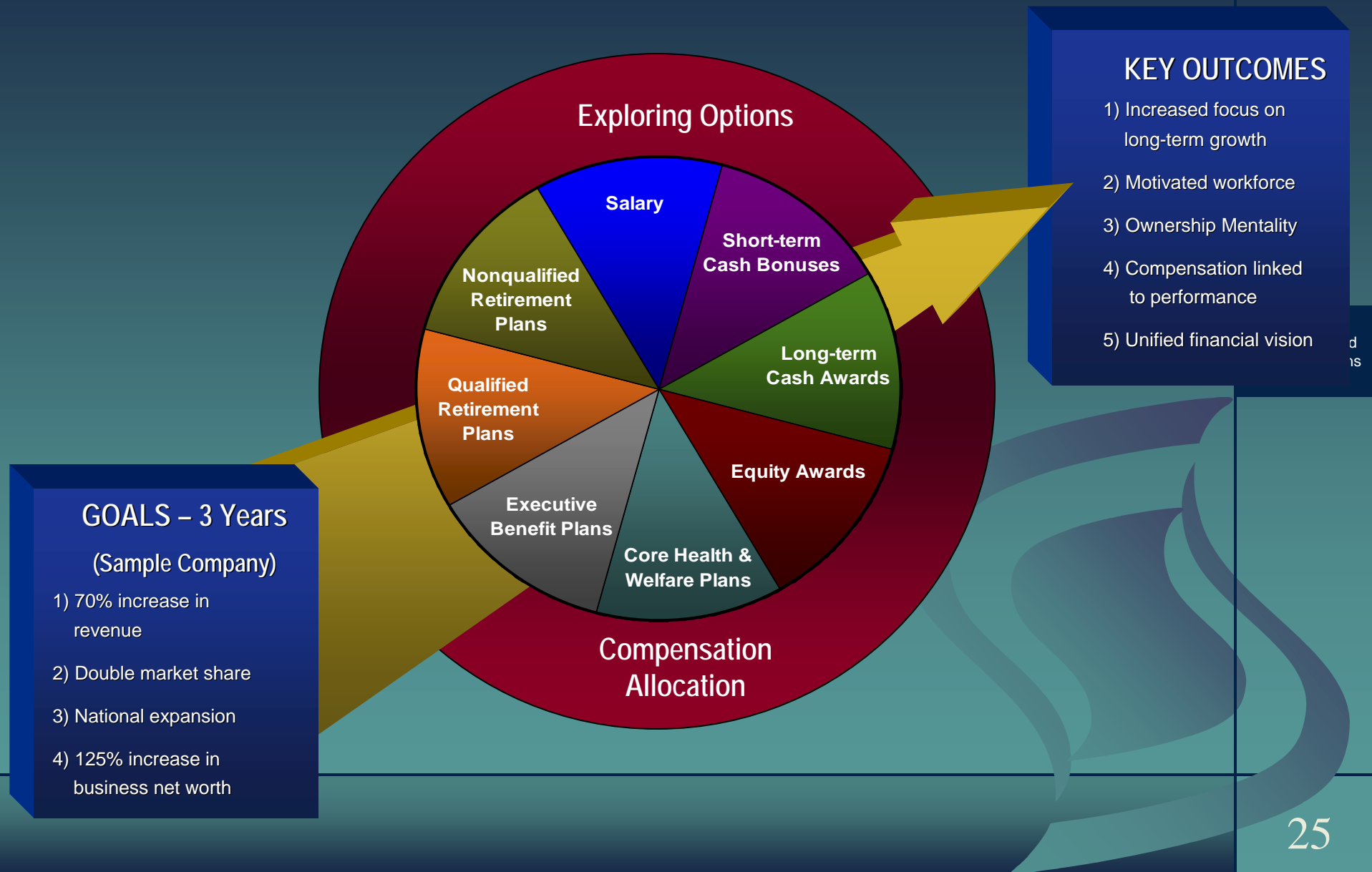
- Increased productivity
- Satisfaction quotient
- Retention goals

Essential #2

Typical Compensation Allocation

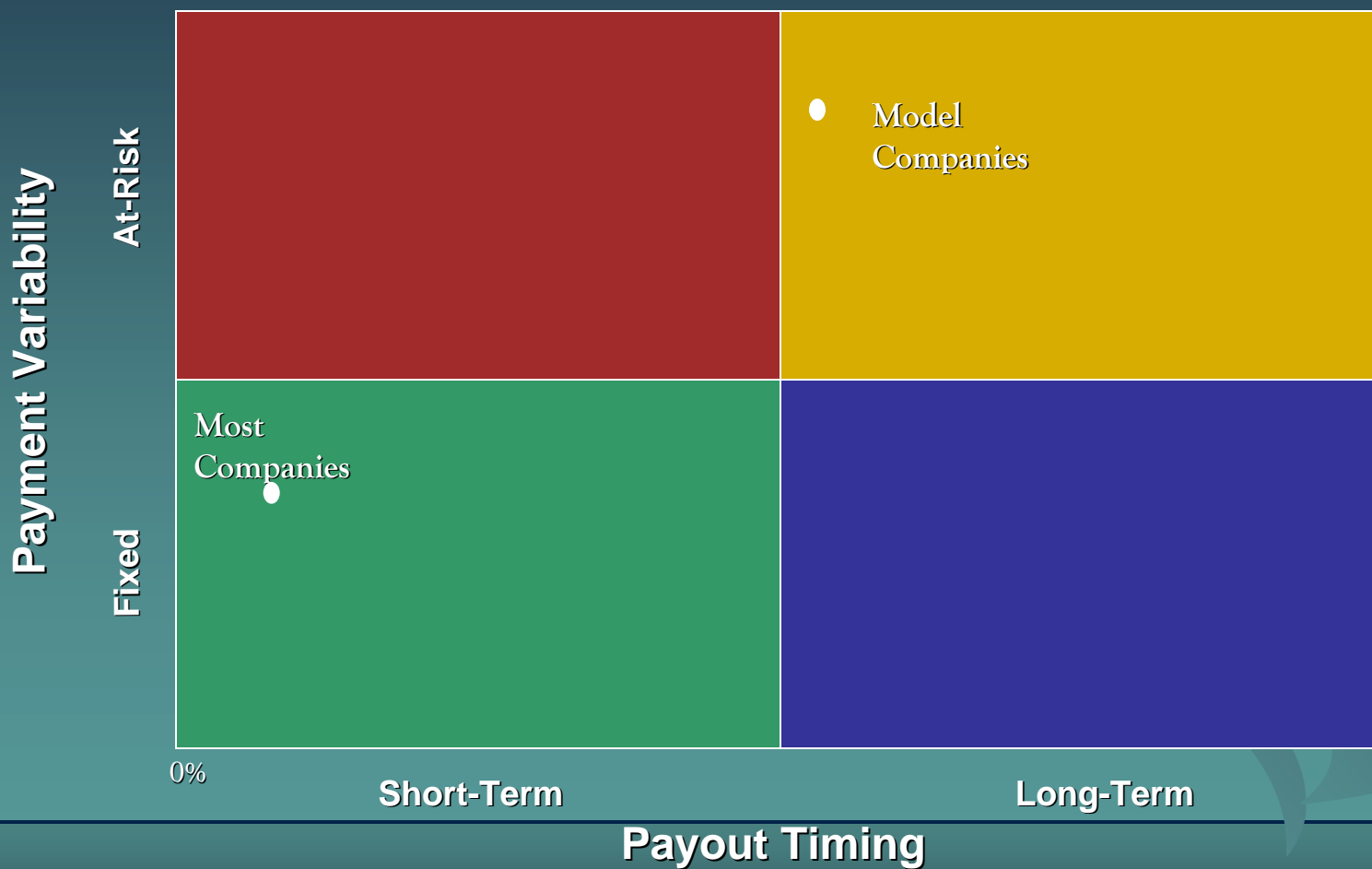


Allocate the Compensation Investment



Essential #2

Total Rewards Positioning



Building Unified
Financial Visions



Essential #2

*Must employ the proper mix
of compensation elements*

Building Unified
Financial Visions



Essential #3

Must result in meaningful dollars!

Essential #3

- We are trying to modify the behavior of our people
- Is the carrot big enough to cause a significant change?
 - Get and keep people excited

Essential #3

The Balance You Are Seeking

- Meaningful and motivational to the recipient
- In line with shareholder growth goals and expectations

Essential #3

Example:

- Senior manager with annual salary of \$150,000 and annual bonus of \$75,000
- In 10 years, total LTIP accumulation of \$200,000—too low
- In 10 years, total LTIP accumulation of \$2,000,000—too high

Essential #3

Rules of Thumb

- Short-term incentive plans
 - 40-80% of salary for top managers
 - 25-40% for 2nd tier managers

Essential #3

Rules of Thumb

- Long-term incentives (for key contributors)
 - 40-80% of salary for top managers
 - 25-40% for 2nd tier managers

Essential #3

Recommendation

- Build financial model that projects low, mid and high growth rates
- Carve out long-term plan projections that will generate specific, identifiable dollar payouts at each level
- Assess individual employee dollar values. Review these amounts while considering shareholder return along with employee expectations and rules-of-thumb (remember the Tally Sheet concept)

Tally Sheet

Year	1	5	10
Value Created for Shareholders	\$ 5,000,000	\$ 35,000,000	\$100,000,000
Cash Incentives Paid to Employees	\$ 350,000	\$ 2,650,000	\$ 9,750,000
LTIP Vested Value for Employees	\$ 0	\$ 1,950,000	\$ 5,680,000
Total Paid or Vested for Employees	\$ 350,000	\$ 4,600,000	\$ 15,430,000
% of Value Created Paid or Vested	7%	13%	15%

Building Unified
Financial Visions

Essential #3



The employee award must be
(a) achievable, and (b) meaningful



Essential #4

*Must embrace performance
that employees can impact*

Building Unified
Financial Visions

Essential #4

This is called “line of sight”

- “I can see precisely how my performance aligns with my pay!”
- Employees are frustrated or indifferent if they don’t feel they can impact performance (and hence their pay)
- There is also no “investment return” for the company
 - “I can’t affect the stock price!”

Essential #4

The Rewards Pyramid



Building Unified
Financial Visions

Essential #4

Example long-term incentive
idea with “line of sight”

*Performance Unit Plan
(PUP)*

Essential #4

PUP

A long-term cash incentive designed to reward employees for helping to achieve company growth

- Establish a plan “term” (such as three years)
- Award “units” (PUPs) to employees based on their individual performance
- Redeem PUPs only at the end of the term
- PUP begins with a set value (e.g. \$100)
- Redemption value based on performance metrics (value may be substantially higher)

Essential #4

How are the PUPs valued?

***PUP value tied to specific,
measurable performance
components of Randy's job***

Essential #4

PUP Example

- Randy is awarded 50 PUPs valued at \$100 each
- At end of 3 year cycle, Randy's PUPs are valued at \$240 each

Essential #4

More on PUPs

- PUPs are forfeited for early termination
- A new PUP cycle may begin each year
- Serves as a retention tool
- Focuses participants on long-term operational results



Essential #4

*Must embrace performance
that employees can impact*

Building Unified
Financial Visions



Essential #5

*Must effectively
communicate and reinforce*

Building Unified
Financial Visions

Essential #5

Communicating and reinforcing the promise

- Employees have to know what is expected in order to strive for the goal
- Coaching and reinforcement are the keys to long-term focus and commitment

Essential #5

This is about getting results!

- Impossible to over-reinforce (“Here’s our value prop for you!”)
- Establish the conditional nature of the promise (“must deliver on our plan; here’s your role”)

Employee Value Statement

Year	1	2	3	4	5
5-Year Plan Achievement Level	100%	100%	100%	100%	100%
Current and Inflated Salary	\$ 160,000	\$ 166,400	\$ 173,056	\$ 179,978	\$ 187,177
Cash Incentives Paid at Target	\$ 64,000	\$ 66,560	\$ 69,222	\$ 71,991	\$ 74,871
LTIP Vested Value at Year End	\$ -	\$ 74,000	\$ 186,000	\$ 311,000	\$ 448,000
Retirement Plan Value (at 7%)	\$ 17,120	\$ 36,123	\$ 57,169	\$ 80,428	\$ 106,086
Total Cash Received	\$ 224,000	\$ 232,960	\$ 242,278	\$ 251,970	\$ 262,048
Total Wealth Accumulation	\$ 17,120	\$ 110,123	\$ 243,169	\$ 391,428	\$ 554,086
Total Paid or Accumulated	\$ 241,120	\$ 567,083	\$ 942,407	\$ 1,342,636	\$ 1,767,343

Caveat:

Essential #5

Additional Rewards Reinforcement Initiatives

- Letters and other direct, written communication
- Internet access to account values
- Modeling tools
- Personal financial planning



Essential #5

*Must effectively
communicate and reinforce*

Building Unified
Financial Visions

The Five Essentials

1. *Must tie performance awards to shareholder financial objectives*
2. *Must employ the proper mix of compensation elements*
3. *Must result in meaningful dollars*
4. *Must embrace performance that employees can impact*
5. *Must effectively communicate and reinforce*



Where do I begin?

Make a clear assessment of where you stand with your employees and the impact of your current rewards strategies.

First two things to measure

- 4F condition
- Motivation value of your incentive plans

**Leadership
Diagnostic**

**Associate
Diagnostic**

**Compensation
Snapshot**

4F Assessment

Future

13

Foundation

19

Framework

12

Focus

14

Building Unified
Financial Visions

Leadership

The VisionLink Diagnostic

Indicate the degree to which you agree or disagree with the statements below. Once you are finished, total your score.

	Disagree	Agree
1. Our people understand and believe in the organization's future. They find it compelling.	1 2 3 4 5 6 7 8 9 10	
2. We have a fundamental compensation philosophy that is consistent with our business strategy and is intended to build shareholder value.	1 2 3 4 5 6 7 8 9 10	
3. We have established clear compensation standards relative to market pay and best practices; and we follow them.	1 2 3 4 5 6 7 8 9 10	
4. Our rewards programs clearly focus our people on desired results.	1 2 3 4 5 6 7 8 9 10	
5. Our people understand and believe in the core components of our business strategy and plan.	1 2 3 4 5 6 7 8 9 10	
6. Our compensation plans are designed to insure our ability to (a) recruit the people we need and (b) keep them here.	1 2 3 4 5 6 7 8 9 10	
7. Our company effectively balances short and long-term compensation and guaranteed versus "at risk" pay.	1 2 3 4 5 6 7 8 9 10	
8. We consistently communicate and reinforce the value, meaning and potential of our rewards programs.	1 2 3 4 5 6 7 8 9 10	
9. We clearly define roles and opportunities within the organization. Our people are motivated by opportunities for personal and professional growth.	1 2 3 4 5 6 7 8 9 10	
10. The value and clarity of our wealth accumulation opportunities engender a passionate ownership mentality.	1 2 3 4 5 6 7 8 9 10	
11. Our compensation system is driven by a "pay-for-performance" process that is founded on solid economic models and forecasts.	1 2 3 4 5 6 7 8 9 10	
12. Our employees see a relationship between how they're paid and the results they produce.	1 2 3 4 5 6 7 8 9 10	

TOTAL SCORE

As I consider the effectiveness of our compensation and rewards program, the area I am least comfortable with is:

Name: _____

Title: _____

Company: _____

E-mail Address: _____

Phone Number: _____



7700 Irvine Center Dr • Suite 930 • Irvine, CA 92618 • 949-852-2288 • fax 949-852-2299 • www.vladvisors.com

Building Unified
Financial Visions

Associates

The VisionLink Diagnostic Associates

Indicate the degree to which you agree or disagree with the statements below. Once you are finished, total your score.

	Disagree	Agree
1. I understand and believe in the organization's future. I find it compelling.	1 2 3 4 5 6 7 8 9 10	
2. The company has a fundamental compensation philosophy that is consistent with its business strategy.	1 2 3 4 5 6 7 8 9 10	
3. The company has established clear compensation standards relative to market pay and best practices; and it follows them.	1 2 3 4 5 6 7 8 9 10	
4. The company's rewards programs keep me focused on specific desired results for which I am responsible.	1 2 3 4 5 6 7 8 9 10	
5. I understand and believe in the core components of our business strategy and plan.	1 2 3 4 5 6 7 8 9 10	
6. Our compensation plans are effective at recruiting great people and keeping them here.	1 2 3 4 5 6 7 8 9 10	
7. Our company's blend of short and long-term compensation and guaranteed verses "at risk" pay is well balanced and makes my priorities more clear.	1 2 3 4 5 6 7 8 9 10	
8. The company consistently and effectively communicates and reinforces the value, meaning and potential of my rewards programs.	1 2 3 4 5 6 7 8 9 10	
9. The company clearly defines roles and opportunities within the organization. I am personally motivated by opportunities for personal and professional growth.	1 2 3 4 5 6 7 8 9 10	
10. The value and clarity of the company's wealth accumulation opportunities for employees have engendered within me a passionate ownership perspective.	1 2 3 4 5 6 7 8 9 10	
11. Our compensation system is driven by a "pay-for-performance" process that is tied to the real economics of our business.	1 2 3 4 5 6 7 8 9 10	
12. I see a relationship between how I'm paid and the results I produce.	1 2 3 4 5 6 7 8 9 10	

TOTAL SCORE

As I consider the effectiveness of our compensation and rewards program, the area I am least comfortable with is:

Name: _____

Title: _____

Company: _____

E-mail Address: _____

Phone Number: _____



1700 Irvine Center Dr., Suite 930 • Irvine, CA 92618 • Ph: 949-453-0080 • Fax: 949-453-3299 • www.visionlink.com

Building Unified
Financial Visions

VisionLink Compensation Snapshot for: FoxHill State Bank

February 22, 2008

4F: 10-11-9-10



Successful banks employ great systems to envision, create and sustain their total rewards programs. Their plans are aligned with the shareholders' vision, built on clear philosophical principles, engineered according to sound financial practices, and sustained through integrated ongoing management systems. Programs based on these fundamentals engender confidence, bolster leadership efforts, and create a true pay-for-performance culture.

A true pay-for-performance culture gives the bank a real competitive advantage.

Your Analysis: 10-11-9-10 (Each area of evaluation has a potential (perfect) score of 30)

Future: A compelling future that links shareholders and employees

Your score of 10 suggests that the bank's future has either not been clearly defined or it has not been articulated and accepted by your employees. When employees buy in to a compelling future they are more likely to take ownership of it—particularly if they clearly see how they can fit in and grow. You should examine ways to clarify the bank's opportunities and express them as part of a concise business plan. Employees should be engaged in identifying the key strategic initiatives that need to be launched or maintained. Then, employees can visualize potential future roles and opportunities.

Foundation: A philosophy that drives an ownership mentality

Your score of 11 indicates that the bank has probably not drafted and adopted a written compensation philosophy statement. This should be a top priority. You sense that your plans do a reasonable job of helping with recruiting and retention but they are not tied directly to short-term and long-term goals. In addition, employees are not yet motivated by long-term wealth accumulation opportunities. The bank probably needs (a) a meaningful long-term incentive plan and (b) a value statement that illustrates to employees the financial attractiveness of the bank's overall rewards program.

Framework: Financial standards that produce an economic return

Your score of 9 supports the need for stronger systems for the design of your incentive plans. Salary programs may be adequate but incentive structures are lacking. The bank would benefit from creating a financial forecast (3-5 years) that highlights potential shareholder returns. Then an important discussion should be held about how much new value should be shared with employees. This would lead to the development of a new incentive arrangement that would consistently support a pay-for-performance culture. To fulfill its full potential, the new arrangement must include both short- and long-term rewards.

Focus: Consistent reinforcement that sustains line-of-sight

Your score of 10 suggests relatively soft alignment between personal job responsibilities, organizational goals and individual rewards (line-of-sight). Good compensation systems tell employees what to focus on to produce the desired results. Employees show up at work with a clear picture of what tasks will mean the most to the bank and to them (there should be no difference). Focus can only occur when the incentive plans have been carefully linked to measurable performance indicators. You should try to (a) tie incentive plans to critical success factors and (b) establish creative methods of communicating the present and future value of the bank's rewards proposition.

This snapshot is based strictly on a single Diagnostic completed by a bank employee. A more exhaustive analysis would be needed before deeming the conclusions and recommendations to be complete. Contact a VisionLink consultant for more information.

The VisionLink Advisory Group
7700 Irvine Center Drive, Suite 930, Irvine, California 92618
949-852-2288

Complimentary Offer

VisionLink invites you to participate in a 4F Assessment:

- Shareholder/Owner Survey
- Employee survey (up to 10 people)
- VisionLink will provide you a summary report and hold a phone conference.

Indicate interest on the survey at the end of the presentation

Next Online Seminar:



**“10 Steps to Building an Effective
Incentive Plan”**

Building Unified
Financial Visions

To be held on:
Tuesday, April 28th, 2009

Special Webinar Presentation



“When, Why and How to Fund an Executive Deferral Plan”

To be held:

Thursday, April 30th, 2009

* Visit our website, send us an email or indicate interest on survey to register

Building Unified
Financial Visions

Questions?

Building Unified
Financial Visions

Thank you for attending

Please complete our brief survey immediately following our presentation.

We value your input.

*You may request a copy of our slides and the
“4F” Assessment.*

Building Unified
Financial Visions

Thank You!



Ken Gibson

Senior Vice President

949-265-5703

kgibson@vladvisors.com

Building Unified
Financial Visions

