

The "Learn & Earn" Series™
October 20, 2009

**"Will My Client Create Greater
Wealth for Himself by Creating
Greater Wealth for his Employees?"**



THE VISIONLINK
ADVISORY GROUP

Today's Presenter:

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Course Credit

Per State Requirements:

To receive CPE credit for today's course, you must respond to at least 75% of the monitoring events – given in the form of polls.

Each person taking the course must respond to the monitoring events from their own computer. You may not share a computer when taking the course

Next CPE Course:

“Setting the Right Salaries – Getting Beyond Market Pay Data”

To be held on:
Tuesday, November 17th, 2009

We're happy to provide a copy of today's slides, course syllabus/summary, and a CD of the presentation. Information will be provided at the close of the presentation about requesting these.

For questions during today's presentation:

Use the question panel
To the right of your screen

Course Objectives

- Understand the relationship between increased shareholder value and employee value participation
- Demonstrate the mechanisms for linking employee and shareholder wealth building opportunities
- Discuss the role of long-term incentives in building long-term growth and wealth participation

Key Concepts



- Incentive plans can help create more value for shareholders if tied to the right metrics and measures
- There are approaches your clients can take when issuing stock isn't a viable option
- There is a process for determining which LTIP is right for your clients
- Superior wealth building plans exhibit some common characteristics
- Some plans combine employer and employee money

Poll #1



Shareholder Wealth Building

- Equity value
- Dividends
- Income generation opportunities (for shareholder employees)

Key to Shareholder Wealth



Growing and sustainable earnings

(PTI, Net Income, EBITDA, Operating Income,
Gross Margin)

Key to Employee Wealth



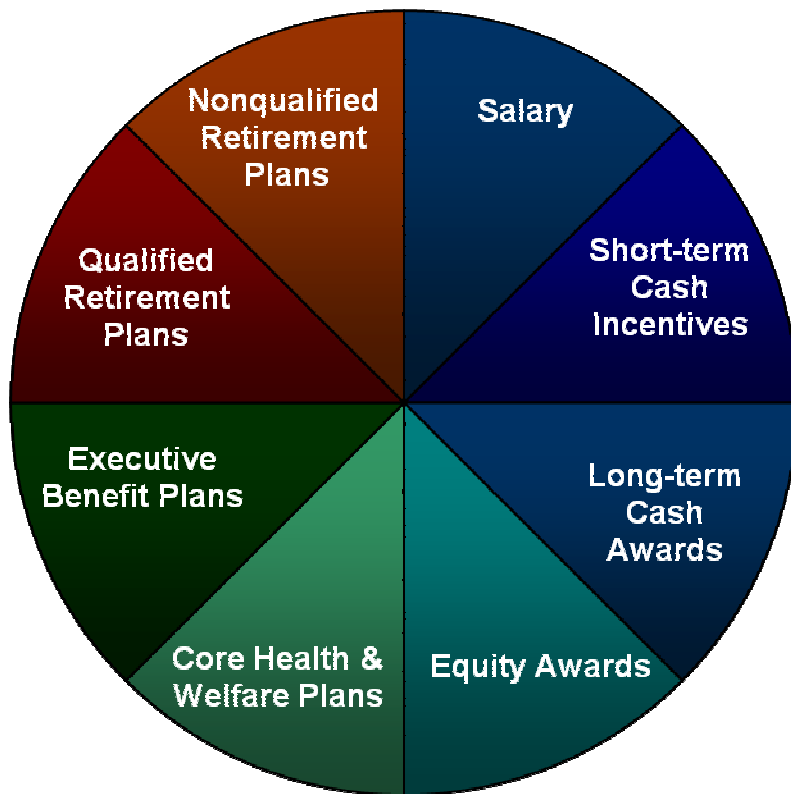
Appropriate participation in growing
and sustainable earnings

Message to Employees:



You commit to helping me generate growing and sustainable earnings and I'll commit to sharing some of those earnings with you over time





Poll #2



Compelling Future

Positive Work
Environment

Opportunities for Personal
and Professional Growth

Financial Rewards

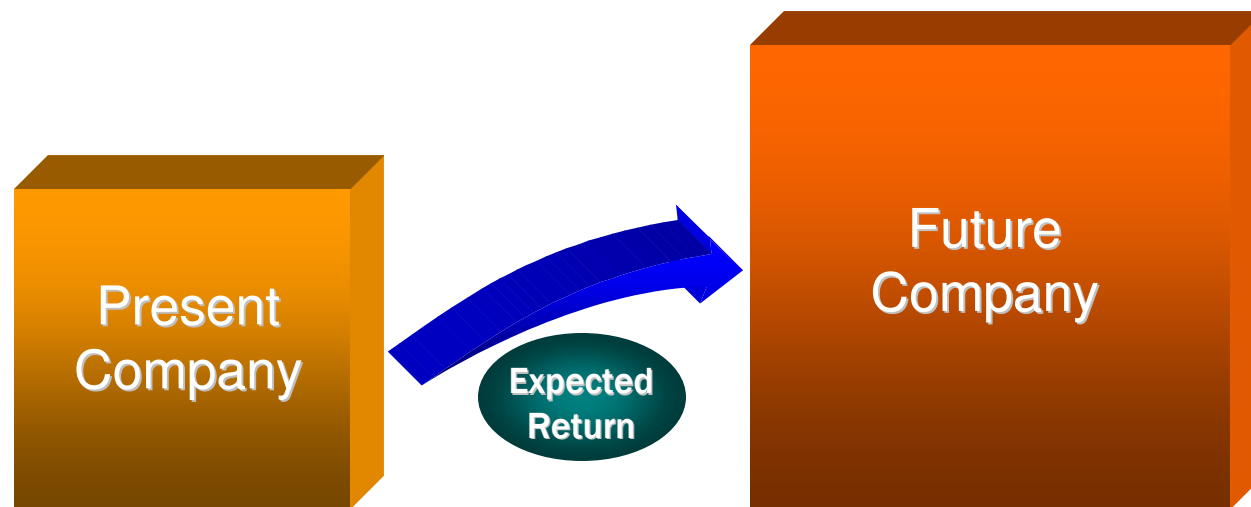
Best Practices



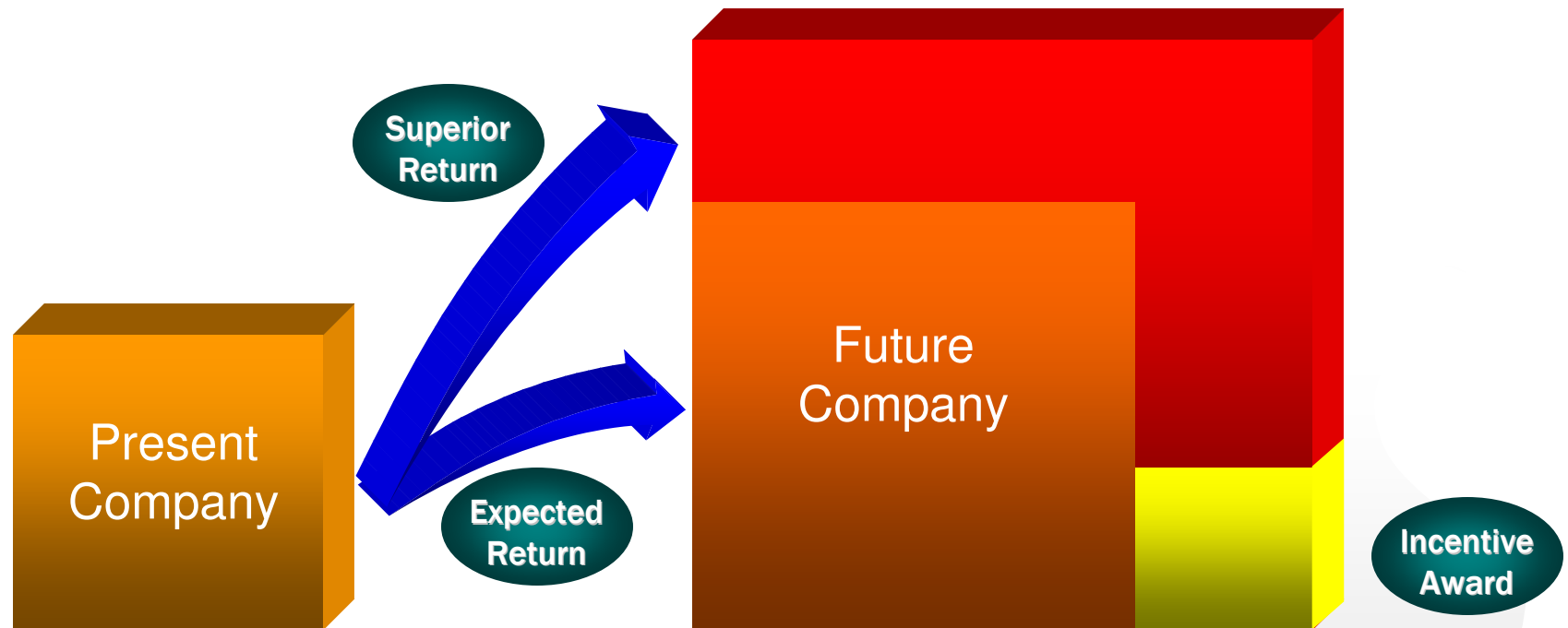
1. Reward performance that exceeds meaningful standards (not just budget).

Example: SAR

How should we think of compensation as an investment?



How should we think of compensation as an investment?



Best Practices



2. Make all compensation plans performance-based (if possible)

Example: performance driven deferred compensation

Best Practices



3. Carefully select and measure the earnings component

Normalize for special compensation considerations;
Average (weighted basis)

Best Practices



4. Measure and track wealth creation by a solid standard

Example: ratio of new value credited to employees vs. shareholders

Best Practices



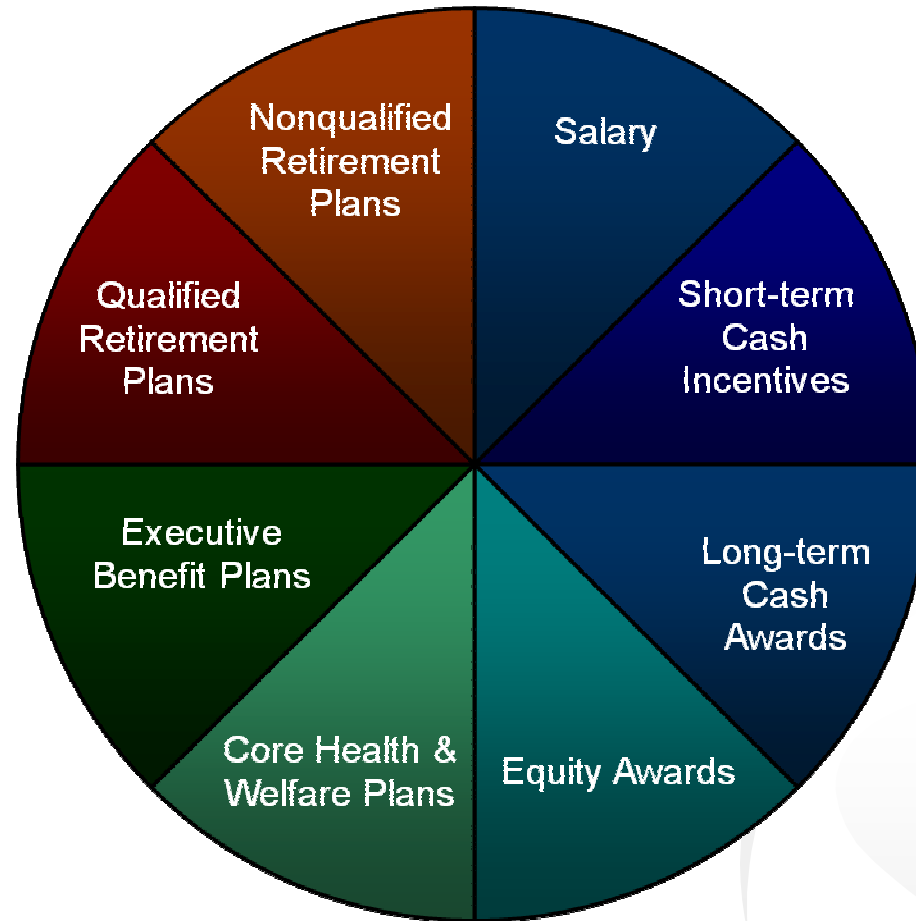
5. All incentives are tied to areas of impact

Line of sight

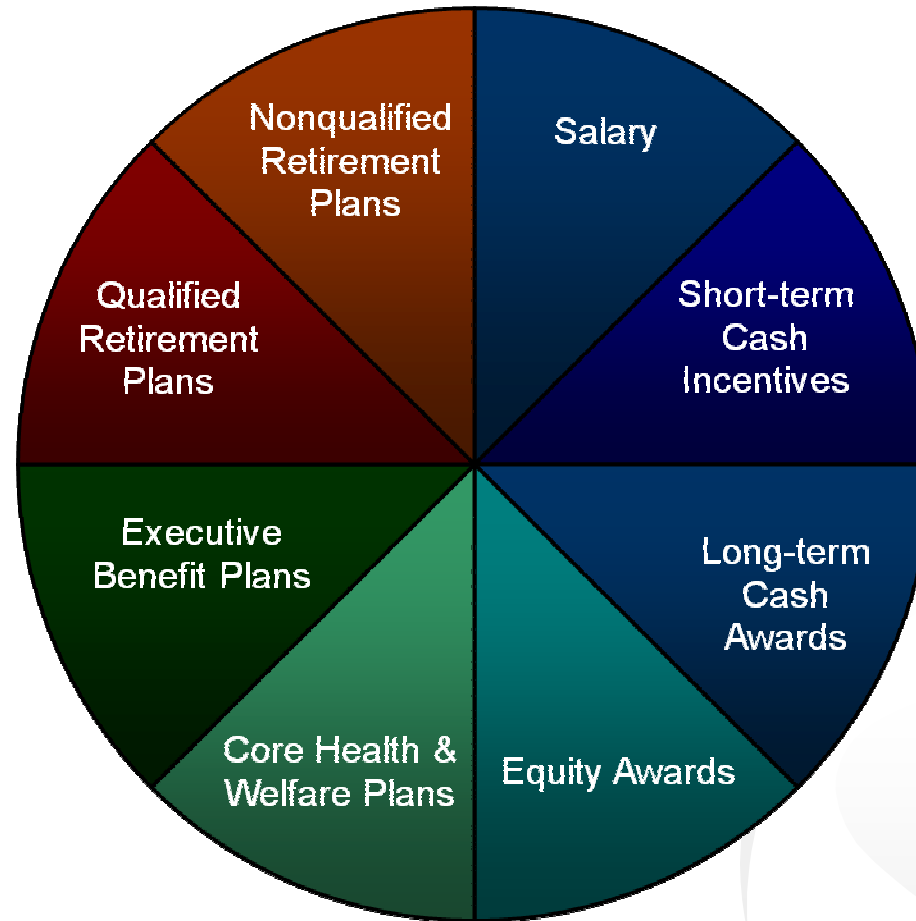
What plans best accomplish this?

- Short-term incentives (annual plan)
- Long-term incentives (with rolling vesting and maturity cycles)

How do these slices differ?

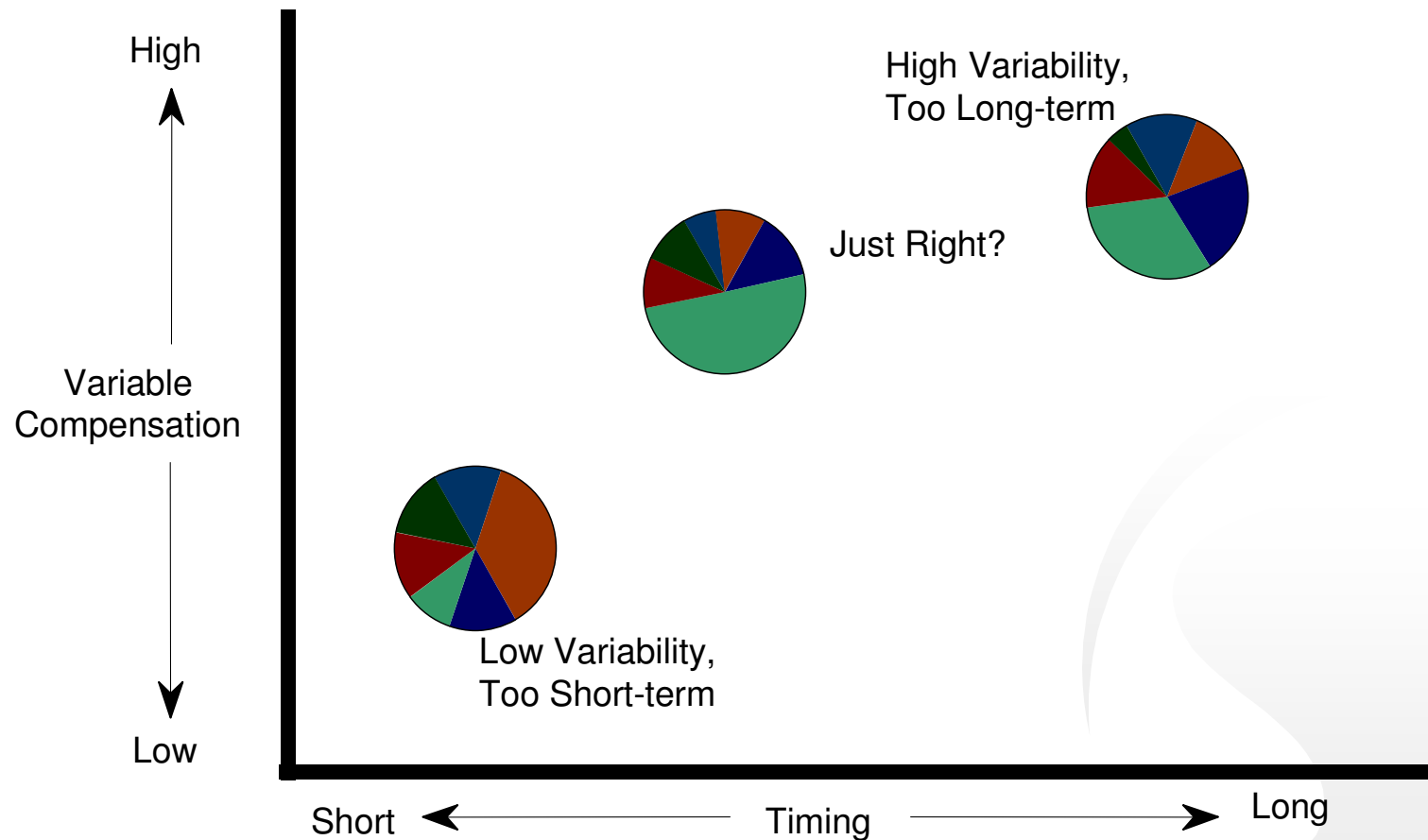


When they're paid

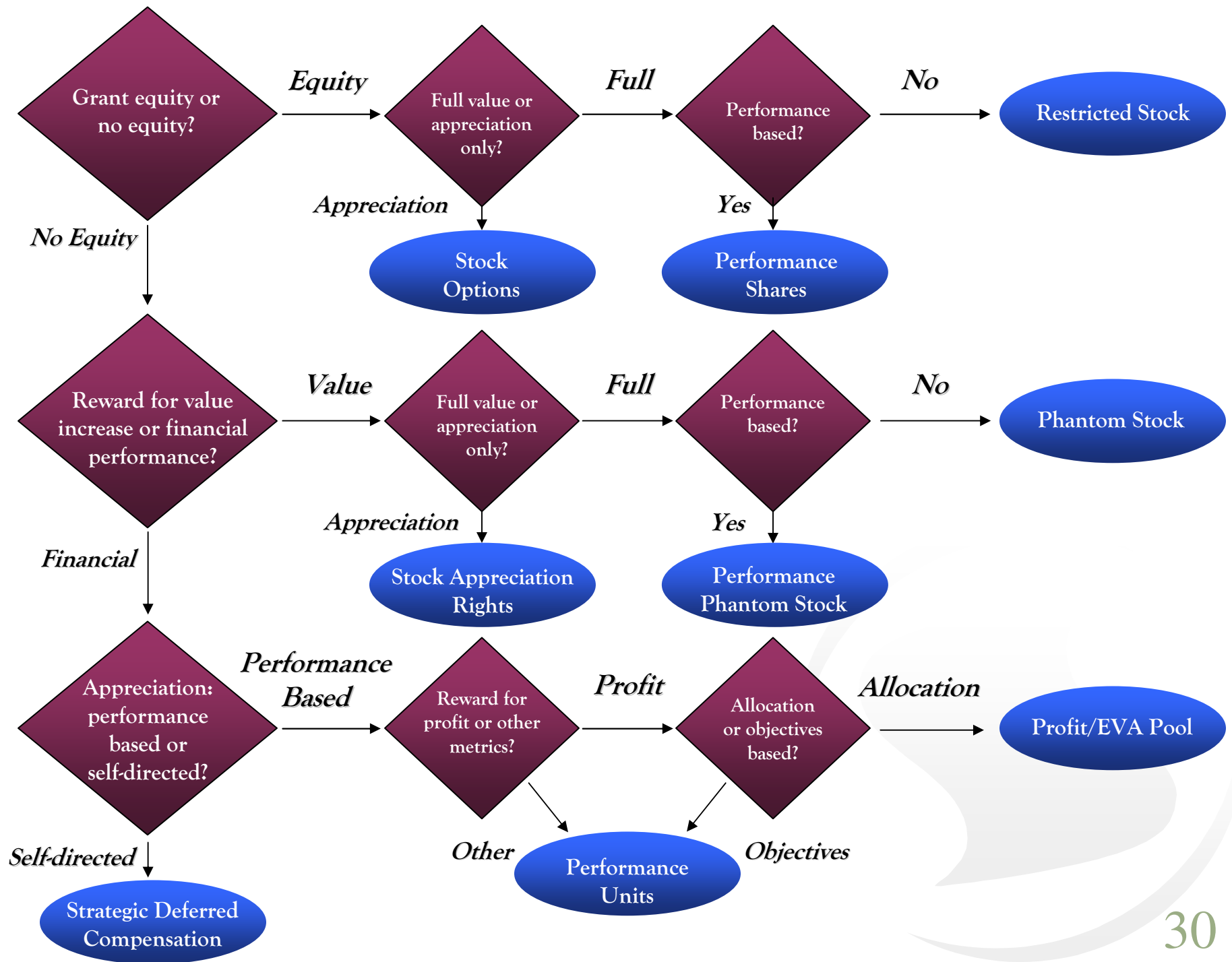


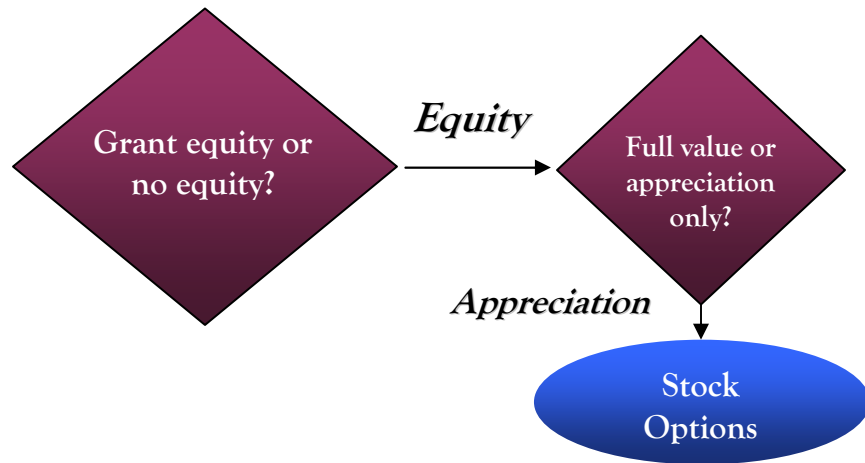
And WHETHER they're paid (how much they'll be worth when received)

Identifying Ideal Compensation Allocations



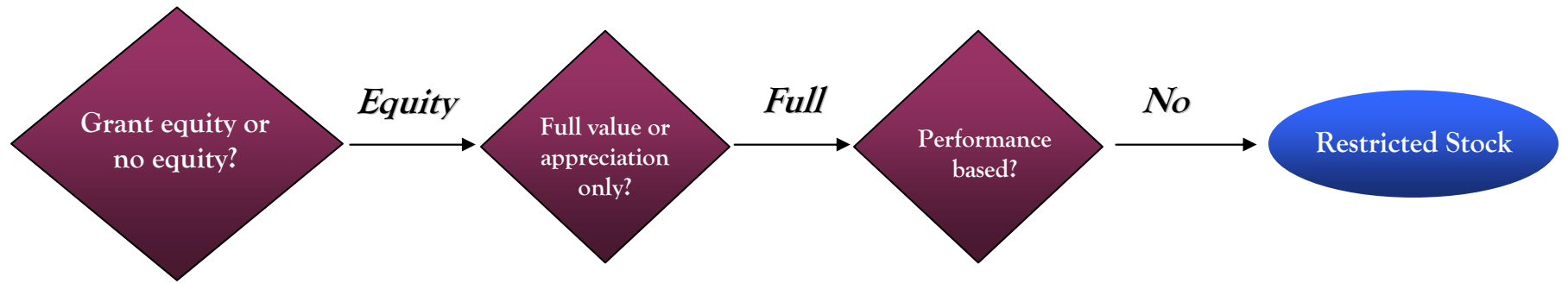
Long-Term Incentive Plan Decision Tree





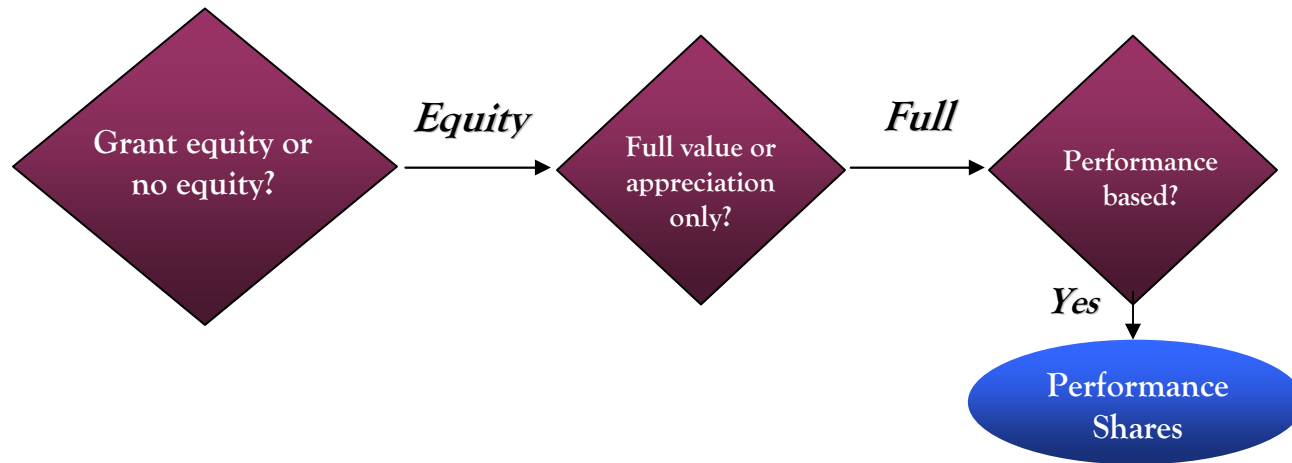
Stock Options

- Employees given a right to purchase stock at a pre-set price
- The right is subject to a time limit and a vesting schedule
- Common in public companies
- New accounting rules (FAS 123R) have somewhat reduced use



Restricted Shares

- Employees given actual stock at current value
- Their ability to sell the stock is limited by vesting schedule and market restrictions
- Rewards for past contributions and future growth
- Employees choose to pay tax (ordinary) in year of receipt or when vesting occurs (83(b))
- Full deduction for company in year employee takes into income

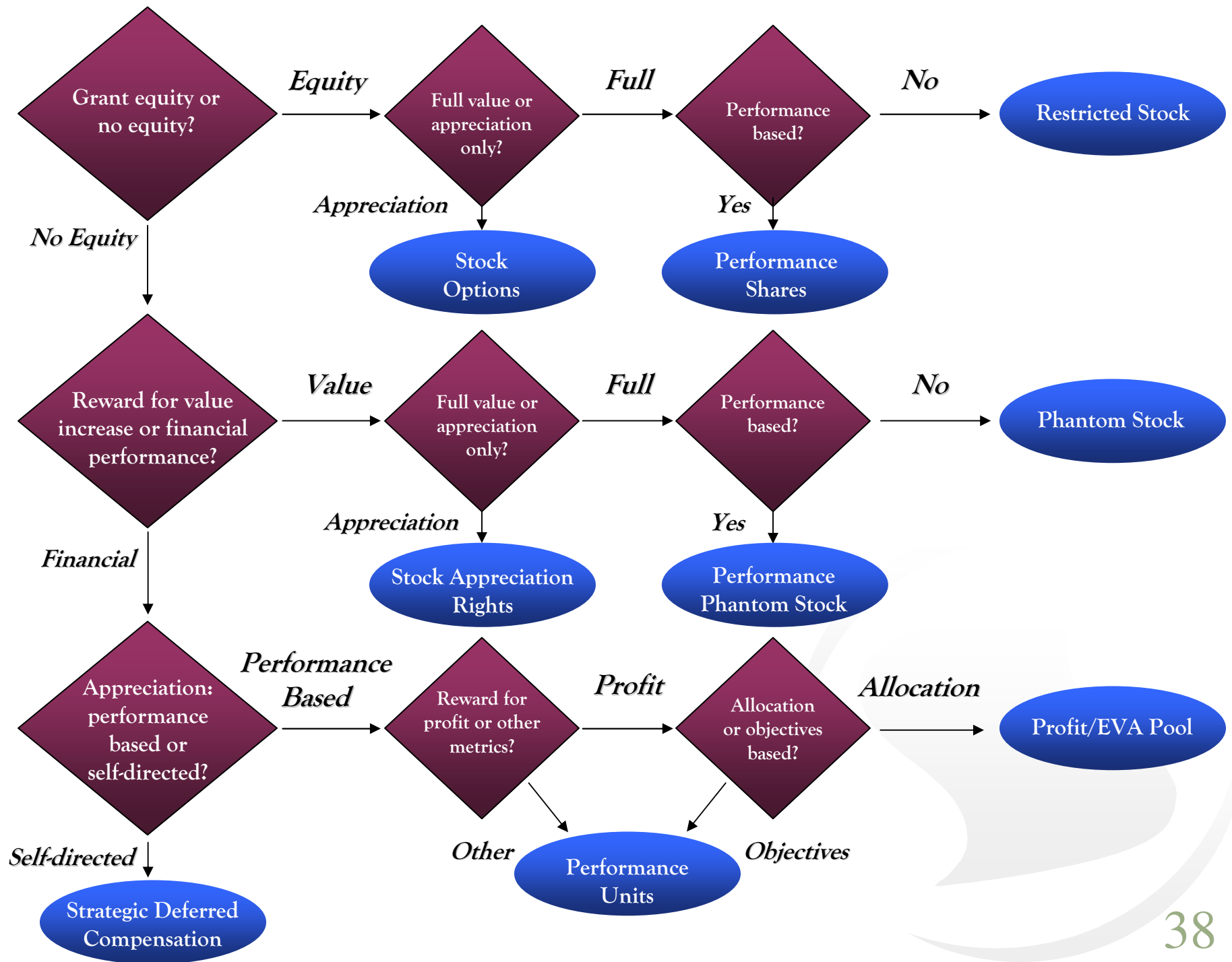


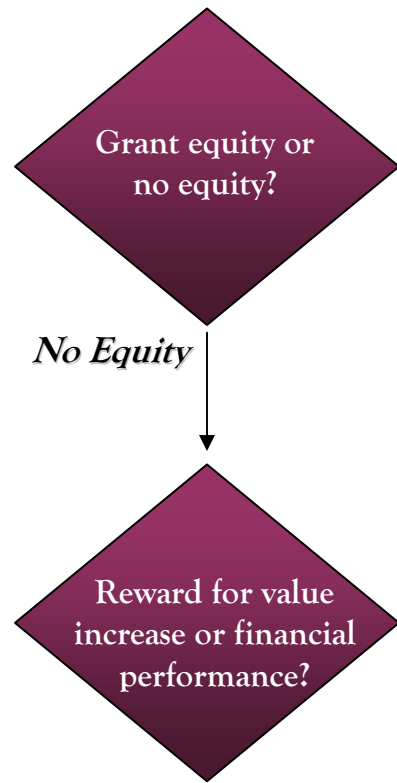
Performance Shares

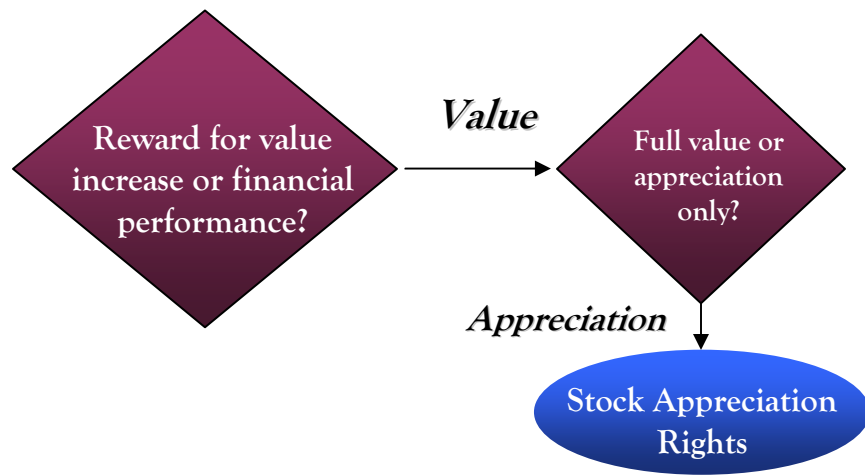
- Employees given the promise to receive stock upon fulfillment of financial goals
- Shares will be “restricted” once received
- Dilution is “self-financing”
- “Sweat equity” converted to actual equity

Comments on stock options

- Goal: shareholder alignment
- Flaws:
 - Option strategy inconsistent with long-term ownership
 - Most options are sold after exercise
 - Exercise timing in control of employee

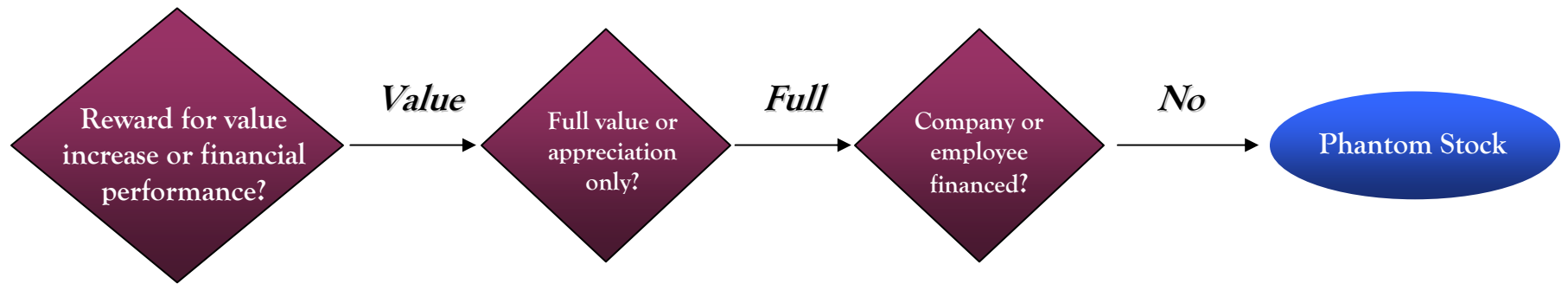






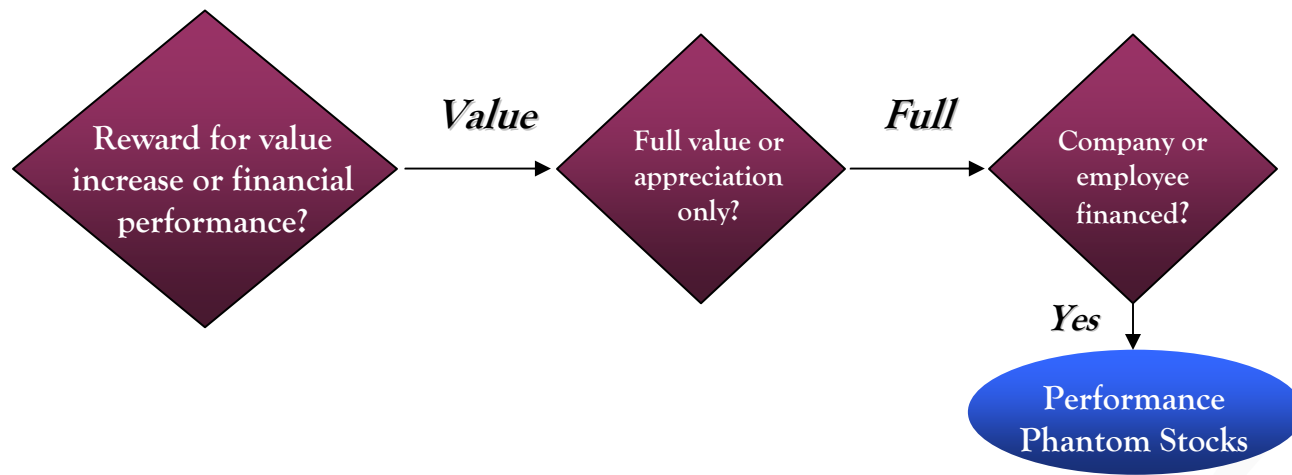
Stock Appreciation Rights (SAR)

- Employees given a promise of cash payment at a future date
- The value will be based on the appreciation in stock price from the date of award to the date of redemption
- Like a stock option but without the need to pay for shares
- Value will be taxed as ordinary income when received
- Employee not given full control over date of redemption



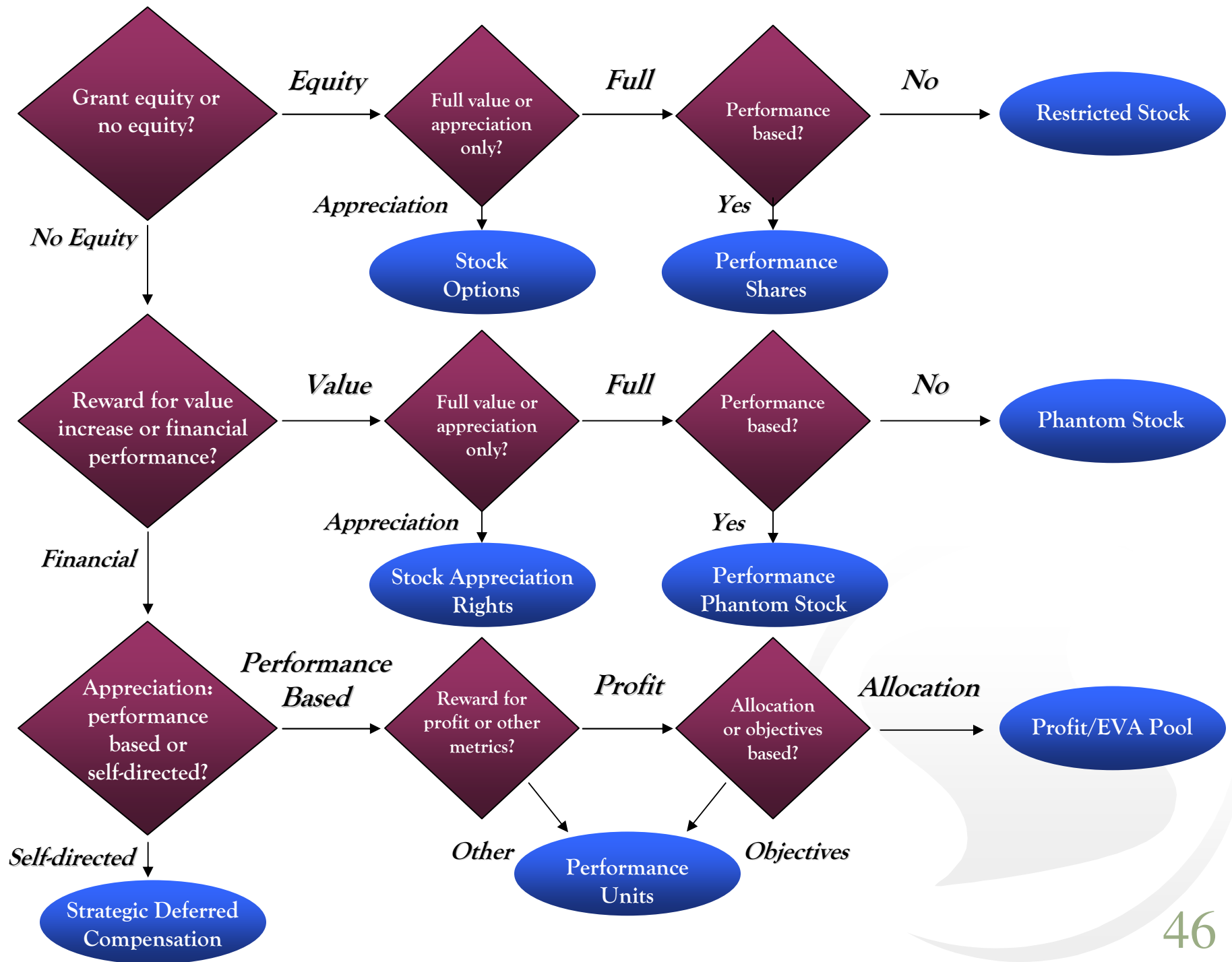
Phantom Stock

- Employees given an award that has current value essentially equivalent to company stock value (subject to vesting schedule)
- No rights of ownership
- Rewards for past contributions and future growth
- Payments will be made in cash at pre-determined dates
- Full deduction for company in year employee takes into income



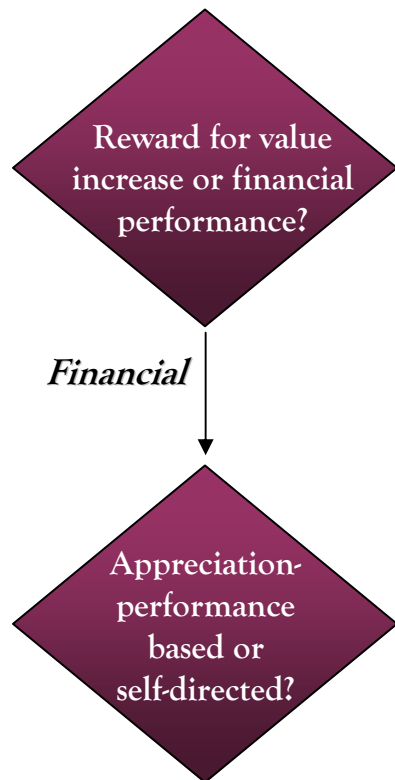
Deferred Stock Units

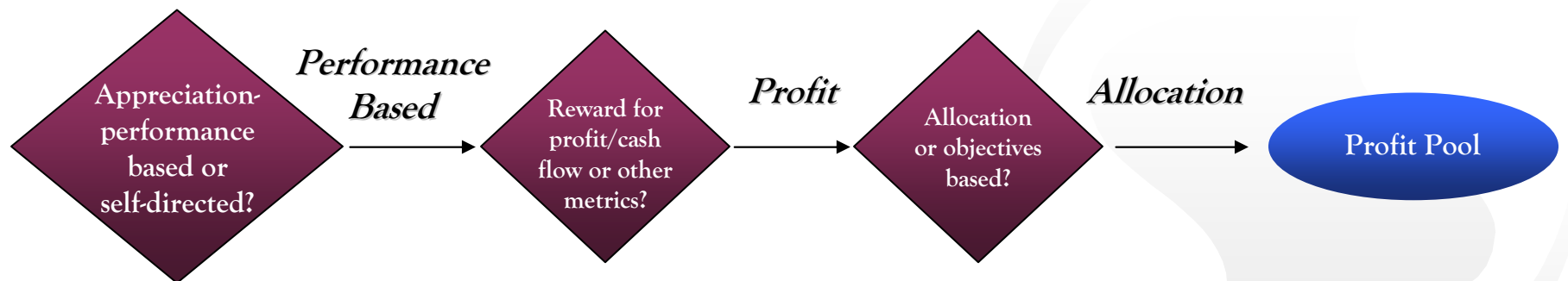
- Employees given an opportunity to purchase phantom shares on a pre-tax basis
- Similar to a deferred compensation plans, but account value is measured by hypothetical stock price
- No rights of ownership
- A “pay-to-play” approach
- Payments will be made in cash at pre-determined dates
- Full deduction for company in year employee takes into income



Comments on Phantom Stock

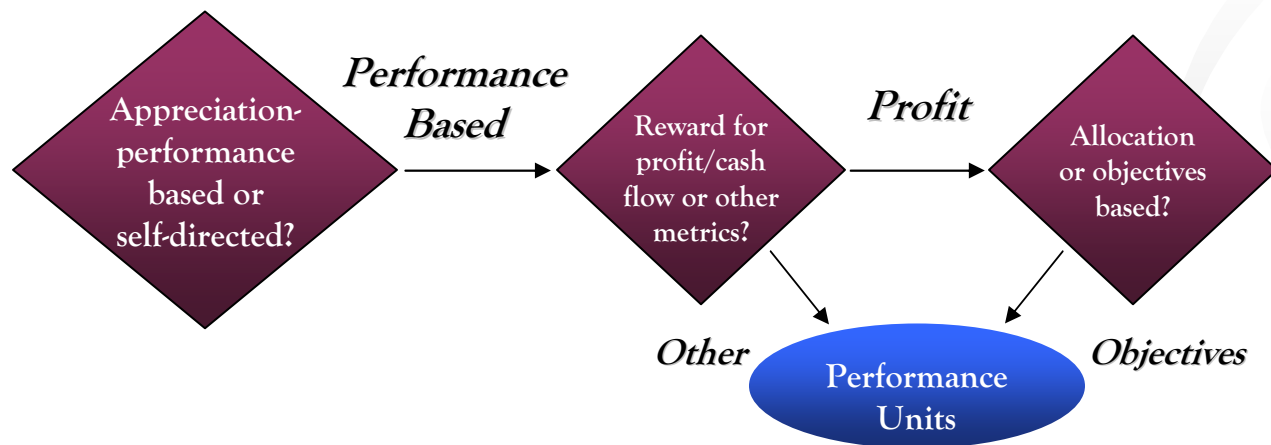
- Much preferred tool in private companies
- Does potentially impact earnings more
- But—
 - Employer controls payment timing
 - No dilution; no shareholder fuss
 - Easier to manage
 - Better tax result for employer





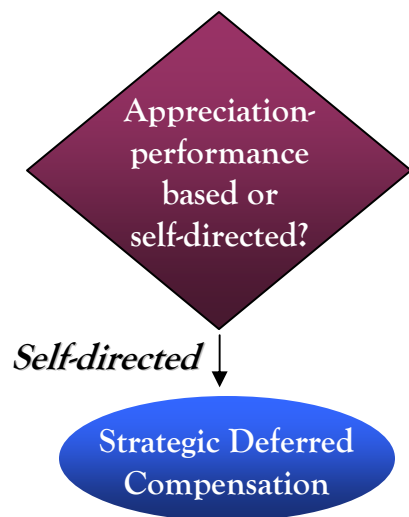
Profit Pool

- Employees given a right to participate in an annual distribution from an accumulating profit pool
- A percentage of profits are credited to a pool that is to be distributed to selected participants in future years
- Selected percentage of the pool allocated to participants
- Typical distributions may begin in year 3 and recur annually
- Modified concept calls for a reduction from the annual credit for an amount earned by capital contribution



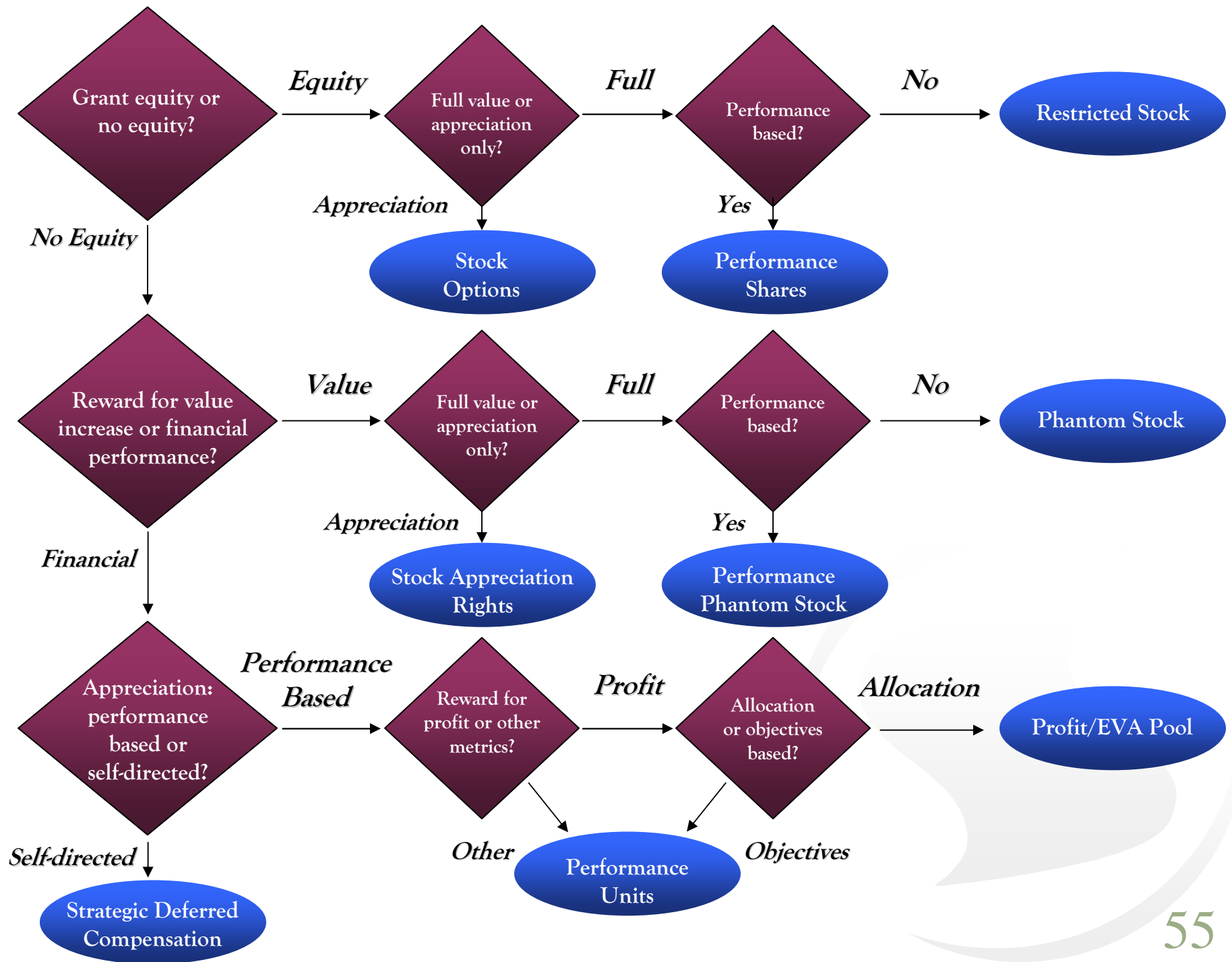
Performance Unit Plan

- Employees given award units (PUPs) with a current value (e.g., \$100) that will be redeemable in a few years (3 years most common)
- Payment is made in cash at the end of the period
- The value of the PUP at redemption will depend on 2 (or 3) performance metrics
- Value of the PUP may be much higher than starting amount, or much lower (even \$0)
- New PUP cycle starts each year, thus ultimately producing an annual payout



Strategic Deferred Compensation

- Employees awarded a credit to a retirement account
- The amount credited typically varies depending on pre-set company performance achievements (e.g., revenue and/or profit goals)
- The account is “self-directed” so that employee may choose between alternative investment options
- Vested account paid in cash upon termination or retirement
- Employee may add voluntary deferrals



Pay-to-Play Models



- Deferred Stock Unit (with match)
- True Deferral Plan (with phantom stock match)
- Split funded SERP

Poll #3



Rewards to Results



Owner/Shareholder Vision



COMMON THEMES

Owners want to:

Employee's Vision



COMMON THEMES

Employees 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

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

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“Setting the Right Salaries – Getting Beyond Market Pay Data”

To be held on:
Tuesday, November 17th, 2009

Next Online Webinar:

**“How Much is Enough Compensation?”
*or is that even the right question to ask***

To be held on:
Next Tuesday, October 27th, 2009

Check out our website:
www.VLadvisors.com



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Questions?

Thank you for attending

Please complete our survey form immediately following our presentation.

This will be counted as a monitoring event.

You may also request a copy of the slides, course syllabus/summary and a CD of today's presentation

Thank You!



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