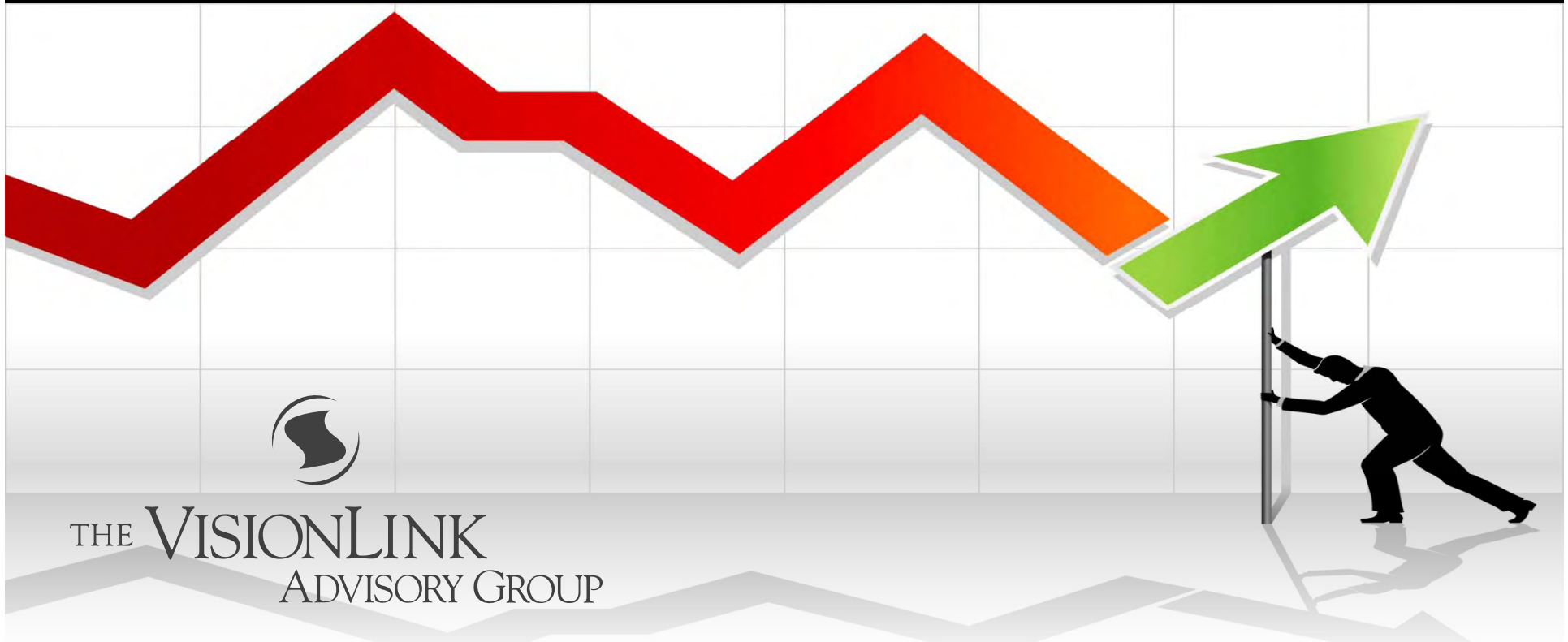


December 6, 2011

What Think Ye of Phantom Stock? Does it Work?





THE VISIONLINK
ADVISORY GROUP

Today's Presenter:

Tom Miller

President

(949) 265-5700

tmiller@vladvisors.com



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

Phantom Stock

- What is it?
- What's the goal?
- Does it work?
 - Do it wrong
 - Do it right
- How to impact bottom line results
- Final observations



What is Phantom Stock?

- A deferred bonus
- Awards made in “units” (like stock)
- Unit price is tied to a formula (or appraisal) that reflects company value
- Settled in cash (almost always)



What's the goal?

"Can I reward employees like owners without giving away stock?"

"How do I compensate employees for contributing to the creation of my future company?"

"What compensation techniques do I use to attract and retain top talent?"





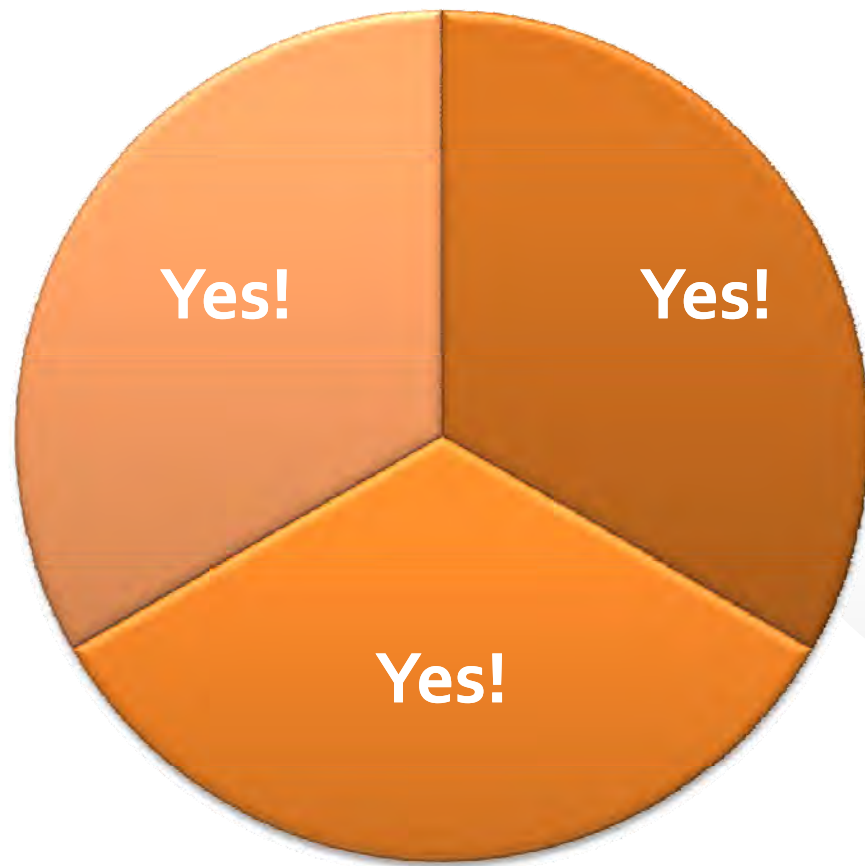
Does phantom stock work?

- Does it help you create an ownership mentality?
- Does it properly reward for value creation?
- Does it help you win the talent wars?

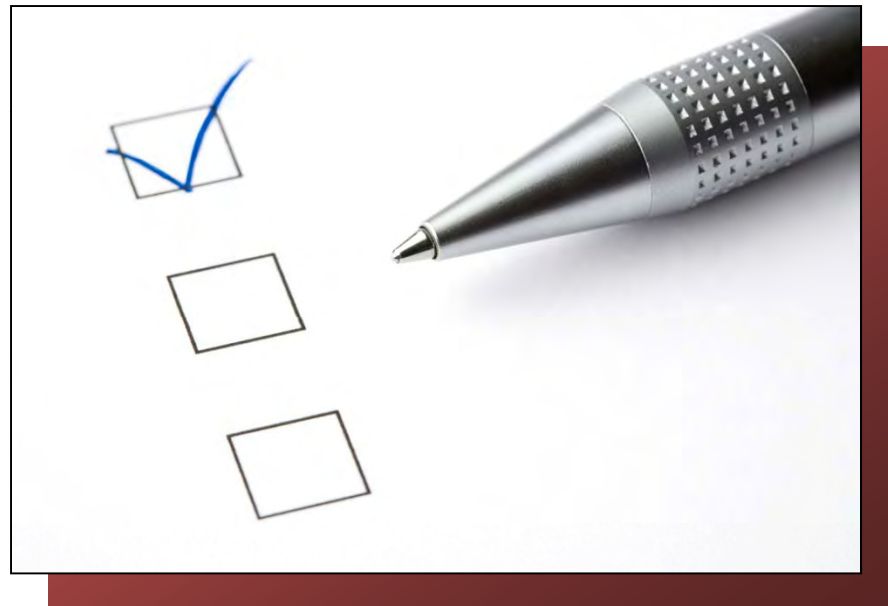


Answer

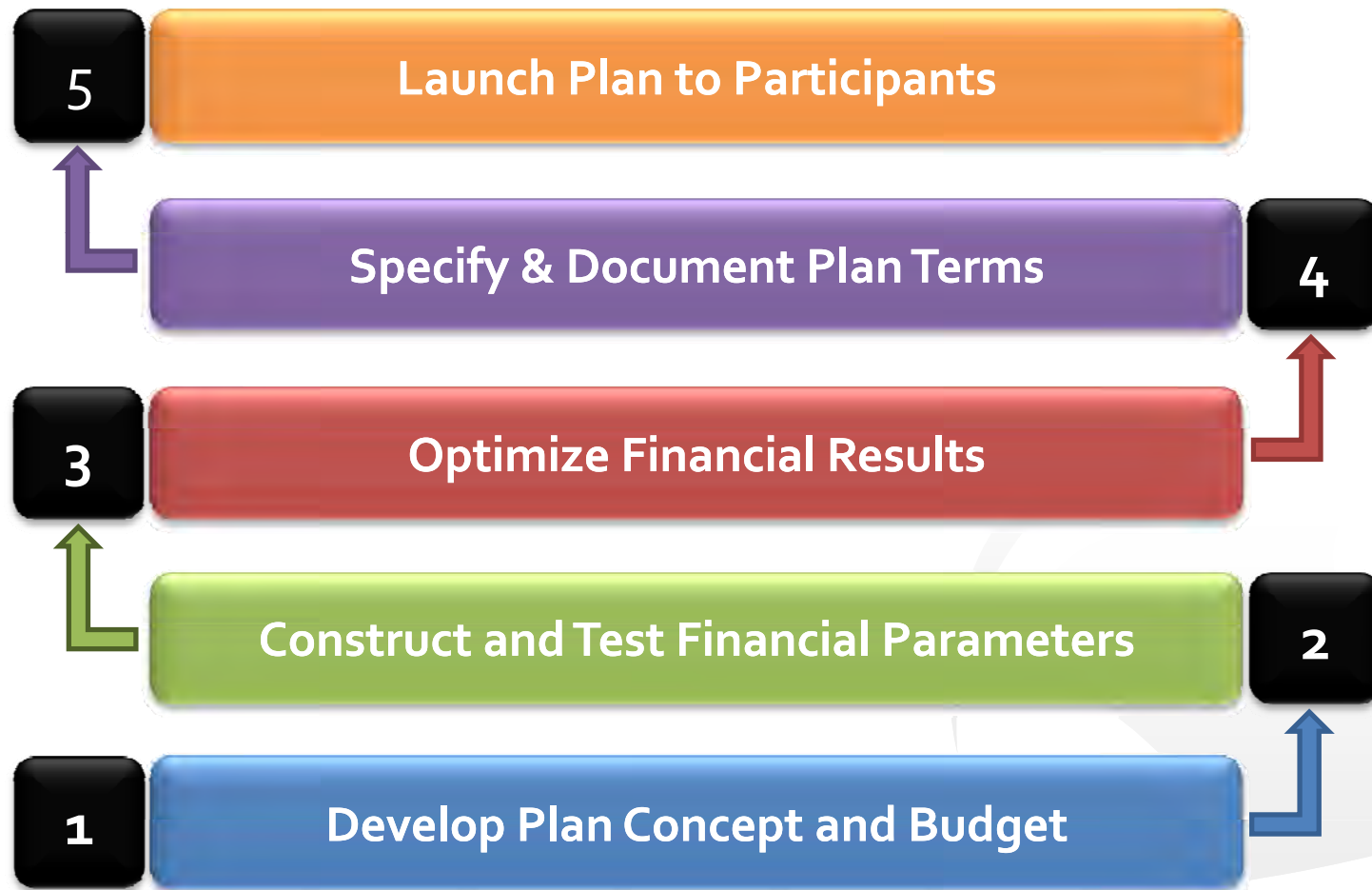
If you do it right...



Poll



Developing and Implementing a Phantom Stock Plan



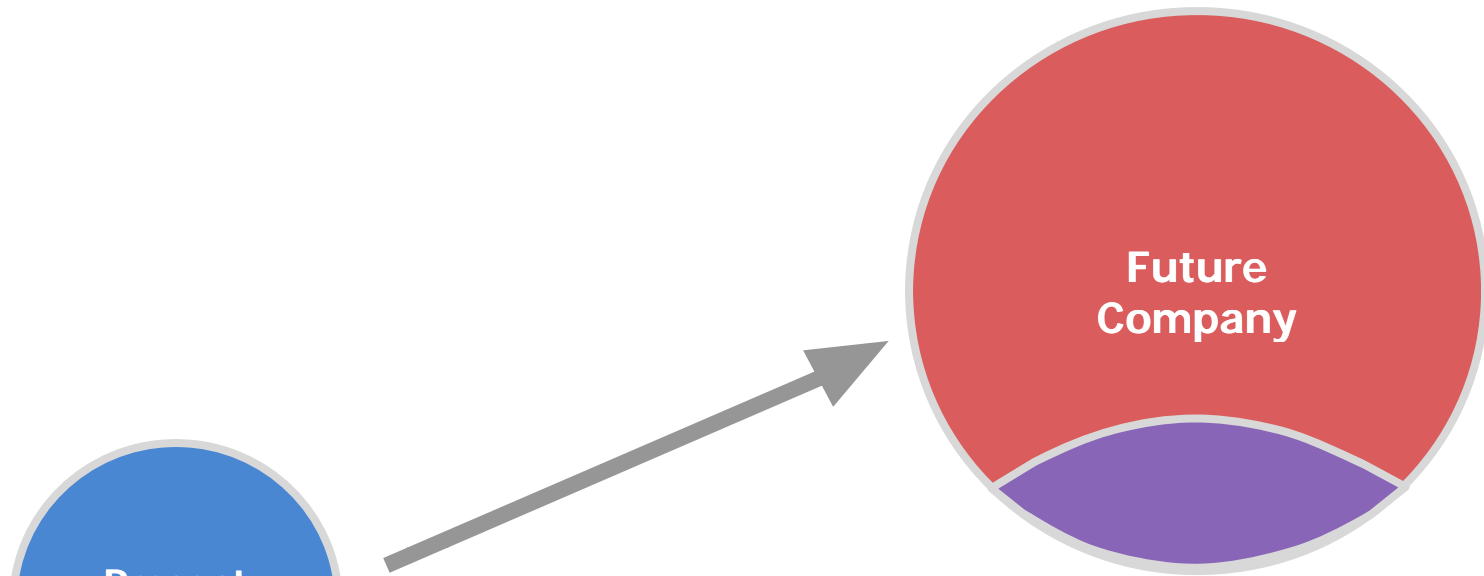
1

Develop Plan Concept and Budget

- A. Identify the plan purpose
- B. Forecast your future company
- C. Identify potential participants
- D. Carve out the plan “budget”
- E. Select the right plan type

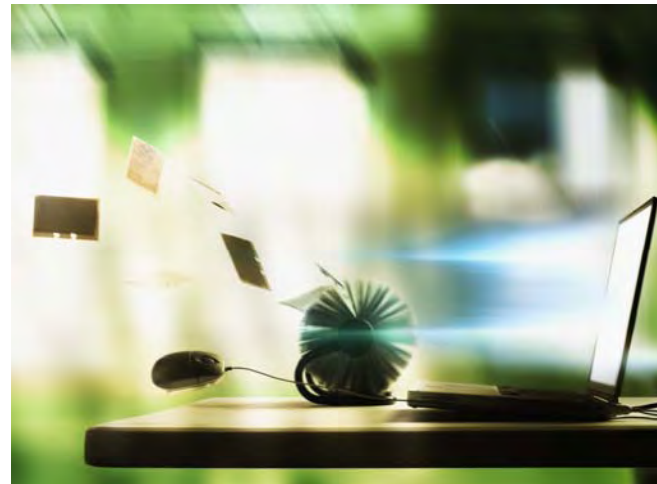
A. Our Plan Purpose Statement





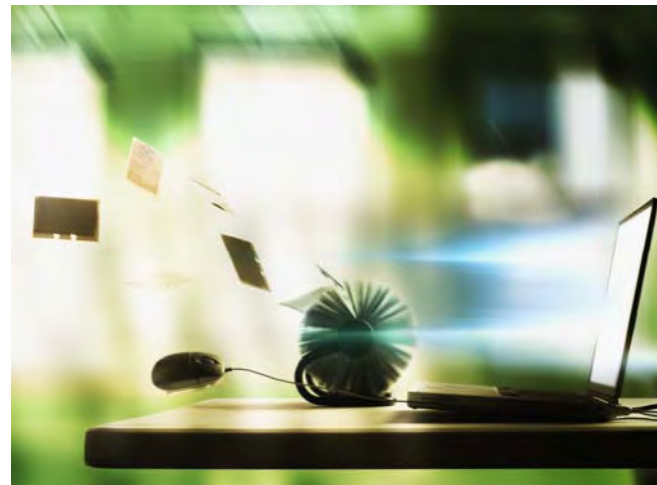
Develop Plan Concept and Budget

B. Forecast the Future Company



Develop Plan Concept and Budget

C. Identify Potential Participants

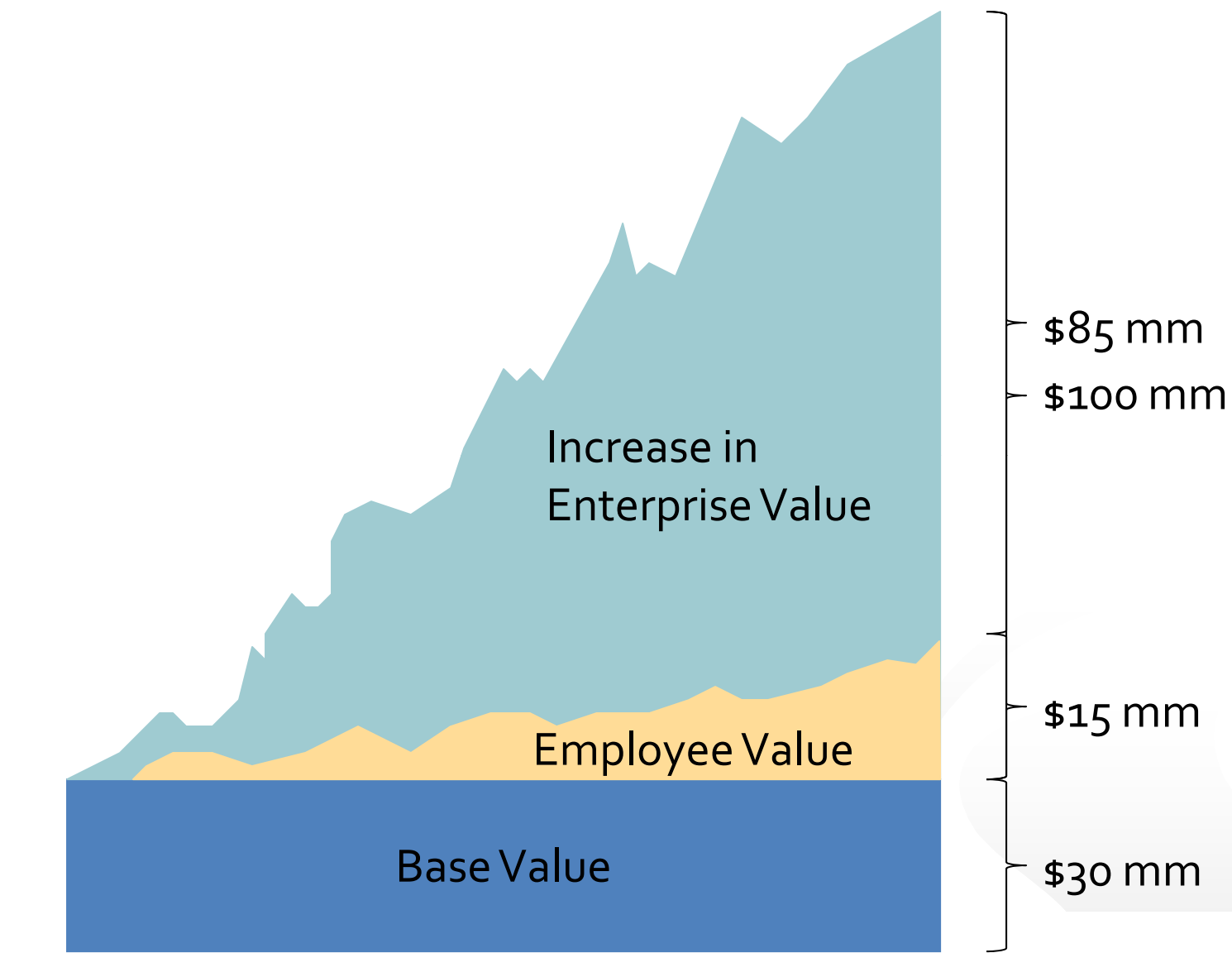


Develop Plan Concept and Budget

D. Carve Out the Plan Budget



Develop Plan Concept and Budget



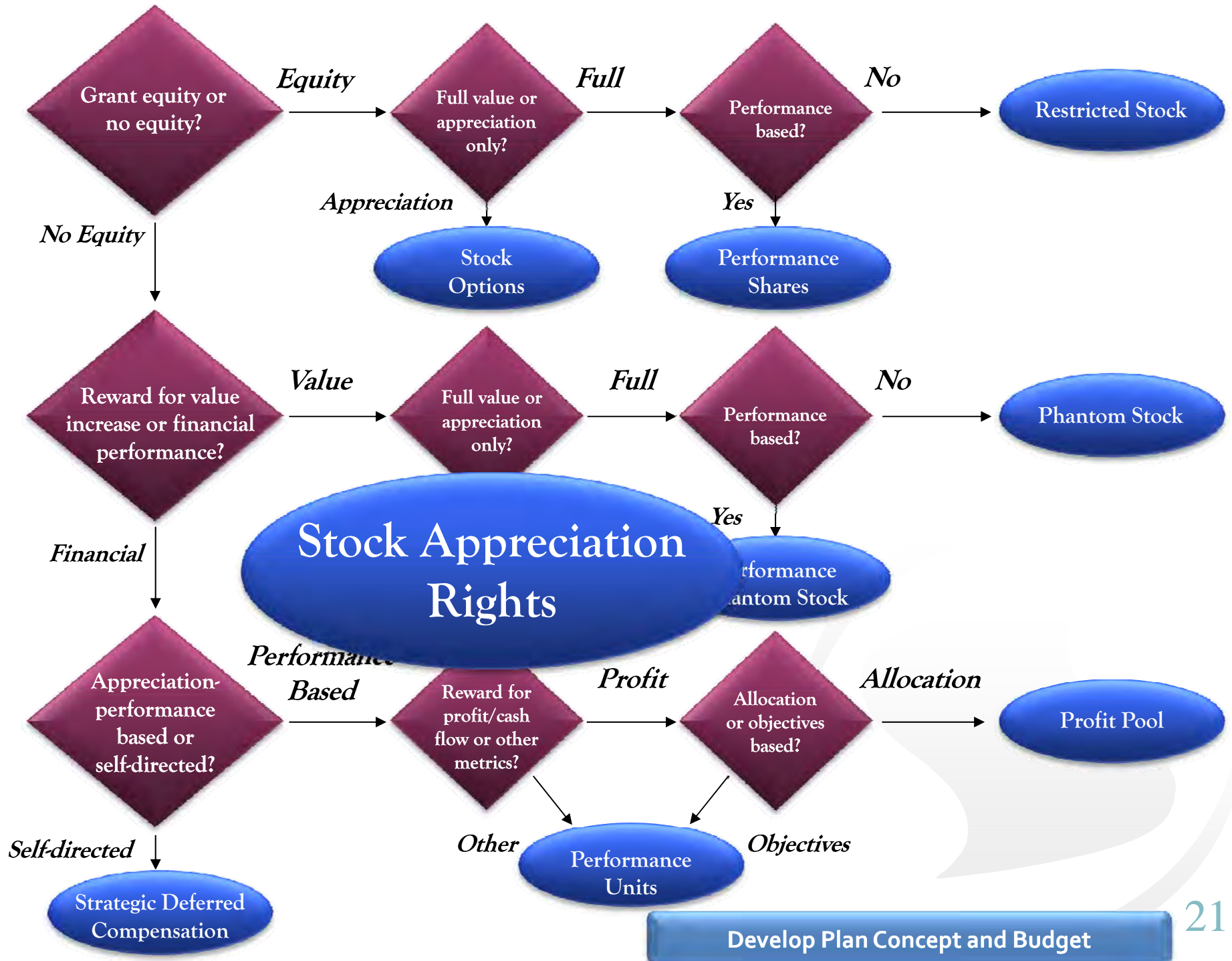
Today

Future Date
(5 – 15 yrs)

Develop Plan Concept and Budget

E. Select the Right Plan Type





Stage 1 Completed

Develop Plan Concept and Budget

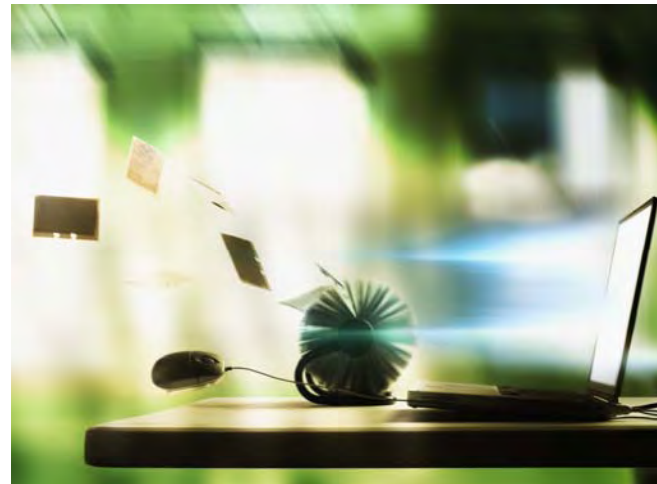
- ✓ Identify the plan purpose
- ✓ Forecast your future company
- ✓ Identify potential participants
- ✓ Carve out the plan "budget"
- ✓ Select the right plan type

2

Construct and Test Financial Parameters

- A. Assign relative values for participants
- B. Consider “Level 1” decisions (awards, vesting, etc.)
- C. Test and validate
- D. Determine preliminary award levels
- E. Finalize “Level 1” terms and conditions

A. Assign relative value for participants



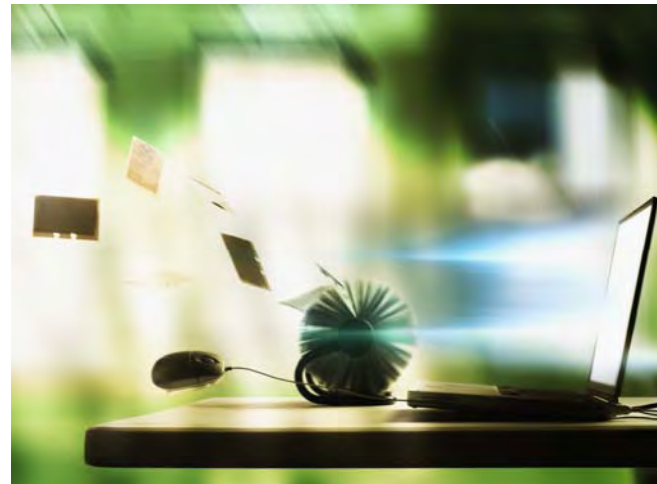
Construct and Test Financial Parameters

B. Consider “Level 1” Decisions



Construct and Test Financial Parameters

C. Test and Validate



Construct and Test Financial Parameters

D. Determine Preliminary Award Levels



Construct and Test Financial Parameters

E. Finalize Level 1 Terms and Conditions



Construct and Test Financial Parameters

Stage 2 Completed

Construct and Test Financial Parameters

- ✓ Assign relative values for participants
- ✓ Consider “Level 1” decisions (awards, vesting, etc.)
- ✓ Test and validate
- ✓ Determine preliminary award levels
- ✓ Finalize “Level 1” terms and conditions

3

Optimize Financial Results

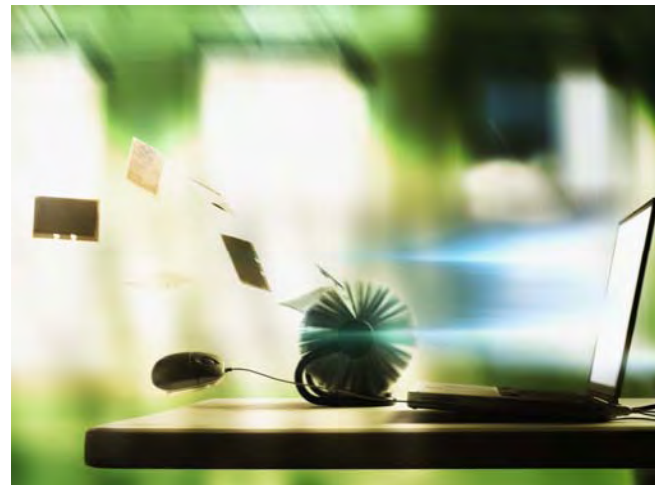
- A. Assess earnings and cash flow impact
- B. Calculate funding targets
- C. Adjust Level 1 terms to calibrate
- D. Consider alternative funding methods
- E. Complete funding decision

A. Assess earnings and cash flow impact



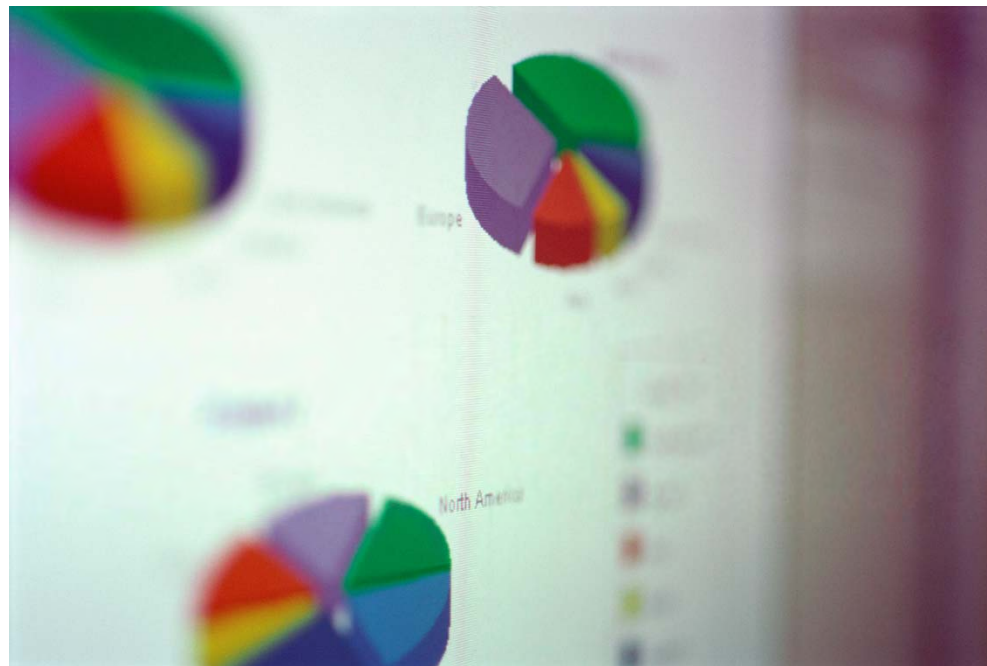
Optimize Financial Results

B. Calculate Funding Targets



Optimize Financial Results

C-E. Adjust, calibrate, finalize



Optimize Financial Results

Stage 3 Completed

Optimize Financial Results

- ✓ Assess earnings and cash flow impact
- ✓ Calculate funding targets
- ✓ Adjust Level 1 terms to calibrate
- ✓ Consider alternative funding methods
- ✓ Complete funding decision

4

Specify & Document Plan Terms

- A. Consider “Level 2” terms (CIC, SOS, etc.)
- B. Prepare plan provisions outline
- C. Draft “legal ready” documents
- D. Receive client counsel input
- E. Finalize/execute plan documents and forms

Stage 4 Completed

Specify & Document Plan Terms

- ✓ Consider “Level 2” terms (CIC, SOS, etc.)
- ✓ Prepare plan provisions outline
- ✓ Draft “legal ready” documents
- ✓ Receive client counsel input
- ✓ Finalize/execute plan documents and forms

5

Launch Plan to Participants

- A. Prepare all presentation & enrollment material
- B. CEO & VisionLink present plan
- C. CEO meets with participants privately
- D. Copy administrator on all relevant forms
- E. Prepare plan for ongoing operation

A-E: Enroll your plan



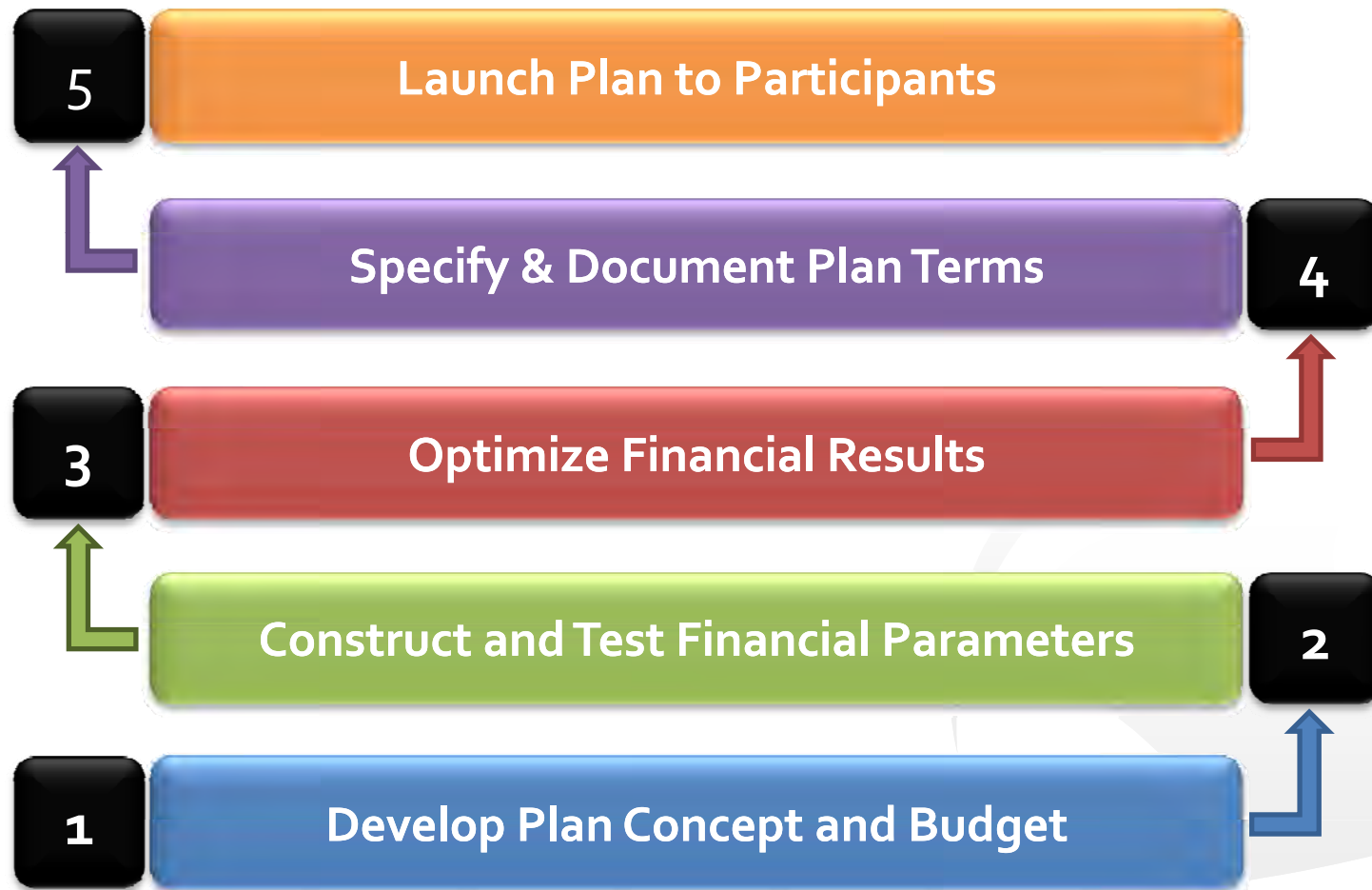
Launch Plan to Participants

Stage 5 Completed

Launch Plan to Participants

- ✓ Prepare all presentation & enrollment material
- ✓ CEO & VisionLink present plan
- ✓ CEO meets with participants privately
- ✓ Copy administrator on all relevant forms
- ✓ Prepare plan for ongoing operation

Developing and Implementing a Long-Term Incentive Plan



Doing it “right”

Good plan

- Simple valuation method
- Annual awards
- In-service redemptions (payments)
- Budgeted grants
- Drafting precision

Not so good plan

- Appraisal or over-engineered formula
- One time “block” awards
- No redemptions until major event
- Random grants
- Casual documentation

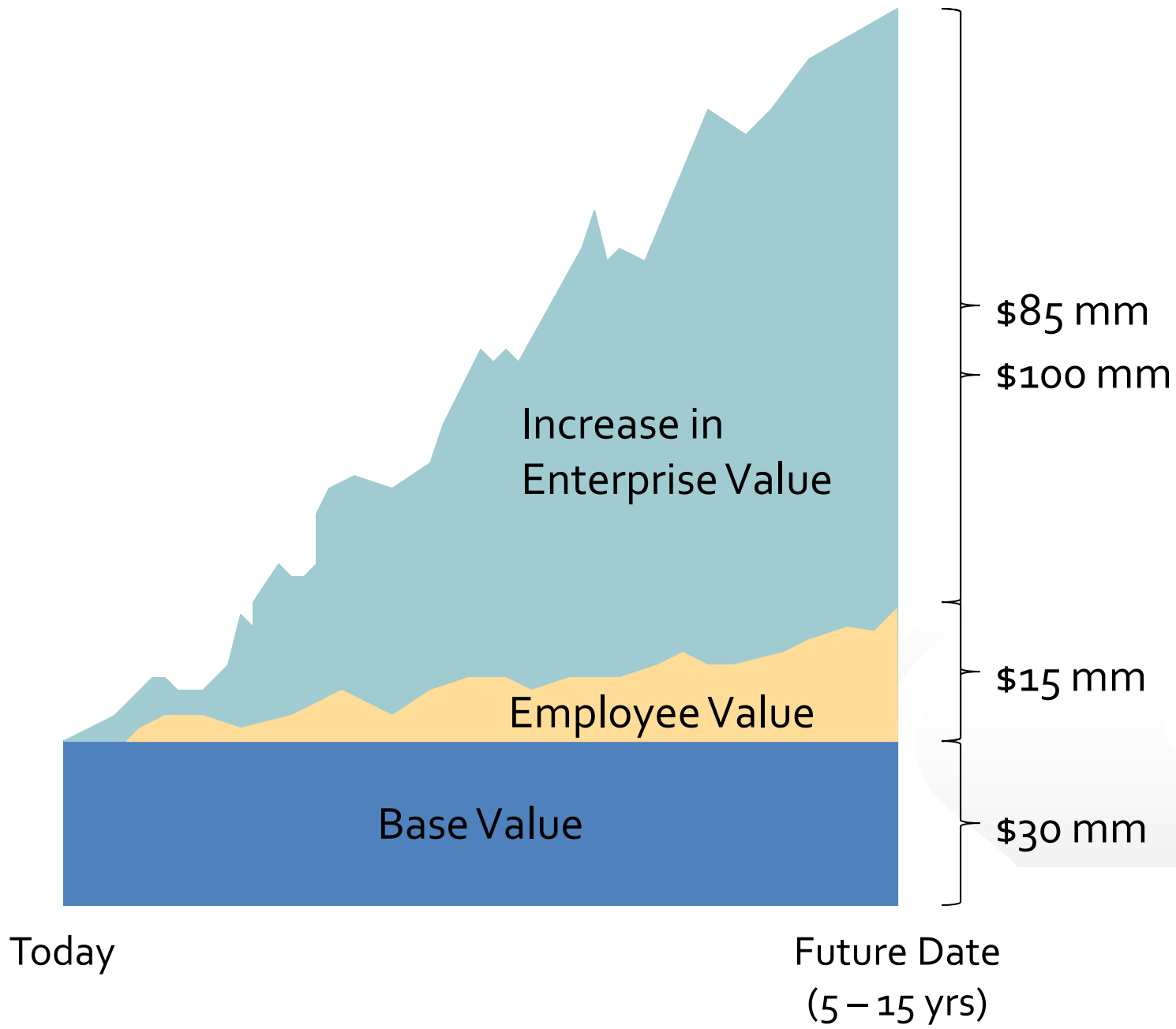
Best practice tips

- PSO over Full Value
- Vesting schedules
- Payment schedules
- Grant schedules as a percent of salary

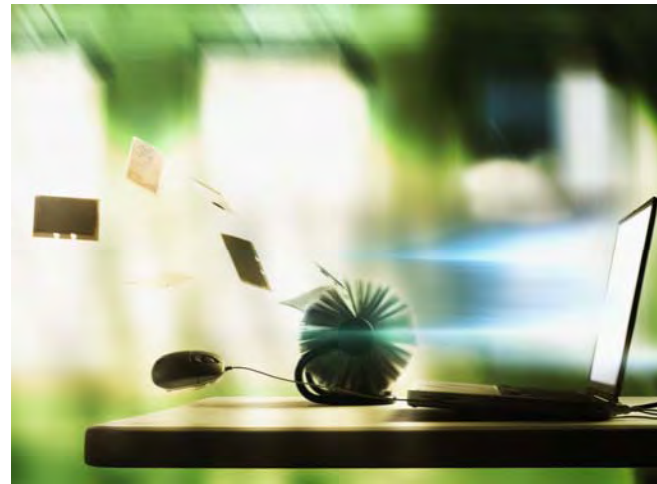


IMPACTING THE BOTTOM LINE





How do we know?





Employees must...

- ...grasp the plan as a significant commitment with meaningful potential value
- ...understand and believe in the results implied by the commitment
- ...see their economic value tied to that of the owners



Employer must...

- ...earnestly commit to meaningful grant levels
- ...paint a vibrant picture of potential value
- ...organize a dynamic communication and reinforcement effort



ASSESS YOUR COMMUNICATION PLAN



Key Producer 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

Remember

- Companies with engaged employees achieve higher levels of productivity
- Engagement does not occur without a serious effort to communicate a compelling future and involve employees in that future
- A phantom stock (or similar long-term incentive) plan is the best way to financially unite shareholders and key employees



Conclusions

- A good incentive program must include both short-term and long-term incentives
- Phantom stock, done right, may be the most important investment you ever make in business growth
- Experience has informed us of the things to do, and the things not to do
- Spend more time communicating how the organization shares value that employees help create



First Step

- Are we ready for a plan?
- VisionLink's Tool:
 - Alignment Appraisal™
 - A focused look at your current practices with a comparative eye on “World Class Compensation” standards. “Is your total rewards program enhancing or slowing growth?”
 - Process—simple online employee survey

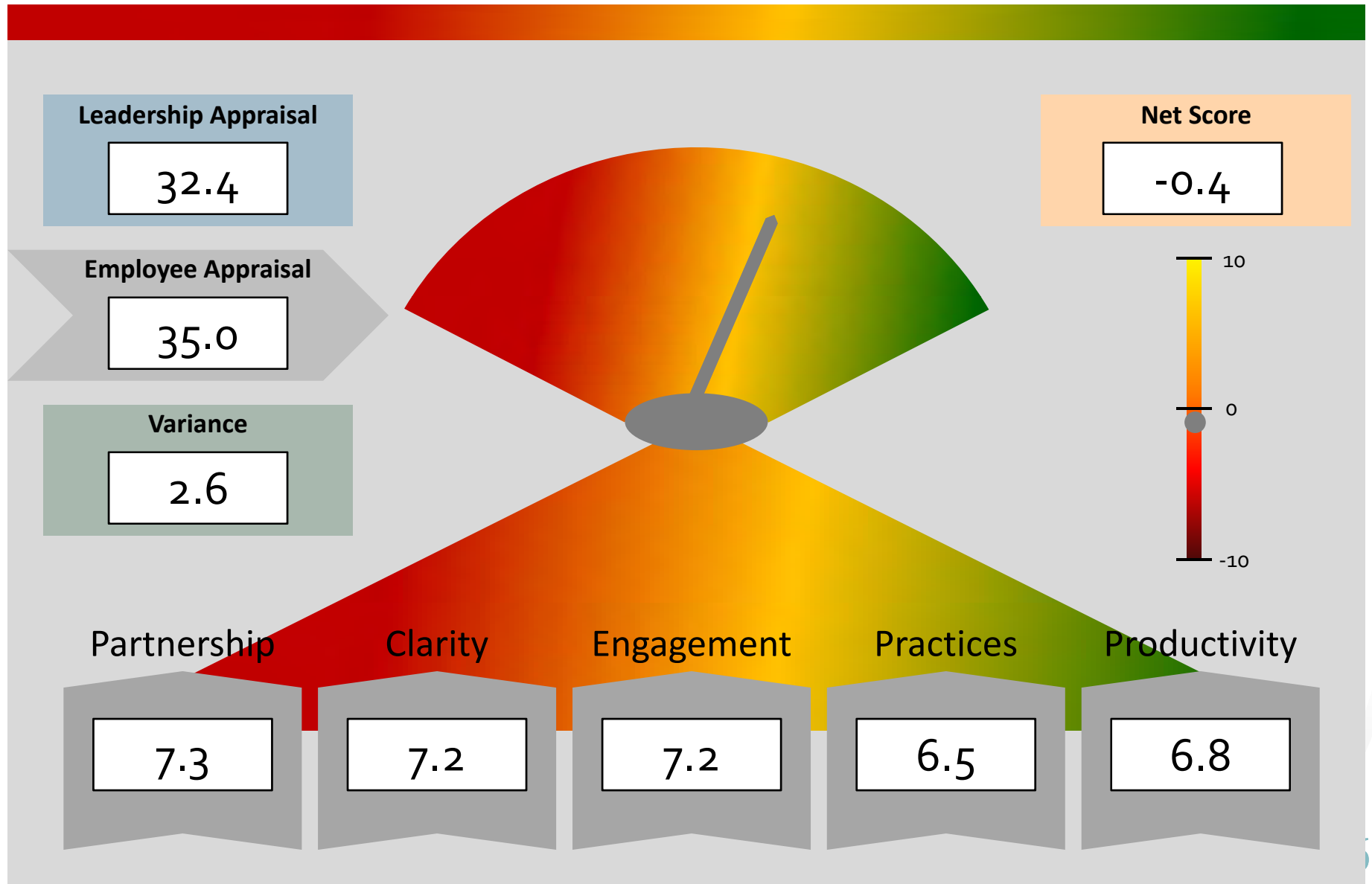
Quantitative and Qualitative Assessment

The Alignment Appraisal™

Partnership	▶	Do our employees feel like participating partners in our business successes?
Clarity	▶	Do we effectively communicate and reinforce our organizational standards and the value of our total rewards opportunity?
Engagement	▶	Do we achieve a crucial level of employee commitment, passion and engagement?
Practices	▶	Do we follow best practices in managing our compensation investment?
Productivity	▶	Do we conscientiously measure and manage employee productivity?

Alignment Appraisal Index = 70^* / -0.4

*Scale of 100



Special Offer

This Appraisal is typically \$1,800.

For today's webinar attendees only:

No cost

Indicate interest on final survey

Questions?



Next Online Seminar:

“When Incentive Plans ‘Work’ ...and When They Don’t”

To be held on:
Tuesday, January 24th, 2012

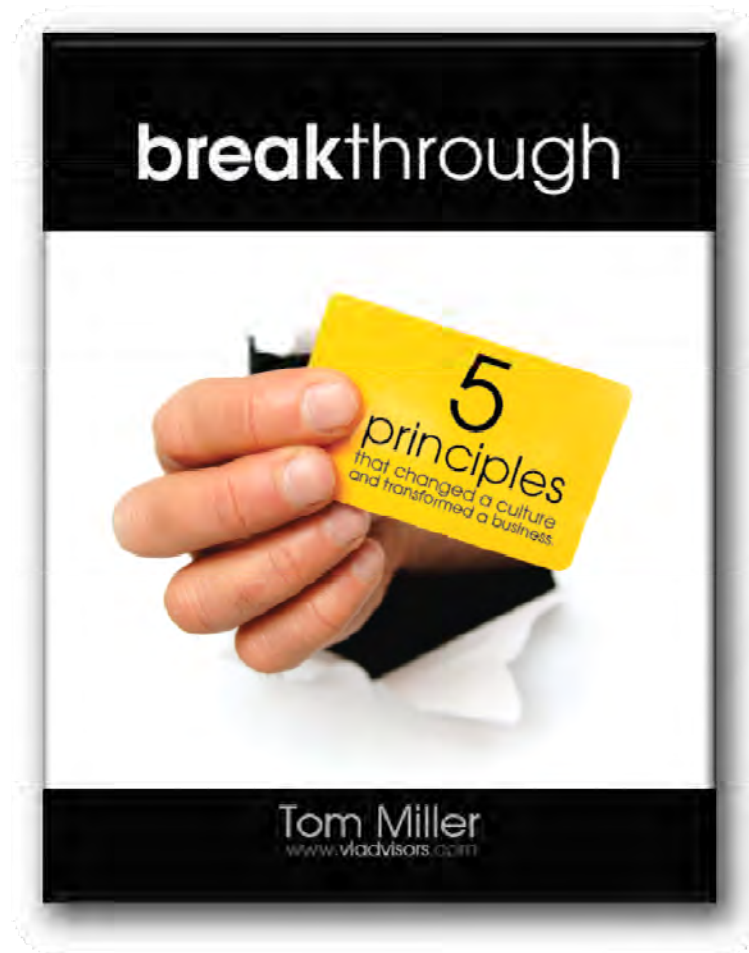
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Thank you for attending

Please complete our brief survey immediately following our presentation.

We value your input.

You may request a copy of our slides, Breakthrough, or more information about the VisionLink Alignment AppraisalTM.

Thank you!

Tom Miller

President

(949) 265-5700

tmiller@vladvisors.com



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