The "Learn & Earn" Series™

January 19, 2012

"Mr. Owner, Can I Have Equity Too?"

THE VISIONLINK ADVISORY GROUP

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Today's Presenter:

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Senior Vice President

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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

We’re happy to provide a copy of today’s slides, course syllabus/summary, and a recording 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 "real" issues underlying a decision about whether or not to share stock
- Understand the role of any incentive, including stock
- Understand when stock is appropriate to offer as a growth incentive
- Understand what alternatives to stock might be considered

Key Concepts

- The issue isn't sharing stock or not sharing stock
- How to determine whether stock or an alternative should be offered
- Making sure there is alignment between business and compensation strategies

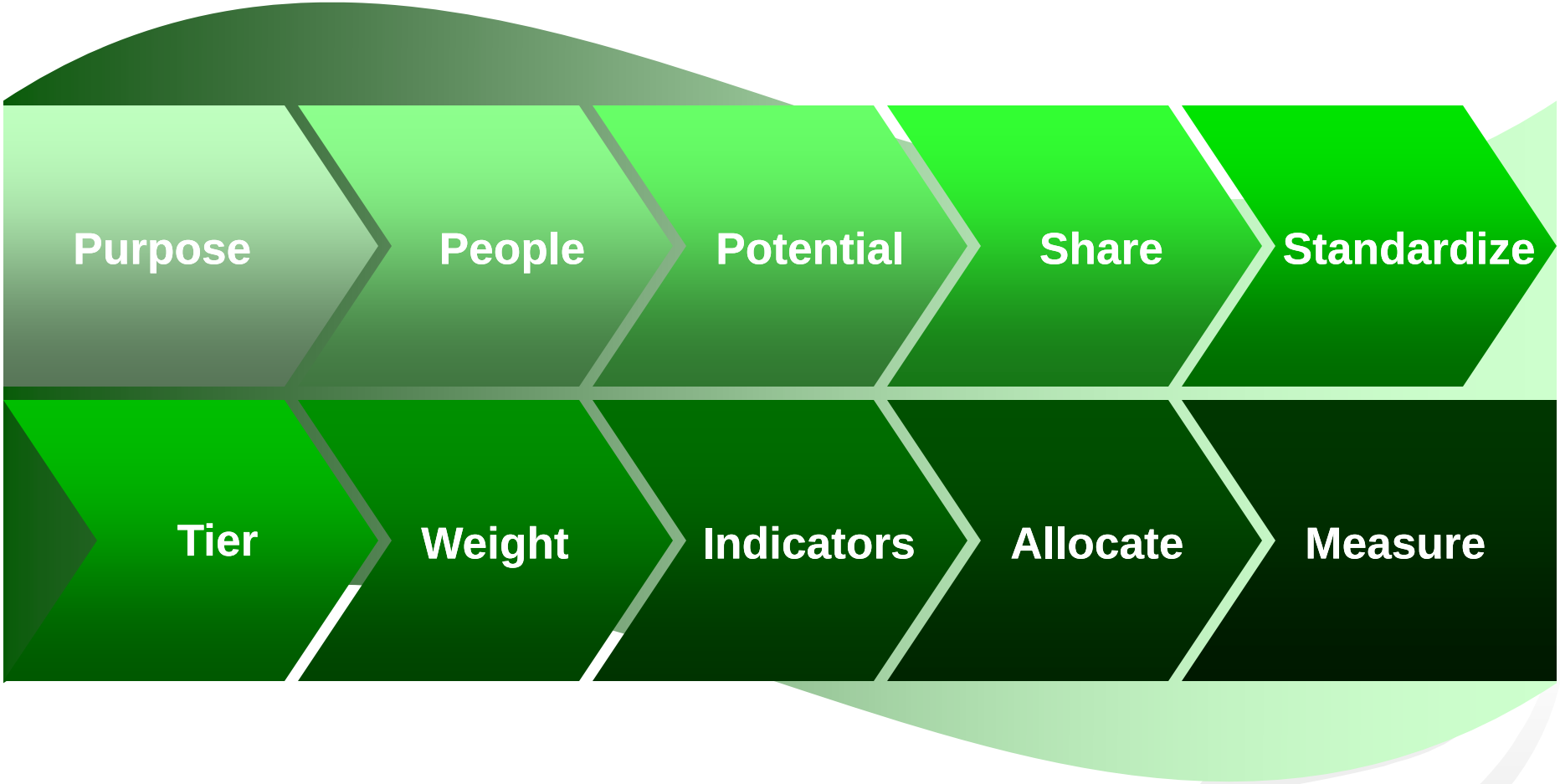
What we Say, What we Mean

- When employees ask for equity it doesn't necessarily mean they won't accept something else
- Employers that say they don't want to give away stock don't mean they are unwilling to share value

Poll #1

Building an Incentive Plan

A Unique Process



Allocate

How and when will the rewards be made available to the participants?

Allocate

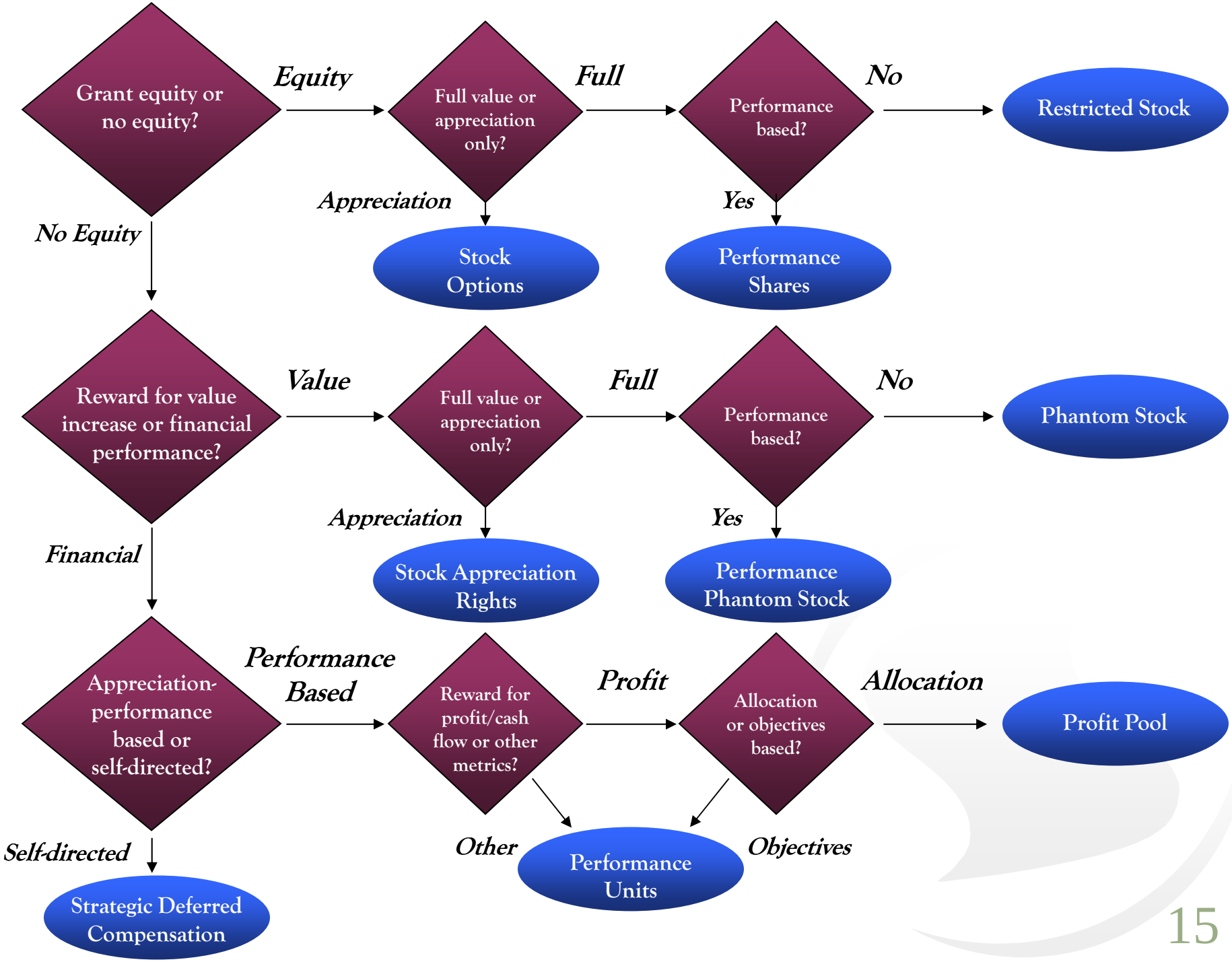
Determine if the awards, once earned, will be paid at the end of the quarter, end of the year or at a future date.

Typically a percentage will be paid annually, and a percentage will be paid in the future.

For Example

Tier	Short-Term	Long-Term
1	50%	50%
2	70%	30%

Long-Term Incentive Plan Decision Tree


Grant equity or no equity?
Equity
Full value or appreciation only?
Full
Performance based?
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Restricted Stock
Appreciation
Stock Options
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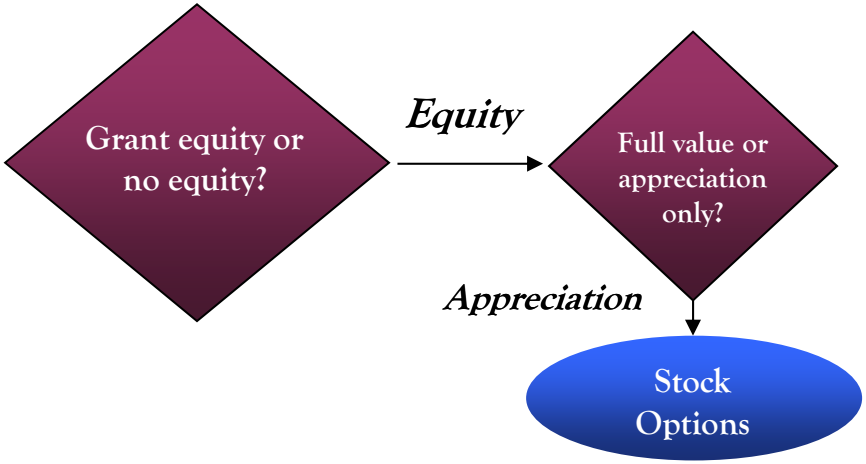
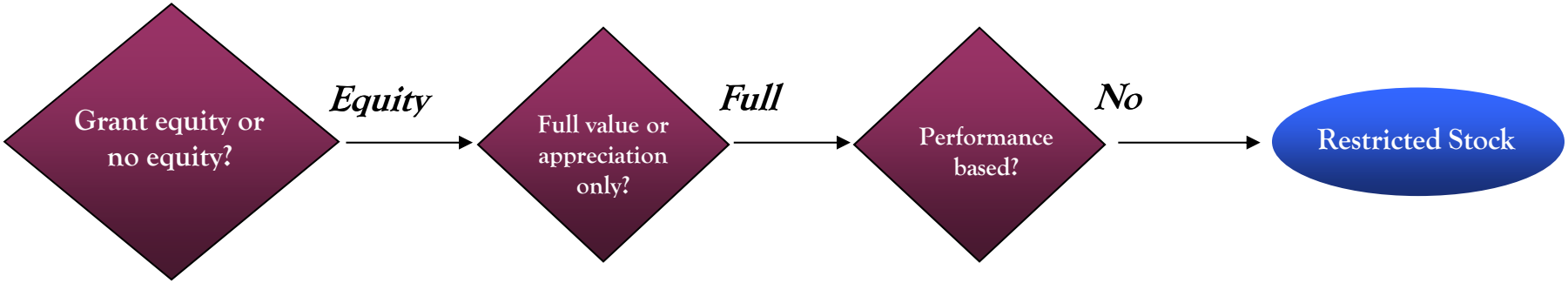

Grant equity or no equity?
Equity
Full value or appreciation only?
Appreciation
Stock Options

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
- Newest accounting rules (FAS 123R) have reduced use somewhat

Appropriateness—
Stock Options

- Do you have employees whom you feel are ready to acquire ownership in the company?
- Have you reached the point where sharing ownership is needed to attract or retain vital contributors?
- Do you feel these employees should participate in future growth but not in present value?
- Will the employees be in a position to fund the purchase?
- Are there means for transferring and repurchasing stock?

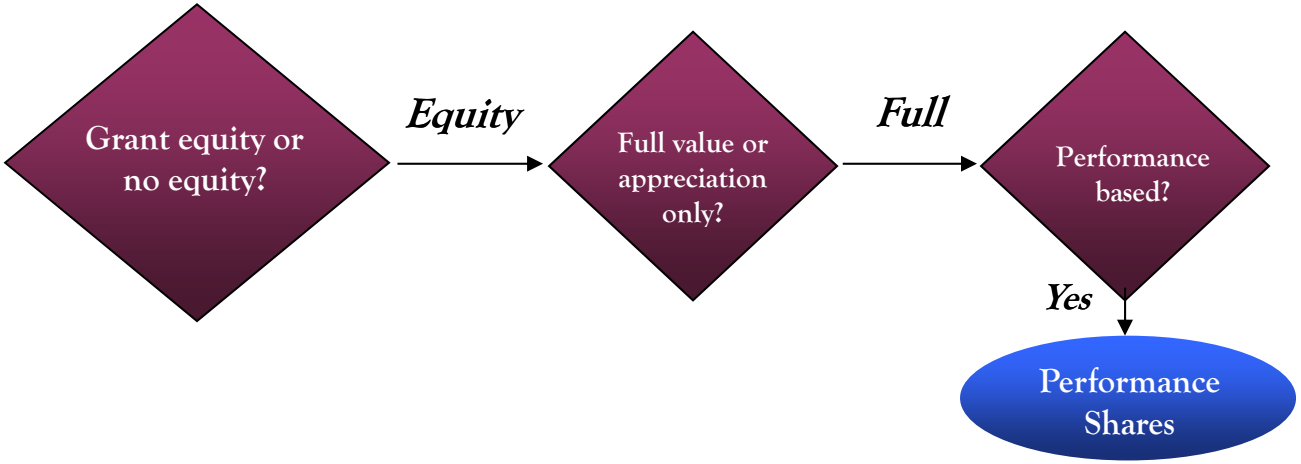

Grant equity or no equity?
Equity
Full value or appreciation only?
Full
Performance based?
No
Restricted Stock

Restricted Stock

- 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

Appropriateness—
Restricted Stock

- Do you have employees whom you feel have earned the right to ownership in the company?
- Have you reached the point where sharing ownership is needed to attract or retain vital contributors?
- Are you prepared for the immediate dilution of your equity?
- Are there means for transferring and repurchasing stock?


Grant equity or no equity?
Equity
Full value or appreciation only?
Full
Performance based?
Yes
Performance Shares

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

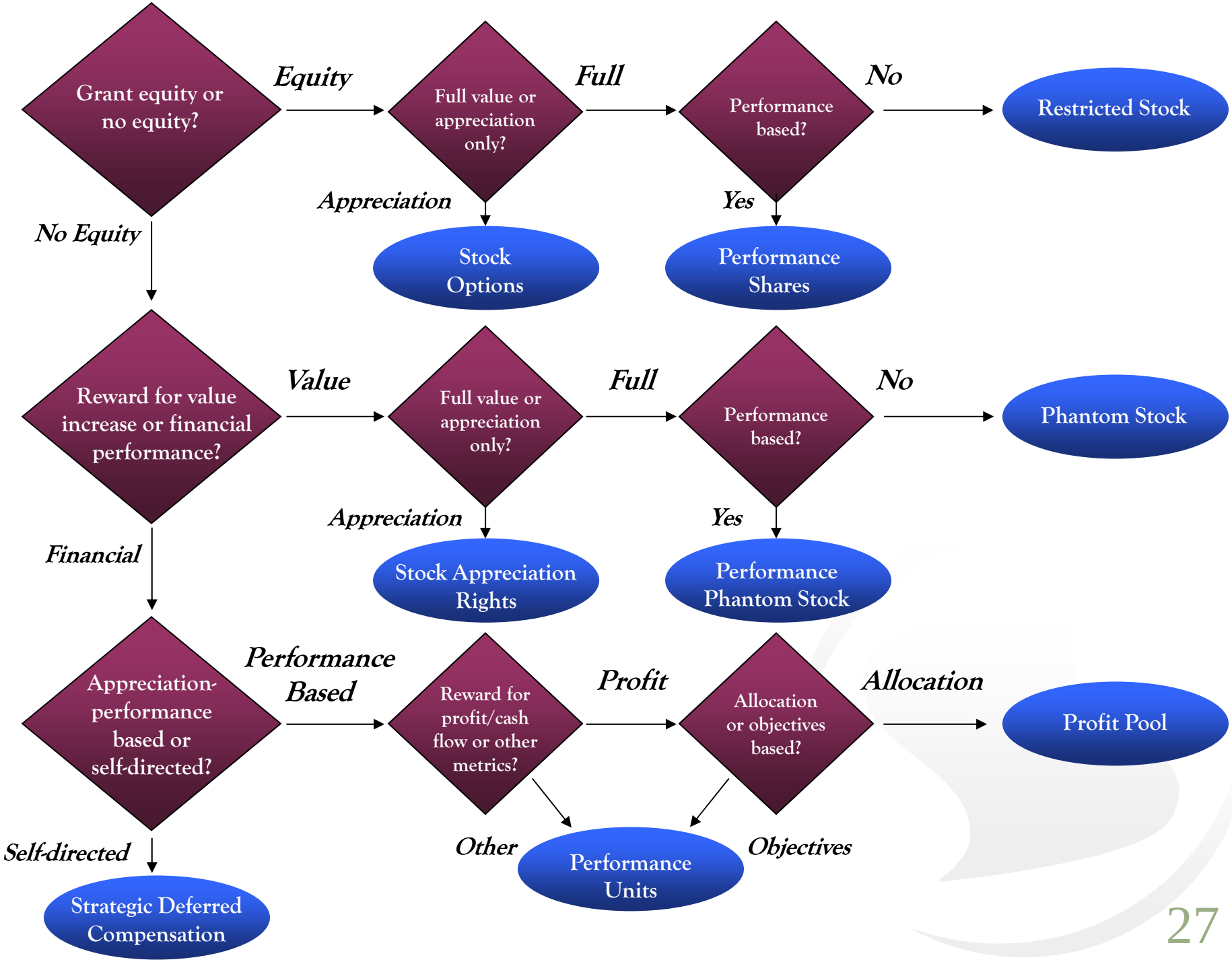
Appropriateness—
Performance Shares

- Do you have employees whom you feel are ready for ownership in the company?
- Have you reached the point where sharing ownership is needed to attract or retain vital contributors?
- Do you feel these employees should earn that ownership by the fulfillment of important achievable goals?
- Are there means for transferring and repurchasing stock?

Variation—Restricted Stock Units

- A grant (unit) valued in terms of company stock, but stock not granted at time of issue
- Upon vesting, company issues shares or cash, based on value of stock
- Plans differ in allowing participants to decide how they want to settle after vesting
- Creates flexibility
- Becoming more common in public companies

Poll #2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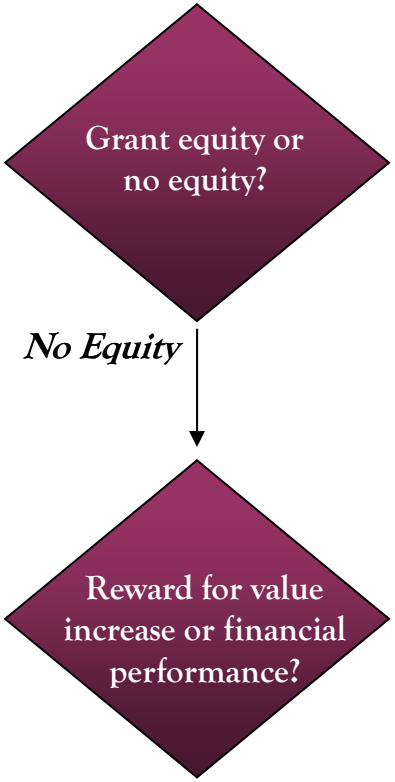
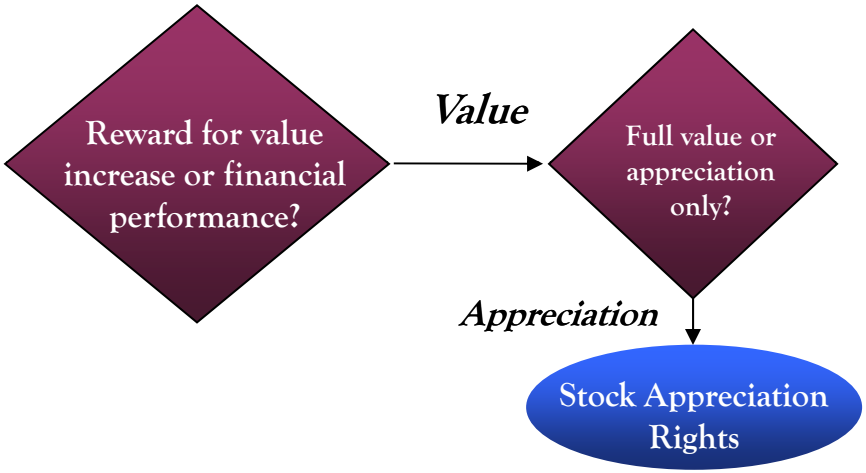

Grant equity or no equity?
No Equity
Reward for value increase or financial performance?

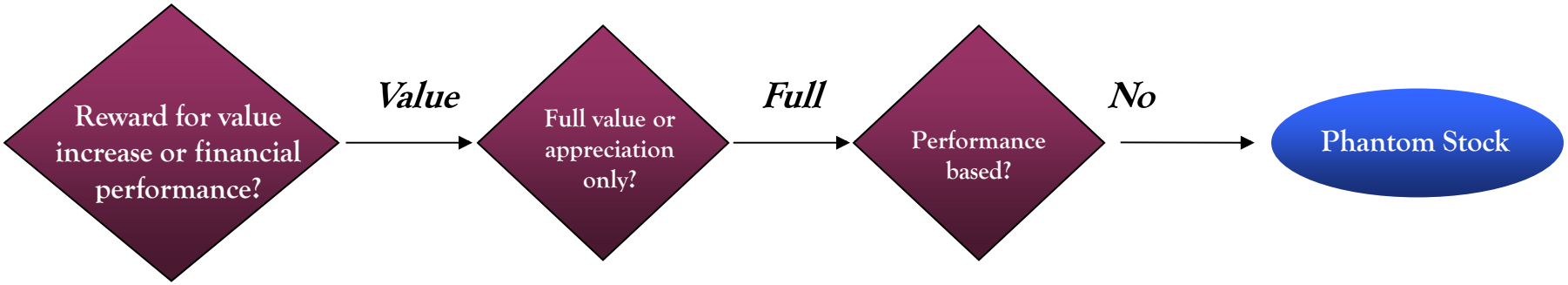

Reward for value increase or financial performance?
Value
Full value or appreciation only?
Appreciation
Stock Appreciation Rights

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

Appropriateness—
Stock Appreciation Rights

- Do you have employees whom you feel should benefit from future appreciation in the value of the company?
- Do you feel these employees should participate in future growth but not in present value?
- Are these employees in a position to directly influence the value of the company stock?
- Is the company prepared to handle the cash flow responsibilities of the plan?


Reward for value increase or financial performance?
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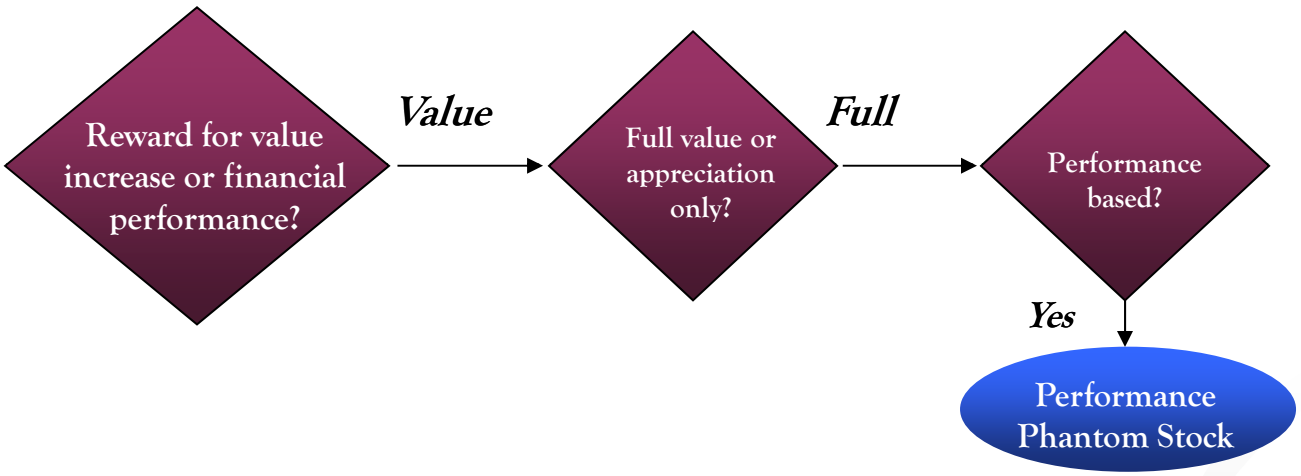
Performance based?
No
Phantom Stock

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

Appropriateness—
Phantom Stock

- Do you have employees whom you feel should be compensated for past as well as future performance?
- Are you prepared to reduce the immediate value of the company (albeit without dilution)?
- Are these employees in a position to directly influence the value of the company stock?
- Is the company prepared to handle the cash flow responsibilities of the plan?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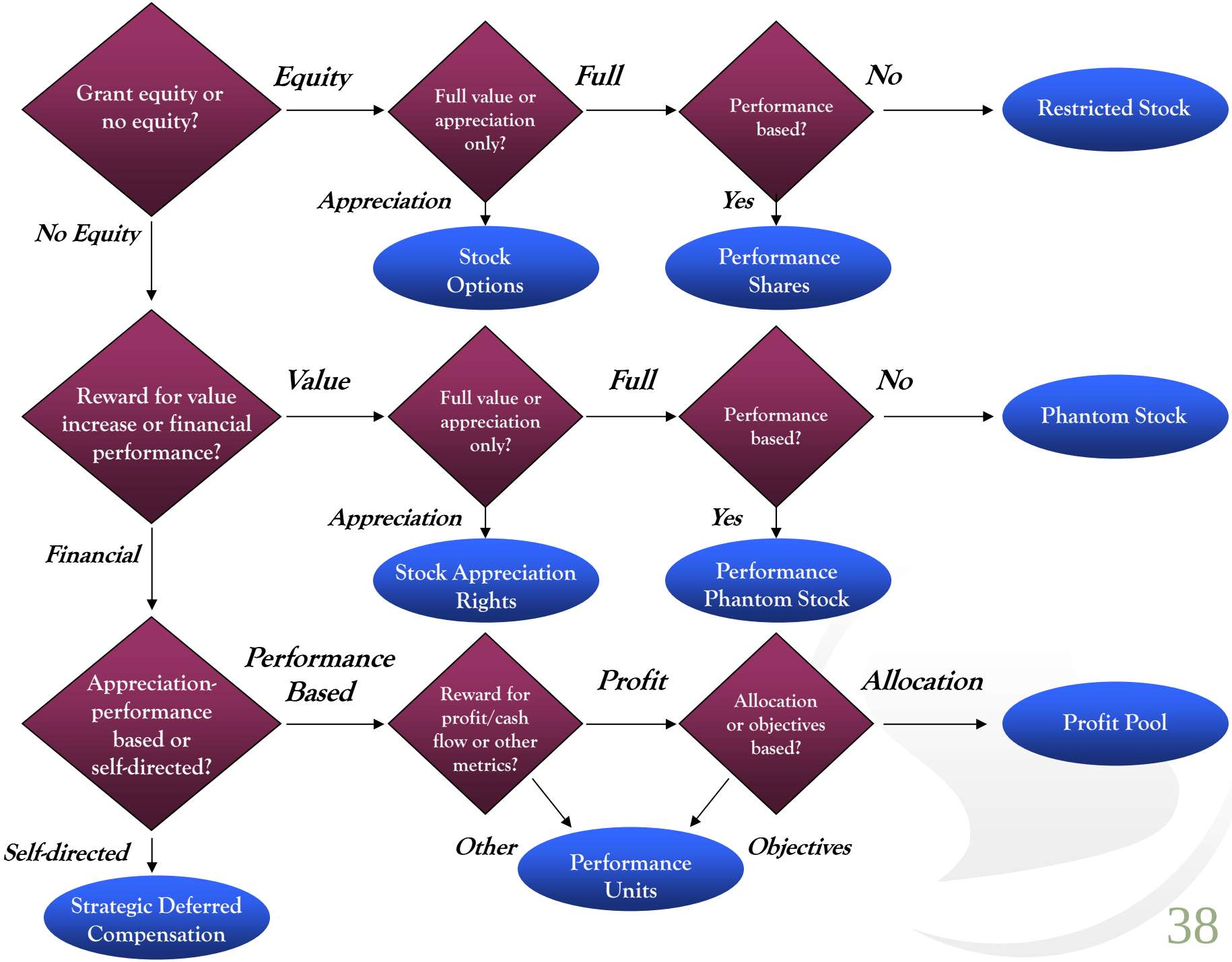
Performance based?
Yes
Performance Phantom Stock

Performance Phantom Stock

- Employees given the promise to receive phantom shares upon fulfillment of annual financial goals
- Shares can be full value or appreciation
- Pay-for-performance concept

Appropriateness—
Performance Phantom Stock

- Do you have employees whom you feel should be given an opportunity to participate in meaningful upside potential in company value?
- Do you feel the employees should make a financial commitment to the plan?
- Are these employees in a position to directly influence the value of the company stock?
- Is the company prepared to handle the cash flow responsibilities of the plan?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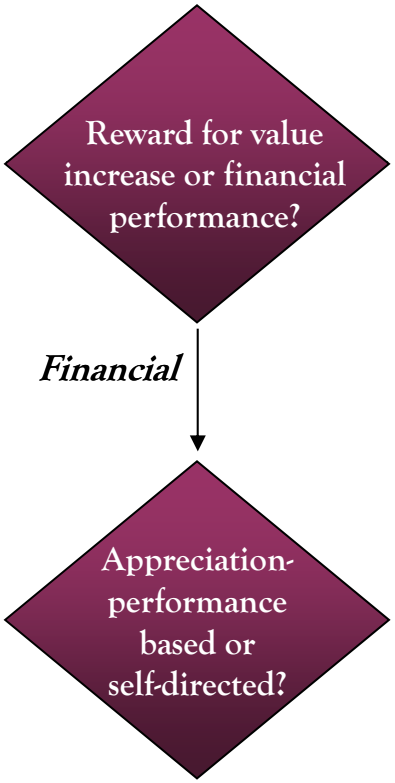
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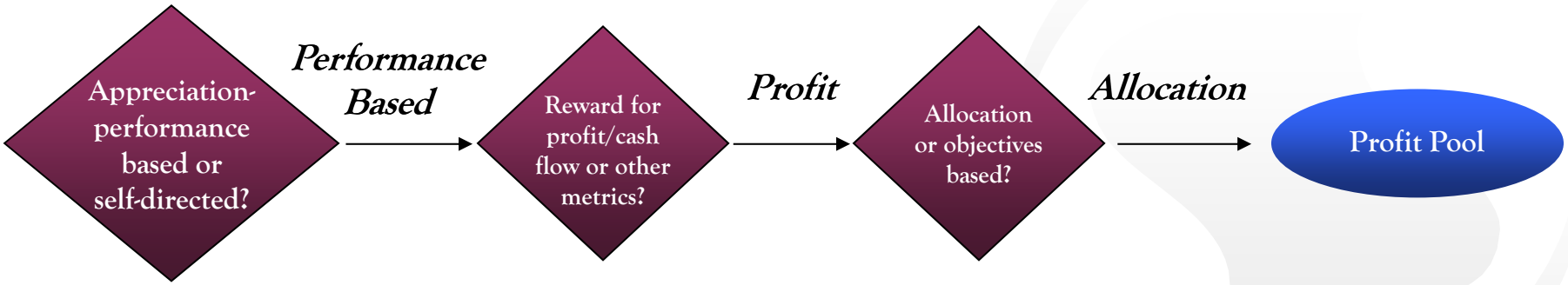
Appreciation-performance based or self-directed?
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Profit
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Allocation
Profit Pool

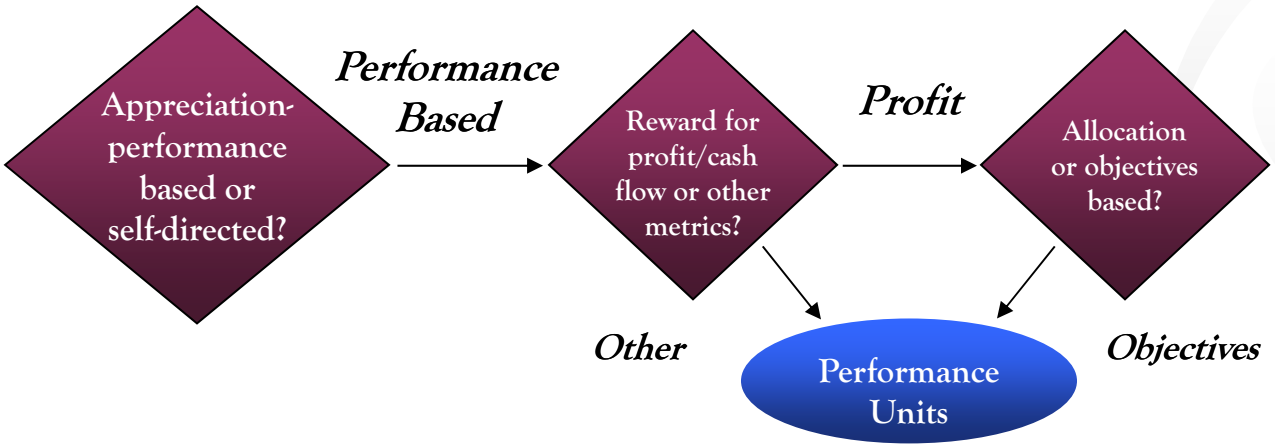
Profit Pool

- 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
- Productivity Profit concept calls for a reduction in pool for "capital profits" attribution

Appropriateness—
Profit (or EVA) Pool

- Do you have employees whom you wish to reward with participation in company profits?
- Are you prepared to share information about profits with participants?
- Are these employees in a position to directly influence company profits?
- Is the company prepared to handle the cash flow responsibilities of the plan?

Poll #3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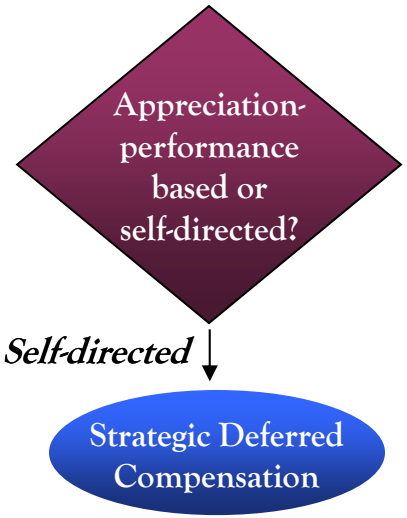
Performance Units
Objectives

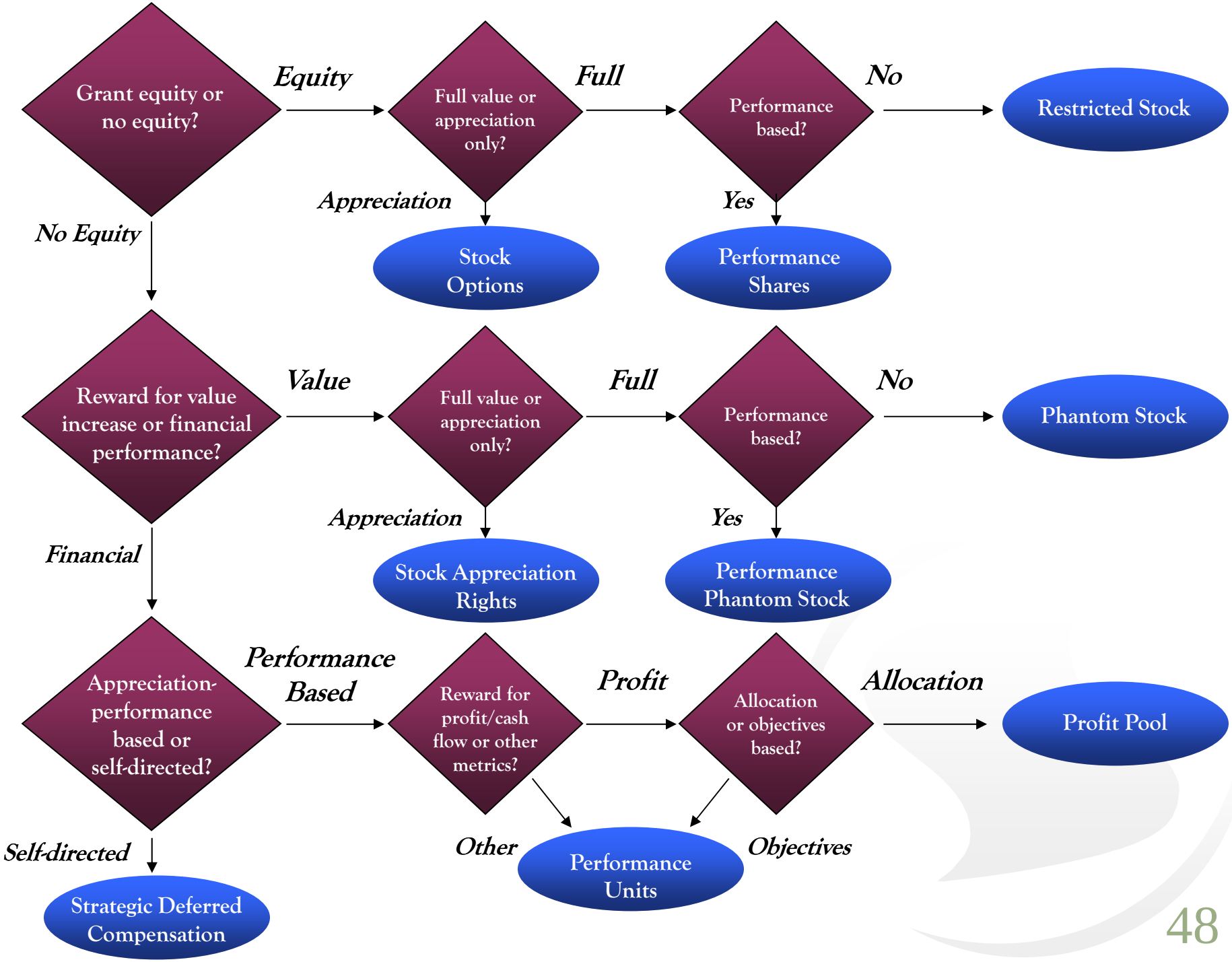
Performance Unit Plan

- 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


Appreciation-performance based or self-directed?
Self-directed
Strategic Deferred Compensation

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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LTIP "rules of thumb"

- Make the present value of your LTIP the same as the value of your annual incentive plan
- Express value as a percentage of salary
- Range from 20% to 100% (depending on company size and value of each position)

Next CPE Course:

"How Much is Enough Compensation…?

…or is that even the right question to ask?

To be held on:

Thursday, May 17, 2012

If you have three or members that can attend, we will make a specific presentation just for your firm on a mutually agreed upon date. (Indicate interest on survey.)

Next Public Webinar:

"When Incentive Plans 'Work'… and When They Don't"

To be held on:
Tuesday, January 24, 2012

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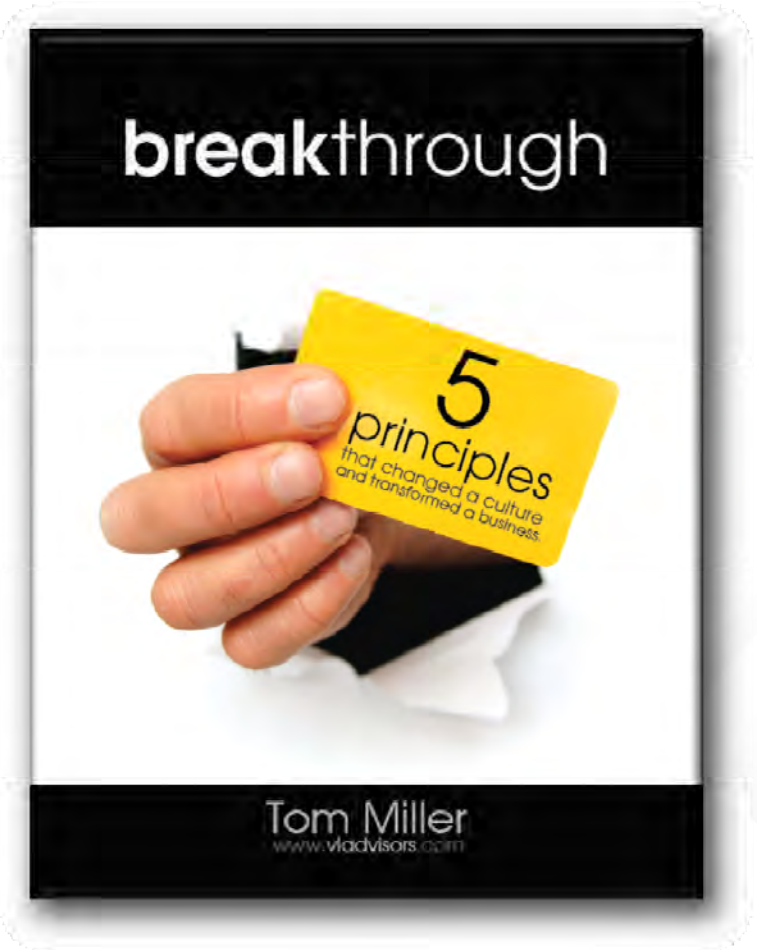

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Questions?

Thank you for attending

Please complete our survey form immediately following our presentation.

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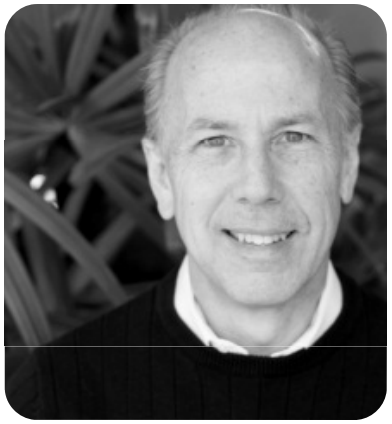
Thank You!



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