

March 26, 2013

# Is My Company a Candidate for Phantom Stock?



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Today's Presenter:

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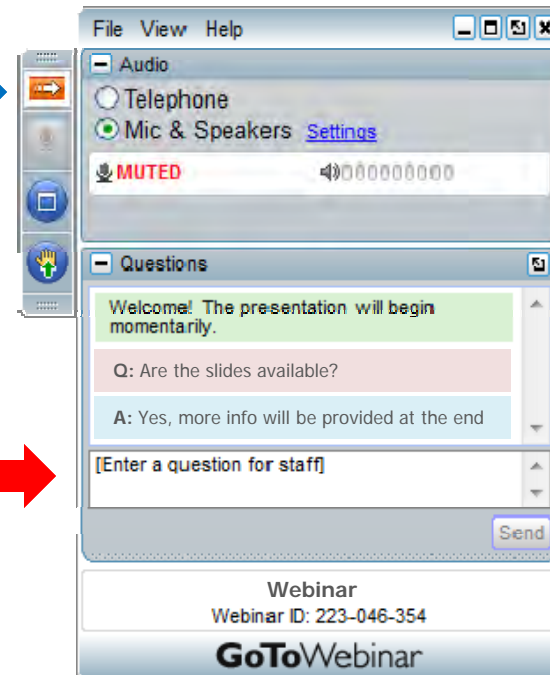
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of the presentation.

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# What issue are we addressing today?



**1**

Your company won't achieve its full growth potential without premier talent on board

**2**

Premier talent will expect to participate meaningfully in the financial value they help create

**3**

A phantom stock plan is the easiest and most effective way to share long-term value

**4**

It's not for everyone

# So, let's take a look

- The mentality of the premier contributor
- How to position the company's value proposition
- Why phantom stock fits perfectly
- How to know if it's right for your company



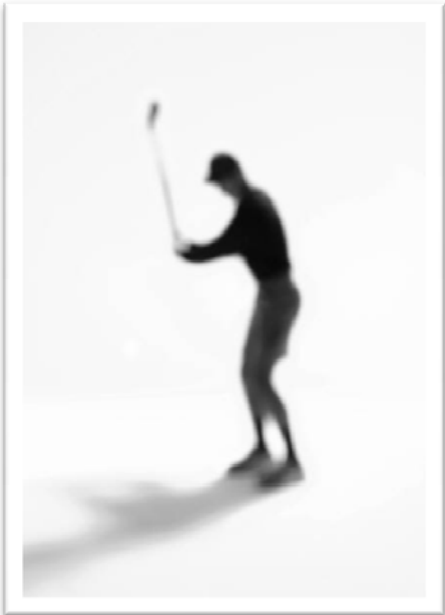
# 1. Premier Talent

**WANTED**

- Do you settle for average talent, excellent talent, or premier talent?
- How much does it matter?
- Is this a given, or not?

**2012 PGA Tour Performance Comparison**  
**Top 1% Versus "Average"**

	<b>Tour Earnings</b>	<b>Scoring Average</b>	<b>Top 3 Finishes</b>
Rory McIlroy	\$ 8,047,952	69.6	43.8%
Tiger Woods	\$ 6,133,159	69.8	31.6%
Brandt Snedeker	\$ 4,989,739	70.1	17.4%
Jason Dufner	\$ 4,869,304	69.9	17.4%
<i>Average</i>	<i>\$ 6,010,038</i>	<i>69.9</i>	<i>27.5%</i>
Rocco Mediate	\$ 242,354	70.9	0.0%
Ryuji Imada	\$ 238,648	71.9	0.0%
Scott Dunlap	\$ 230,220	71.4	0.0%
Stephen Ames	\$ 193,686	71.9	0.0%
Daniel Chopra	\$ 192,198	71.8	0.0%
Michael Bradley	\$ 191,746	71.7	0.0%
	<i>\$ 214,809</i>	<i>71.6</i>	<i>0.0%</i>



Difference	\$ (5,795,230)	1.8
	3.6%	102.5%
Multiple	28.0	



365 PGA Money Winners  
 Top 4 vs Middle 6



## 2. Premier Talent: What will they expect?



# Meaningful Financial Rewards

- Accountability for results
- Results-based compensation
- Both short- and long-term value sharing



# So, you're hiring John...

- New president
- What do you offer him?
  - Significant salary
  - Meaningful target bonus



# John's comp package

	2013
Annual Salary	\$ 325,000
Bonus	\$ 85,000

# John's expected contribution

1. Deliver on annual budget goals
2. Deliver on 6-year growth plan
  - a) Revenue from \$17mm to \$39mm
  - b) Net Income from \$5mm to \$13.5mm
  - c) Book value from \$19mm to \$51mm
  - d) Market value (conservative) from \$25mm to \$67mm



# John's alternative comp package

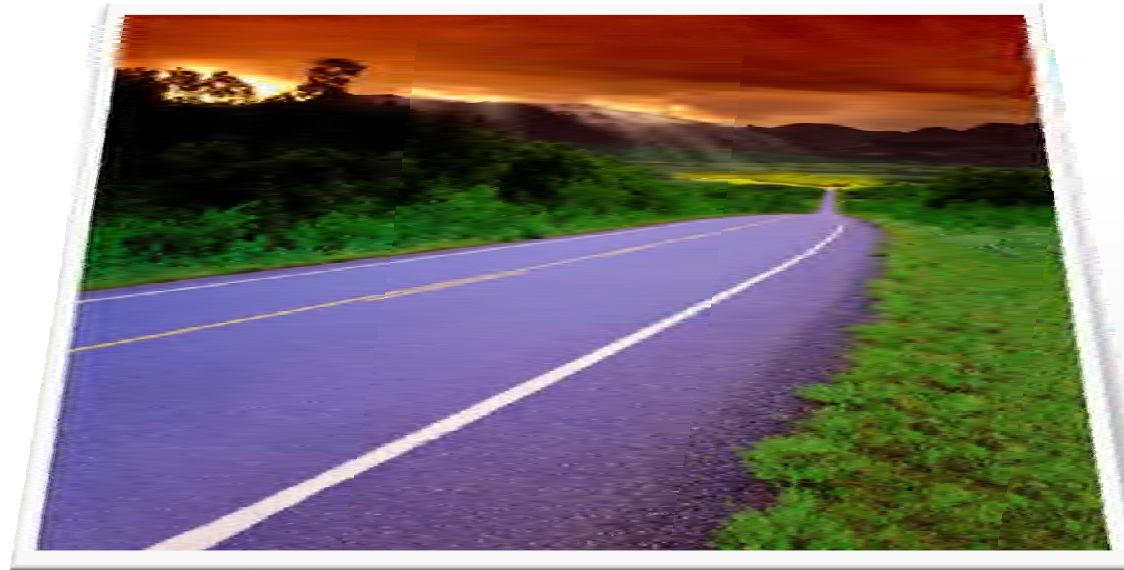
<b>Employee Value Statement</b>						
<i>John Ferry @ Target</i>						
<b>Cash Needs</b>						
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Annual Salary	\$ 325,000	\$ 334,750	\$ 344,793	\$ 355,136	\$ 365,790	\$ 376,764
Bonus	\$ 85,000	\$ 87,550	\$ 90,177	\$ 92,882	\$ 95,668	\$ 98,538
<b>Total Cash Received</b>	<b>\$ 410,000</b>	<b>\$ 422,300</b>	<b>\$ 434,969</b>	<b>\$ 448,018</b>	<b>\$ 461,459</b>	<b>\$ 475,302</b>
<b>Security Needs</b>						
Core Benefits	\$ 21,000	\$ 22,260	\$ 23,596	\$ 25,011	\$ 26,512	\$ 28,103
Executive Benefits						
<b>Total Value</b>	<b>\$ 21,000</b>	<b>\$ 22,260</b>	<b>\$ 23,596</b>	<b>\$ 25,011</b>	<b>\$ 26,512</b>	<b>\$ 28,103</b>
<b>Wealth Accumulation</b>						
<b>Long-Term Incentive Plan (SAR)</b>						
Annual Distribution						
Increase in Vested Value						
Remaining Unvested Value						
<b>Total Value (Paid, Vested &amp; Unvested)</b>						
<b>Retirement Plans</b>						
401(k) Company Match	\$ 16,500	\$ 16,995	\$ 17,505	\$ 18,030	\$ 18,571	\$ 19,128
Deferred Comp Match						
<b>Total Value Projection</b>						
<b>Total Cash Received</b>	<b>\$ 410,000</b>	<b>\$ 422,300</b>	<b>\$ 434,969</b>	<b>\$ 448,018</b>	<b>\$ 461,459</b>	<b>\$ 475,302</b>
<b>Total Benefits Annual Value</b>	<b>\$ 21,000</b>	<b>\$ 22,260</b>	<b>\$ 23,596</b>	<b>\$ 25,011</b>	<b>\$ 26,512</b>	<b>\$ 28,103</b>
<b>Annual Value of LTIP</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Annual Value of Ret Plan Contribution</b>	<b>\$ 16,500</b>	<b>\$ 16,995</b>	<b>\$ 17,505</b>	<b>\$ 18,030</b>	<b>\$ 18,571</b>	<b>\$ 19,128</b>
<b>Total Annual Value</b>	<b>\$ 447,500</b>	<b>\$ 461,555</b>	<b>\$ 476,069</b>	<b>\$ 491,059</b>	<b>\$ 506,542</b>	<b>\$ 522,533</b>
<b>Total Wealth Projection</b>	<b>447,500</b>	<b>\$ 909,055</b>	<b>\$ 1,385,124</b>	<b>\$ 1,876,184</b>	<b>\$ 2,382,725</b>	<b>\$ 2,905,259</b>

# John's alternative comp package

<b>Employee Value Statement</b>						
<i>John Ferry @ Target</i>						
<b>Cash Needs</b>						
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Annual Salary	\$ 325,000	\$ 334,750	\$ 344,793	\$ 355,136	\$ 365,790	\$ 376,764
Bonus	\$ 85,000	\$ 87,550	\$ 90,177	\$ 92,882	\$ 95,668	\$ 98,538
<b>Total Cash Received</b>	<b>\$ 410,000</b>	<b>\$ 422,300</b>	<b>\$ 434,969</b>	<b>\$ 448,018</b>	<b>\$ 461,459</b>	<b>\$ 475,302</b>
<b>Security Needs</b>						
Core Benefits	\$ 21,000	\$ 22,260	\$ 23,596	\$ 25,011	\$ 26,512	\$ 28,103
Executive Benefits	\$ 18,000	\$ 18,540	\$ 19,096	\$ 19,669	\$ 20,259	\$ 20,867
<b>Total Value</b>	<b>\$ 39,000</b>	<b>\$ 40,800</b>	<b>\$ 42,692</b>	<b>\$ 44,680</b>	<b>\$ 46,771</b>	<b>\$ 48,970</b>
<b>Wealth Accumulation</b>						
<b>Long-Term Incentive Plan (SAR)</b>						
Annual Distribution	\$ -	\$ -	\$ -	\$ 287,767	\$ 287,159	\$ 291,978
Increase in Vested Value	\$ -	\$ -	\$ 287,767	\$ 287,159	\$ 291,978	\$ 272,602
Remaining Unvested Value		\$ 81,408	\$ 256,731	\$ 257,488	\$ 259,262	\$ 266,263
<b>Total Value (Paid, Vested &amp; Unvested)</b>		<b>\$ 81,408</b>	<b>\$ 544,498</b>	<b>\$ 832,414</b>	<b>\$ 838,399</b>	<b>\$ 830,843</b>
<b>Retirement Plans</b>						
401(k) Company Match	\$ 16,500	\$ 16,995	\$ 17,505	\$ 18,030	\$ 18,571	\$ 19,128
Deferred Comp Match	\$ 20,000	\$ 20,600	\$ 21,218	\$ 21,855	\$ 22,510	\$ 23,185
<b>Total Value Projection</b>						
<b>Total Cash Received</b>	<b>\$ 410,000</b>	<b>\$ 422,300</b>	<b>\$ 434,969</b>	<b>\$ 448,018</b>	<b>\$ 461,459</b>	<b>\$ 475,302</b>
<b>Total Benefits Annual Value</b>	<b>\$ 39,000</b>	<b>\$ 40,800</b>	<b>\$ 42,692</b>	<b>\$ 44,680</b>	<b>\$ 46,771</b>	<b>\$ 48,970</b>
<b>Annual Value of LTIP</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 287,767</b>	<b>\$ 287,159</b>	<b>\$ 291,978</b>	<b>\$ 272,602</b>
<b>Annual Value of Ret Plan Contributions</b>	<b>\$ 36,500</b>	<b>\$ 37,595</b>	<b>\$ 38,723</b>	<b>\$ 39,885</b>	<b>\$ 41,081</b>	<b>\$ 42,314</b>
<b>Total Annual Value</b>	<b>\$ 485,500</b>	<b>\$ 500,695</b>	<b>\$ 804,151</b>	<b>\$ 819,742</b>	<b>\$ 841,289</b>	<b>\$ 839,187</b>
<b>Total Wealth Projection</b>	<b>485,500</b>	<b>\$ 986,195</b>	<b>\$ 1,790,346</b>	<b>\$ 2,610,088</b>	<b>\$ 3,451,377</b>	<b>\$ 4,290,564</b>

# Two differences

- Long-term perspective
- Long-term incentive plan





# Why Long-Term Value Sharing Matters



# Long-Term Value Sharing Plans

A philosophical and practical approach to “incentive plans”

- We recognize the logical and moral obligation to share part of the financial value our employees help create
- Incentive plans are not intended to “change behavior”
- They are a reflection of a partnership relationship
- Creates “wealth multiplier” mindset
- Ties employees to vision and business plan of the company



# Why Long-Term Value Sharing Matters

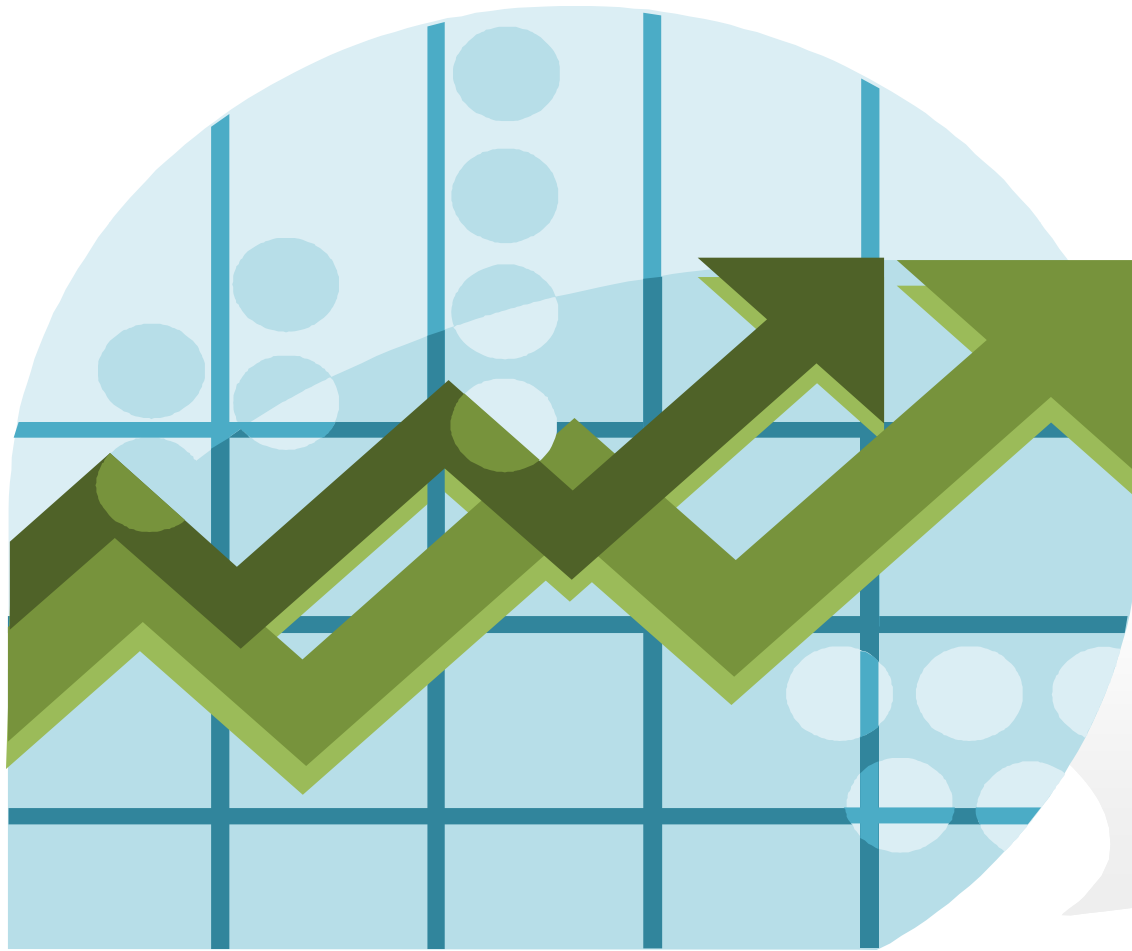
1. Value sharing attracts the best talent and magnifies results
2. Value sharing plans (effectively designed) reinforce the company's business model
3. Value sharing protects against bad profits and promotes good profits
4. Value sharing promotes an ownership mindset
5. Value sharing builds trust and accelerates results



# Poll



### 3. So, Why Phantom Stock?



# What shareholders want

- Align pay with shareholder interests
- Tie pay results to value creation
- Large incentives are fine if shareholders receive a fair return first
- Encourage top talent to join and stay



# What top producers want

- Align pay with shareholder interests
- Share in value creation
- Large variable upside once shareholders receive a fair return first
- A place to make a long-term difference



# Well, look at that...

- Align pay with shareholder interests
- Tie pay results to value creation
- Large incentives are fine if shareholders receive a fair return first
- Encourage top talent to join and stay

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n P

- Align pay with shareholder interests
- Share in value creation
- Large variable upside once shareholders receive a fair return first
- A place to make a long-term difference





# Phantom Stock Results

- Ownership Mentality
- Retention (forfeit if you leave)
- Value received tied to value earned
- No dilution of equity
- Lots of flexibility



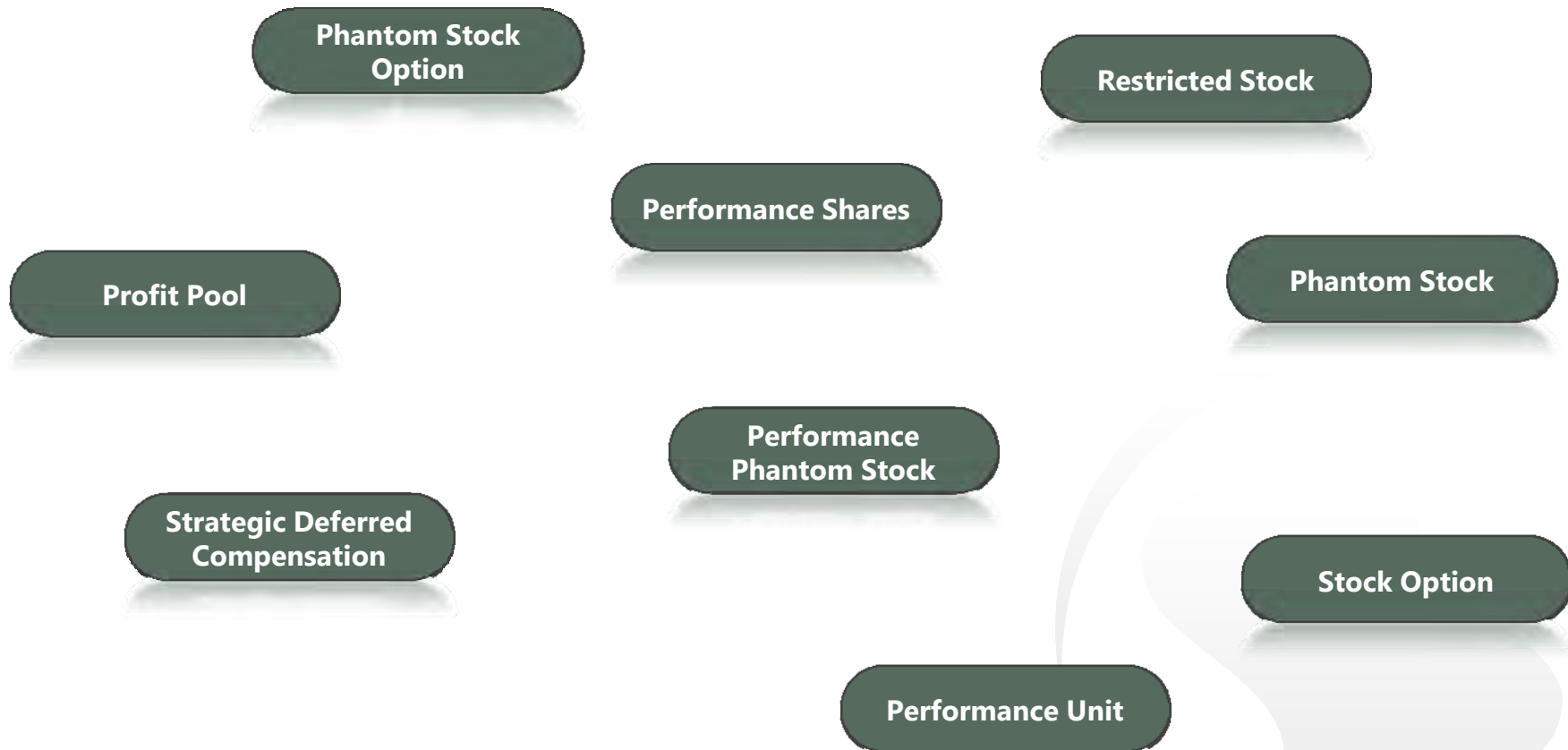
# What is Phantom Stock?

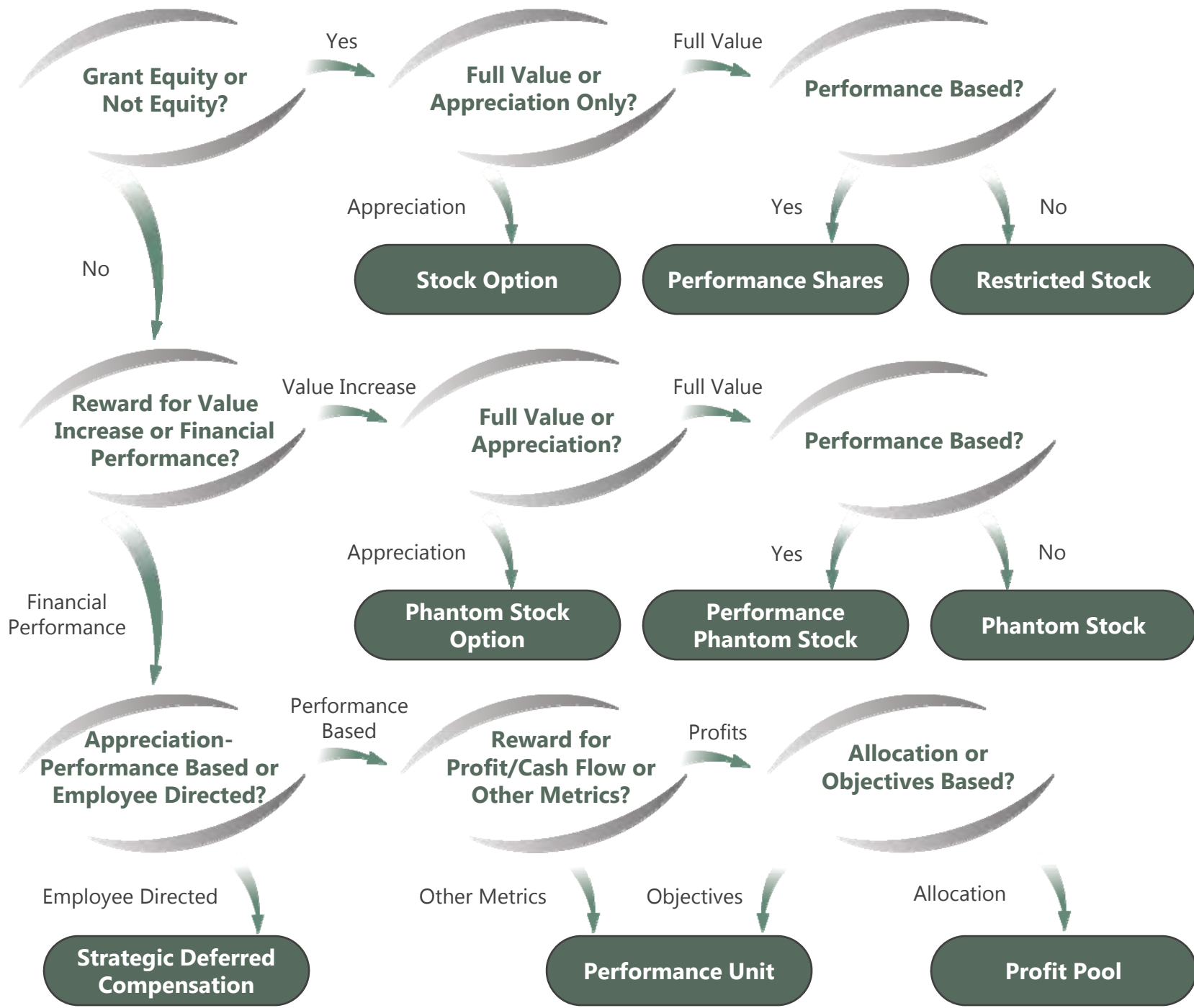
- A deferred bonus
- Awards made in “units” (like stock)
- Unit price is tied to a formula (or appraisal) that reflects company value
- Settled in cash (almost always)





# Select the Right Plan Type





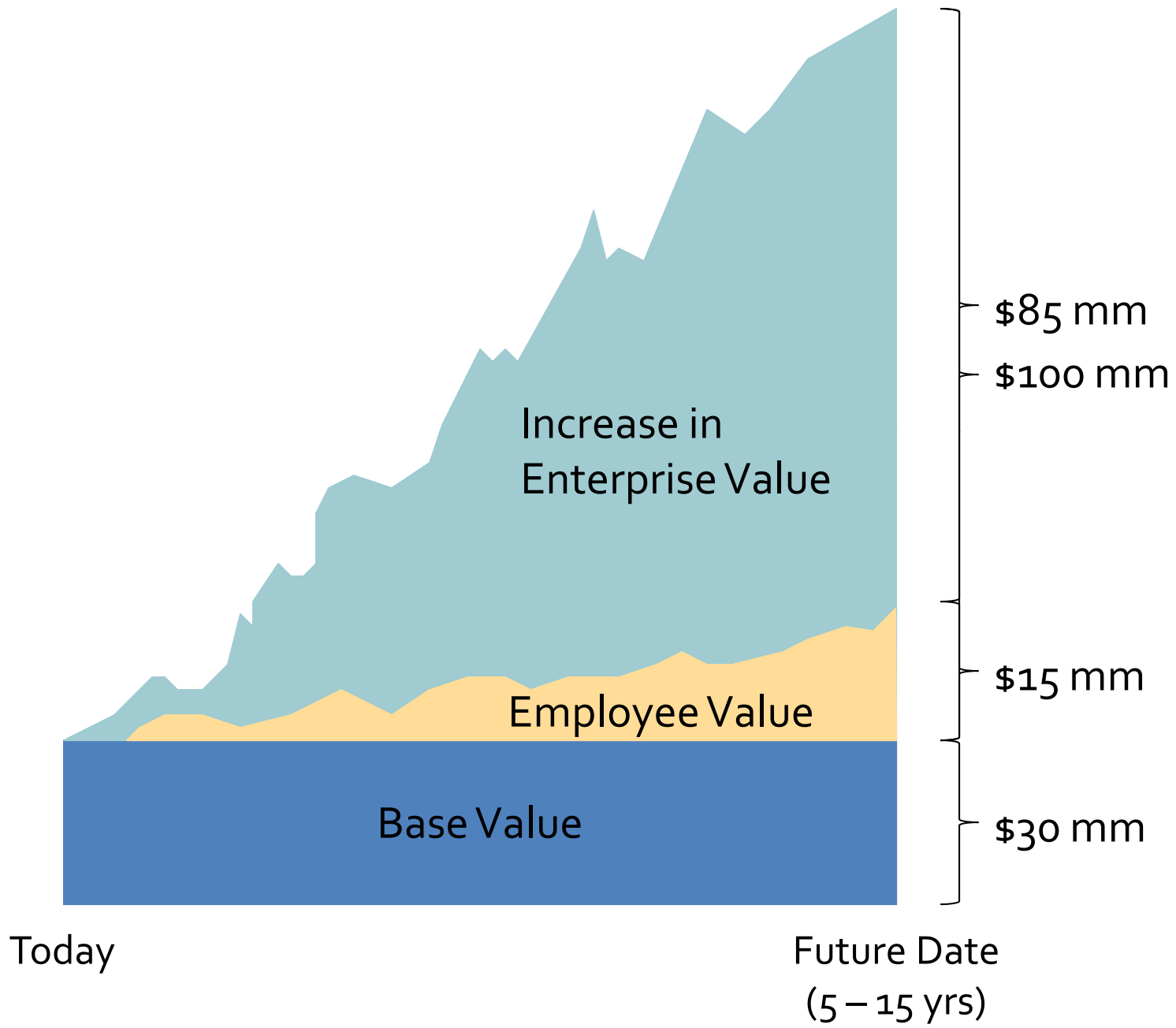
# What's the goal?

"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?"





# Virtually Perfect Flexibility

- Set your own valuation formula
- Create your own number of shares
- Grant shares in some years, more or fewer in others
- Give “Full Value” or “Appreciation Only”
- Pick any vesting schedule
- Pick any redemption year (or let employee choose)
- Pay dividends or not
- Pay for CIC, SOS, Death, Disability—or not
- Include one employee or every employee





## 4. Are You Ready?



- We expect to be quite a bit bigger in 5 years than we are today
- We need to hire and retain premier talent
- We need a stronger ownership mentality
- We do not carry excessive debt
- We believe in the value sharing principle



## 4. Are You Ready?



- ✓ We expect to be quite a bit bigger in 5 years than we are today
- ✓ We need to hire and retain premier talent
- ✓ We need a stronger ownership mentality
- ✓ We do not carry excessive debt
- ✓ We believe in the value sharing principle



TOOLS OVERVIEW

ARE YOU READY FOR A PHANTOM STOCK PLAN?

PICTURE YOUR FUTURE COMPANY

WHICH PLAN IS RIGHT FOR YOUR COMPANY?

## Are You Ready?

Answer the 10 questions below and click "Analyze" to see whether your company is a good candidate for a phantom stock program.

Trusted, Safe, and Secure. Please note that none of the information that you input here will be stored or sent to our company. These tools are for demonstration purposes only.

- 1 What is your organizational structure?

Sole Proprietorship  
  Partnership  
  LLC  
  S Corporation  
  C Corporation
- 2 How long have you been in business?

less than 3 years  
  3-6 years  
  7-10 years  
  11-15 years  
  15+ years
- 3 What is your company's approximate annual revenue?

< \$10mm  
  \$10-20mm  
  \$20-50mm  
  \$50-100mm  
  >\$100mm
- 4 Considering revenue, how much bigger will your company be in 5 years compared to today?

Will be sold by then  
  0-25%  
  25-75%  
  75-125%  
  125% or greater
- 5 As you grow will your profit margins diminish, stay the same or improve?

Diminish  
  Stay the same  
  Improve somewhat  
  Improve quite a bit  
  Improve dramatically
- 6 How would you describe your company's long-term debt situation?

Highly leveraged and will continue that way  
  Highly leveraged but reducing debt systematically  
  Reasonable debt for our size and industry  
  We borrow as needed but generally avoid it  
  No long-term debt and unlikely to need it in the future
- 7 How many employees do you currently have who are essential to the achievement of your growth plans?

0  
  1  
  2-5  
  6-10  
  11+
- 8 To achieve your goals what caliber of leadership personnel will you need to attract and retain?

Any  
  Average  
  Above average  
  Top 10%  
  Top 2%
- 9 How would you describe the quality of your periodic bonus plan for your top employees?

Don't have one  
  A little weak  
  Industry average  
  Above average  
  Excellent
- 10 Rate your belief that financial value sharing with employees is necessary to accelerate growth. (Scale of 1 to 10, with 10 being strong belief)

1-2  
  3-4  
  5-6  
  7-8  
  9-10

Clear tool   Analyze

Need Help? Ask an Expert

TOOLS OVERVIEW

ARE YOU READY FOR A PHANTOM STOCK PLAN?

PICTURE YOUR FUTURE COMPANY

WHICH PLAN IS RIGHT FOR YOUR COMPANY?

## Are You Ready?

*Your company may be a candidate for a phantom stock plan at the present time. Consider the following principles before moving ahead.*

### THINGS THAT MAY STAND IN THE WAY OF A SUCCESSFUL PLAN

A phantom stock plan is best suited to sponsors expecting significant growth over a period of 5 years or longer.

A phantom stock plan will add to your value proposition but will not replace the need to shore up your short-term plan.

### THINGS THAT SHOULD ENCOURAGE YOU TO ADOPT A PLAN

Phantom stock typically works well in your business structure.

You've indicated an expectation for above average margin improvement. This is an important element in a successful plan.

The fact that you carry little or no long-term debt supports the ability to meet the cash flow obligations of a phantom stock plan.

A phantom stock plan may increase your ability to attract higher level talent.

A strong phantom stock plan will validate your belief in value sharing with employees. It should become a key driver of long-term growth.

# Try it yourself

<http://www.phantomstockonline.com/tools/are-you-ready.aspx>

# Conclusions

- Don't be confused by the name or afraid of the commitment
- In the right situation, a phantom stock plan may be the best investment you've ever made in your business
- Engagement does not occur without a serious effort to communicate a compelling future and share some of that future with your employees
- A phantom stock (or similar long-term incentive) plan is often the best way to financially unite shareholders and key employees



# Special Offer

One hour consulting call with a VisionLink principal at no charge

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Indicate interest on final survey



**Type Your Questions**

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### How should I Share Value?

What constitutes an effective incentive plan? How much should be short-term and how much long-term? Do incentives really work?

Learn More

WHAT IS PHANTOM STOCK? HOW SHOULD I SHARE VALUE? HOW DO I END ENTITLEMENTS?

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**06/26/2012** - Creating an Ownership Mentality without Giving Away Equity  
**07/19/2012** - CPA CPE - Do Incentive Plans Really Work?  
**07/24/2012** - Success Stories in Pay for Performance

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**ASK THE RIGHT QUESTIONS**

Creating an effective compensation program starts with knowing which questions to ask. Can

**FOLLOW THE RIGHT PROCESS**

Success in compensation development depends on a process that addresses both structural issues

**CHOOSE THE RIGHT COACHES**

Listen to experts. Here's the latest thinking of two of VisionLink's growth strategy leaders. Tom

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# WHITE PAPER

## Phantom Stock: The Ideal Plan for Growing Private Companies



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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, White Paper and the 1-hour free consultation time with one of our principals.*



# Q&A

# Thank you!

## Tom Miller

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