

# What is **Phantom Stock** & Why Do I Keep Hearing About It?





THE VISIONLINK  
ADVISORY GROUP

Today's Presenter:

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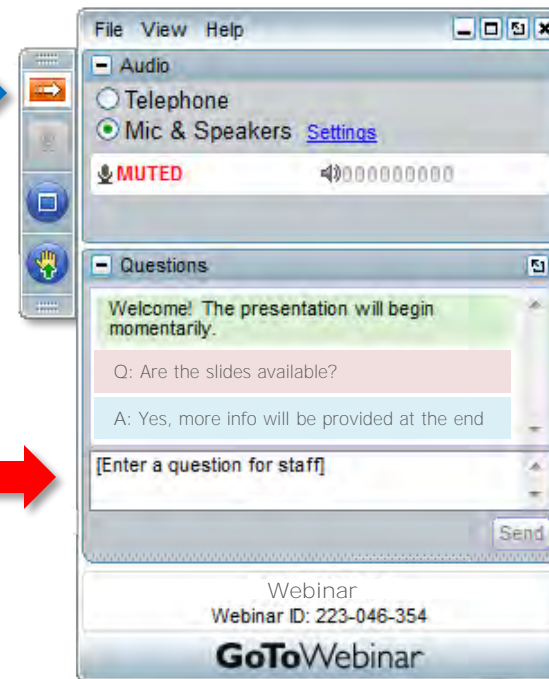
[kgibson@vladvisors.com](mailto:kgibson@vladvisors.com)



We're happy to provide a copy of today's slides.

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# Post Webinar Intro





THE VISIONLINK  
ADVISORY GROUP

- Headquartered in Irvine, CA
- Founded in 1996
- Over 450 Clients throughout North America



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# VisionLink's Focus: Help Business Leaders Build and Sustain a High Performance Culture

Accelerate performance through pay strategies that transform employees into growth partners.



# If you do that...

- Quality of talent will improve.
- Employee engagement will expand.
- Performance will be magnified.
- Business growth will be accelerated.
- Shareholder value will increase.



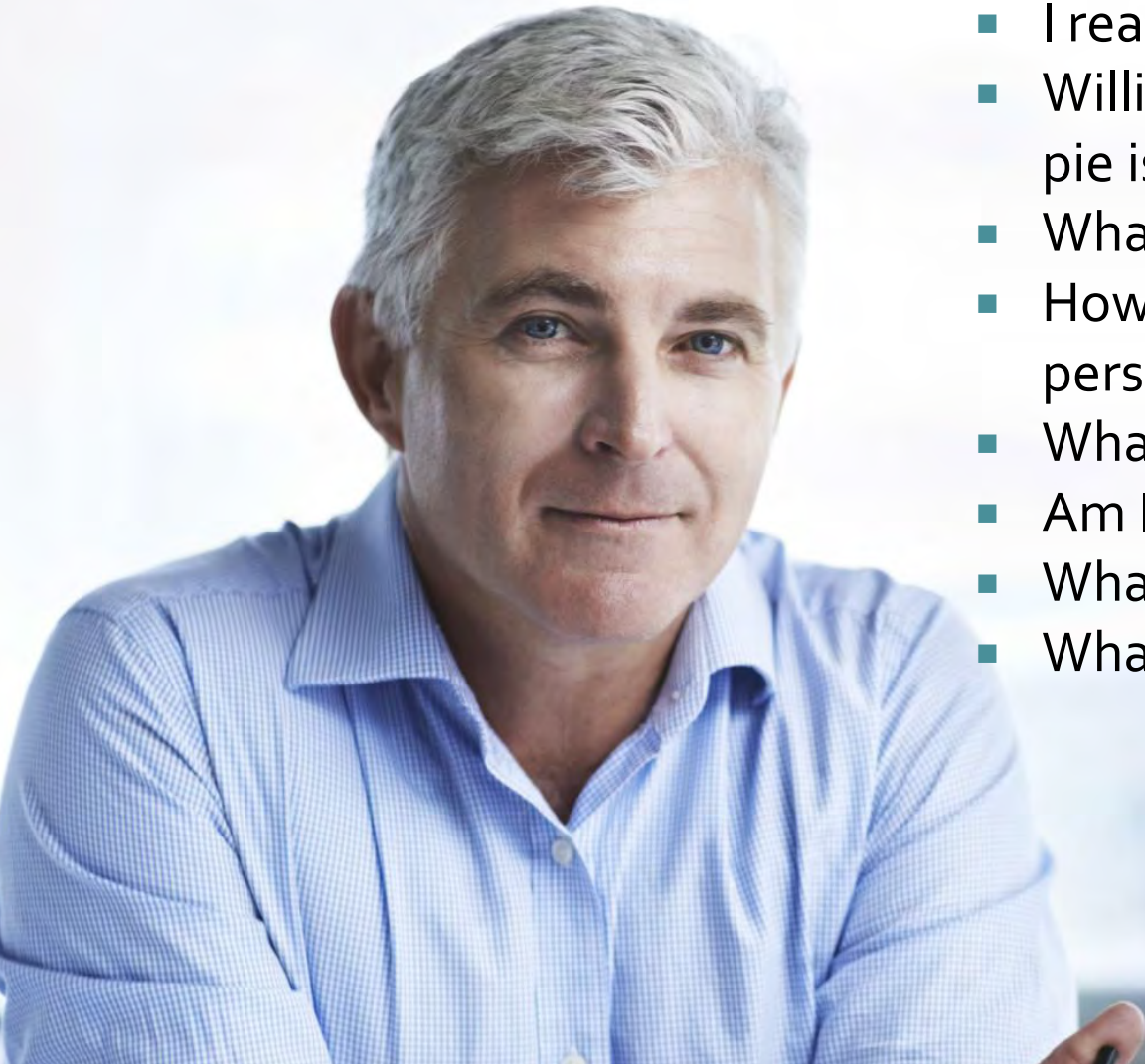


# Framing Today's Topic

“ Can I have equity?”



# Owner Mindset

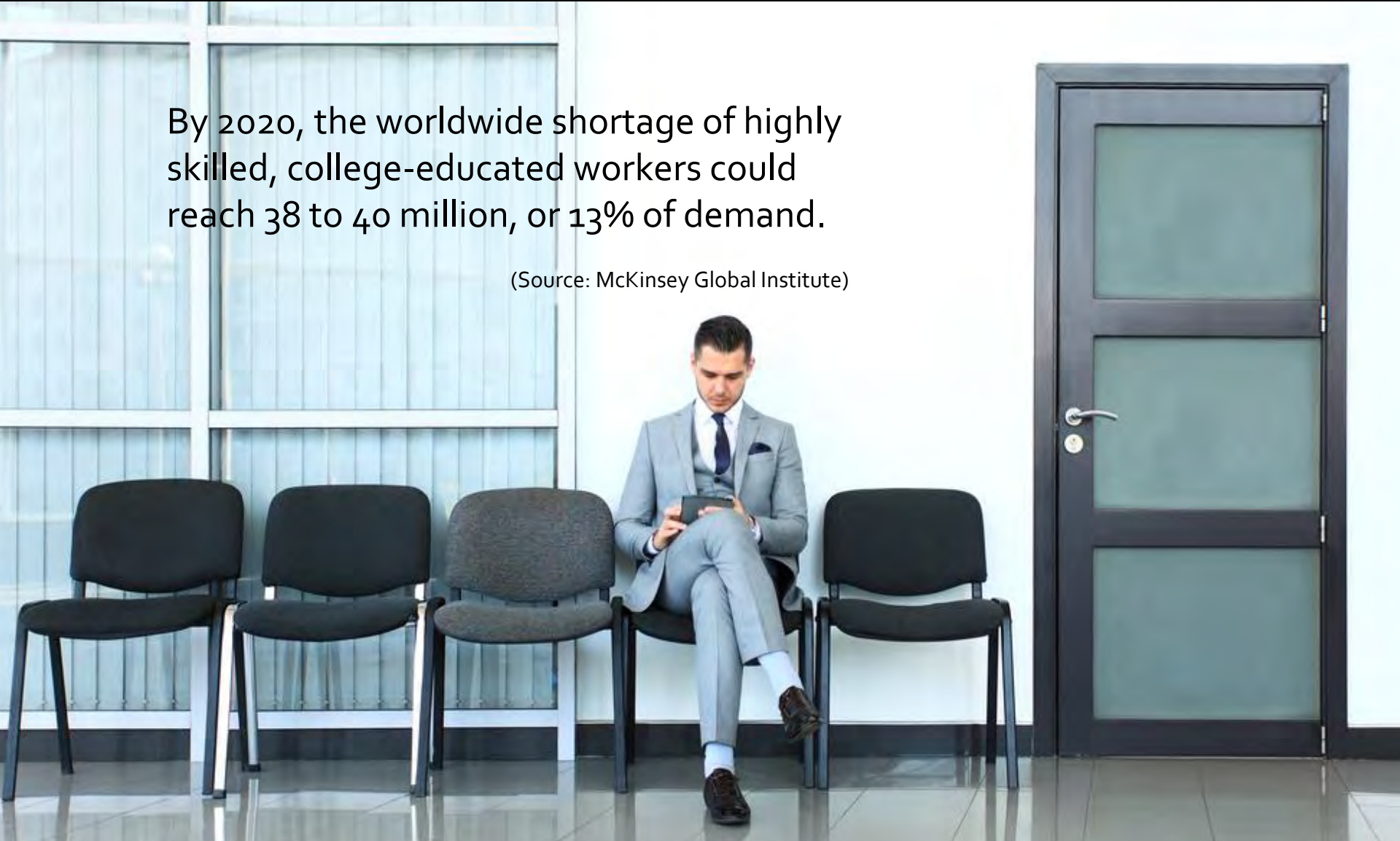


- I really need this person.
- Willing to share stock if bigger pie is created.
- What if bigger pie isn't created?
- How much will satisfy this person?
- What will this do to *my* value?
- Am I opening a Pandora's Box?
- What will trigger liquidation?
- What will it "cost" me?

# Key Talent Trend

By 2020, the worldwide shortage of highly skilled, college-educated workers could reach 38 to 40 million, or 13% of demand.

(Source: McKinsey Global Institute)



# 2020 is Here



“The conversations overheard at every Chief Executive Group event this year undoubtedly echo the conversations you’re having with ...the heads of every division in your organization: **how to deal with the skills gap that has made it so difficult for companies throughout America to fill available jobs, increase often-stalled productivity, navigate change, and fuel the sort of disruptive activity that is essential for survival in this economy.**”

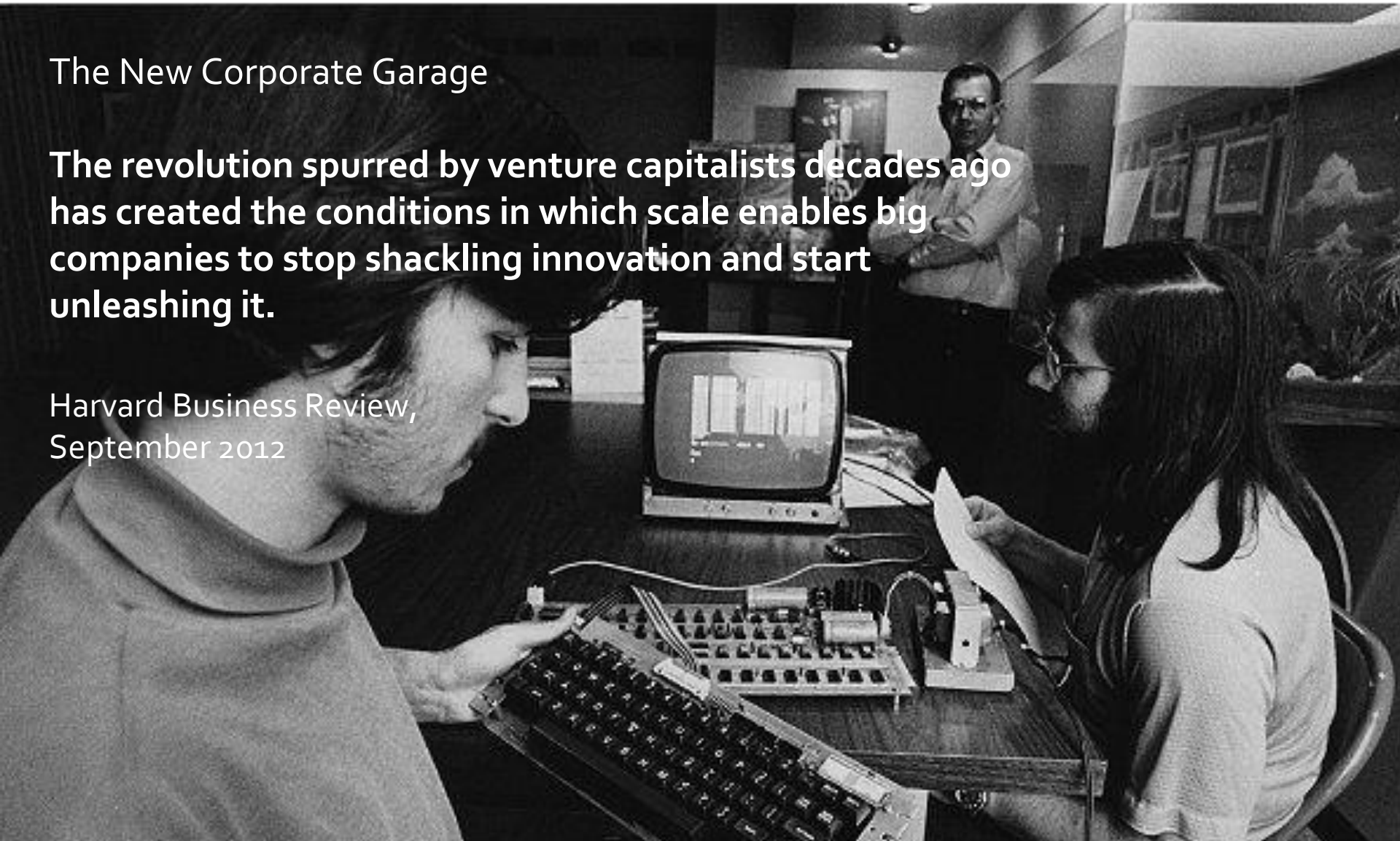
(Chief Executive Magazine, July 25, 2017)

# The Emergence of Catalysts

The New Corporate Garage

**The revolution spurred by venture capitalists decades ago has created the conditions in which scale enables big companies to stop shackling innovation and start unleashing it.**

Harvard Business Review,  
September 2012



# Catalysts Change Growth Trajectory

“...**entrepreneurial individuals, or ‘catalysts,’** within big companies are using those companies’ resources, scale, and growing agility to develop solutions to global challenges in ways that few others...”

Harvard Business Review,  
September 2012 (continued)



Jony Ive

# Catalysts



- Meaningful experience
- Unique abilities
- Strategic Leaders
- Able to impact business growth trajectory
- Companies are competing for their talents
- Have leverage
- Many married and have children

# Key Questions

1. Do you believe your company will be bigger—significantly bigger—in 5 years?
2. Do you believe you can achieve that growth without the commitment and effort of your team members?
3. Do you believe you have a greater likelihood of achieving your growth goals if you attract premier talent, not just good talent?





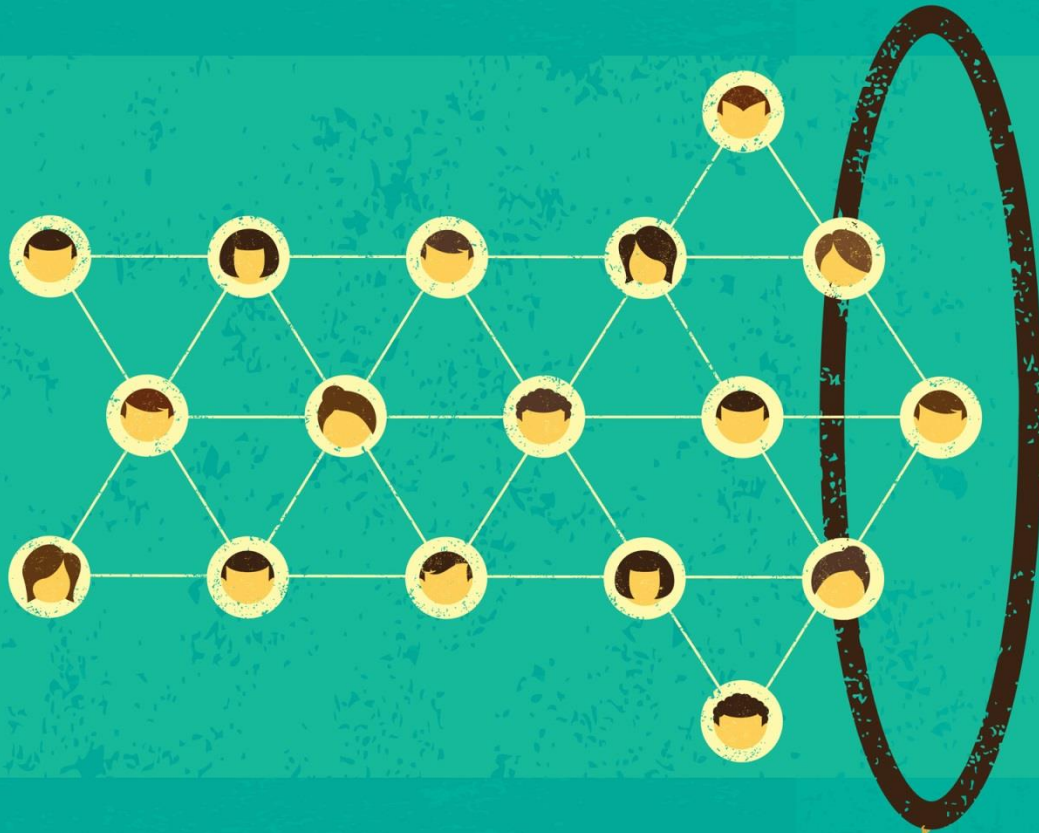
# Key Questions

4. Do you believe that creating an ownership mentality will improve engagement and productivity?
5. Do you believe that if an employee is directly responsible for creating economic value, he or she is entitled to a portion of it?
6. Do you believe that if you want to beat your competition in attracting great talent you must offer a superior value proposition?



# If You Believe That...

You Need a Long-Term  
Value-Sharing Plan



# Long-Term Value-Sharing & Catalysts

- Single most important component in attracting “catalysts”
- Should be used in every size organization
- Creates “wealth multiplier” mindset
- Ties employees to vision and growth plan of the company
- Most under-utilized plan in most private companies



# What High Performers Want

- There is a philosophy that guides pay decisions and I relate to it.
- There is a mechanism for sharing value with those who help produce it.
- I have some control over how much I can earn if I produce.
- I feel a sense of partnership with ownership.



# Sharing Value *Does Not* Have to Mean Sharing Equity

**STOCK CERTIFICATE**  
THIS IS TO CERTIFY THAT

\_\_\_\_\_

IS THE OWNER OF \_\_\_\_\_ SHARES OF STOCK

OF \_\_\_\_\_

ON THIS \_\_\_\_\_ DAY OF \_\_\_\_\_ IN THE YEAR \_\_\_\_\_

AT: \_\_\_\_\_

\_\_\_\_\_  
SIGNED

\_\_\_\_\_  
SIGNED

Certificate Provided by [www.hooverwebdesign.com](http://www.hooverwebdesign.com)

# Primary Focus: Finding the Right Plan

**Restricted Stock**

**Phantom Stock**

**Profit Pool**

**Performance Shares**

**Performance  
Phantom Stock**

**Performance Unit**

**Stock Option**

**Phantom Stock  
Option**

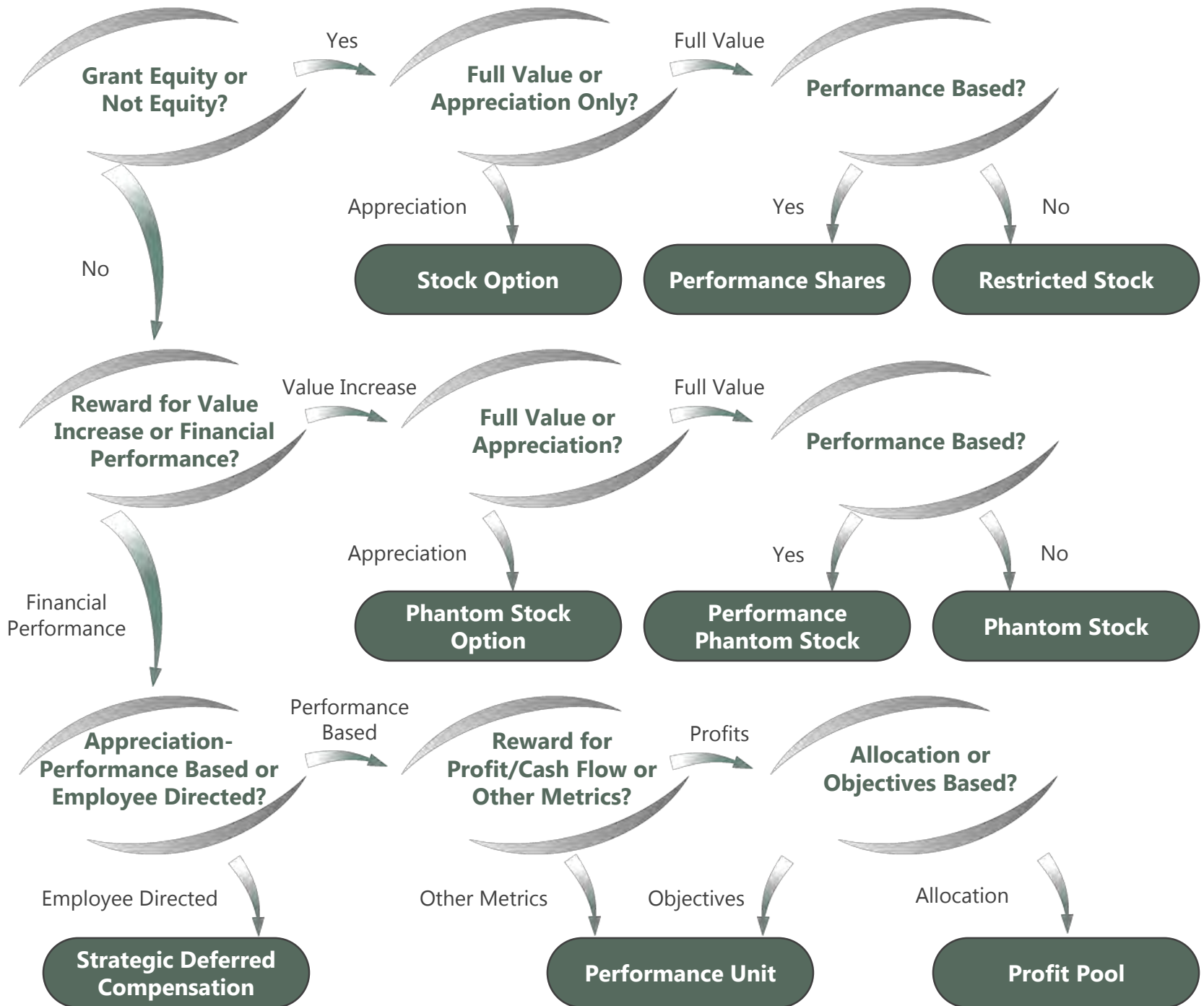
**Strategic Deferred  
Compensation**

# Today's Focus: Phantom Stock

Phantom Stock

Performance  
Phantom Stock

Phantom Stock  
Option





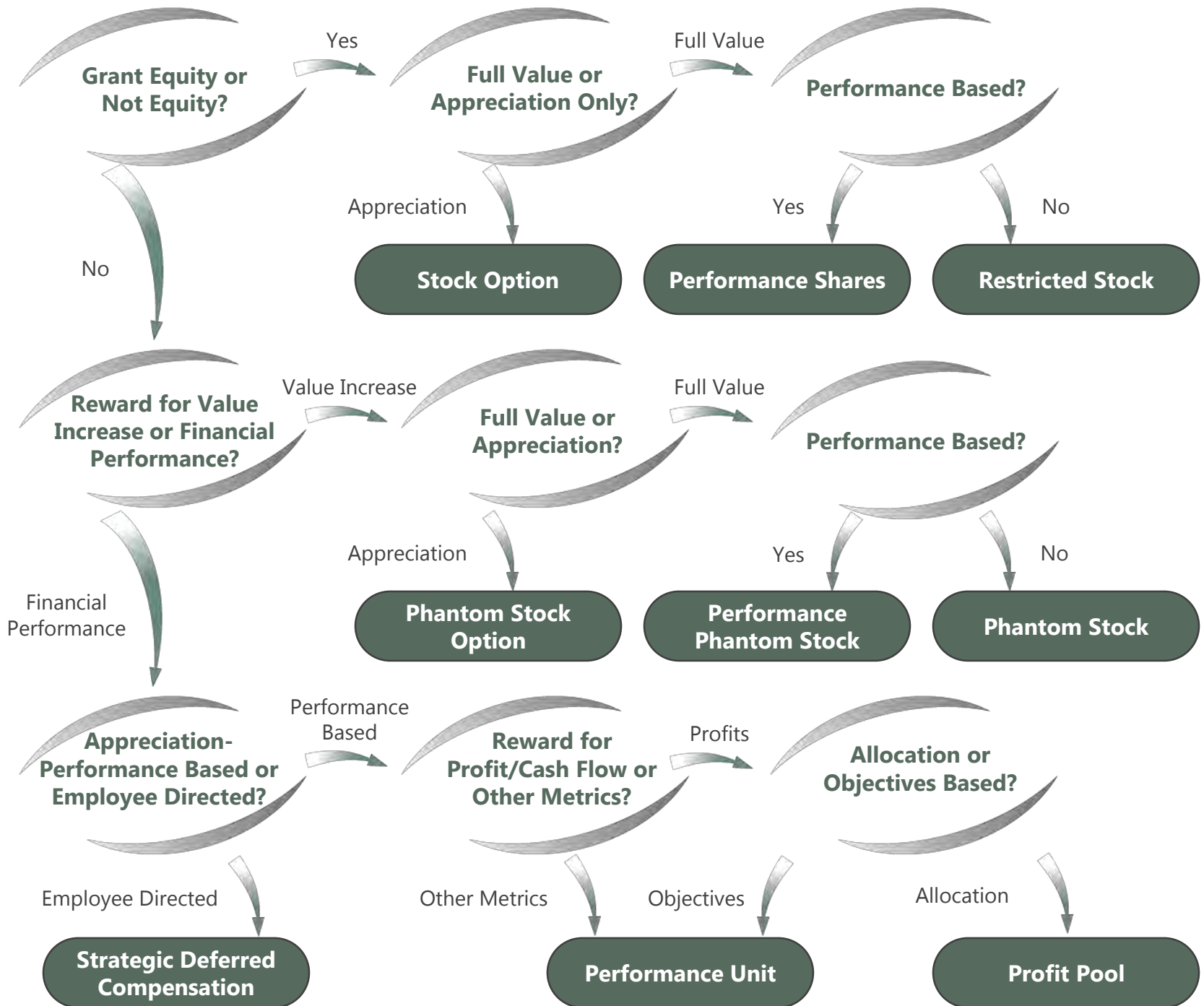
# Sharing Equity

A 3D maze with a red path leading through it, and a person in a suit standing at the entrance, pointing towards the path.

**In a Private Company, when does it make sense?**

## Key Questions

- Competing against public companies for talent?
- Need to give equity to attract or retain vital contributors?
- Employees have earned an ownership stake?
- Means exist for transferring or repurchasing stock?
- Can accept the immediate dilution of your equity?



# No Stock • Reward For Value Increase

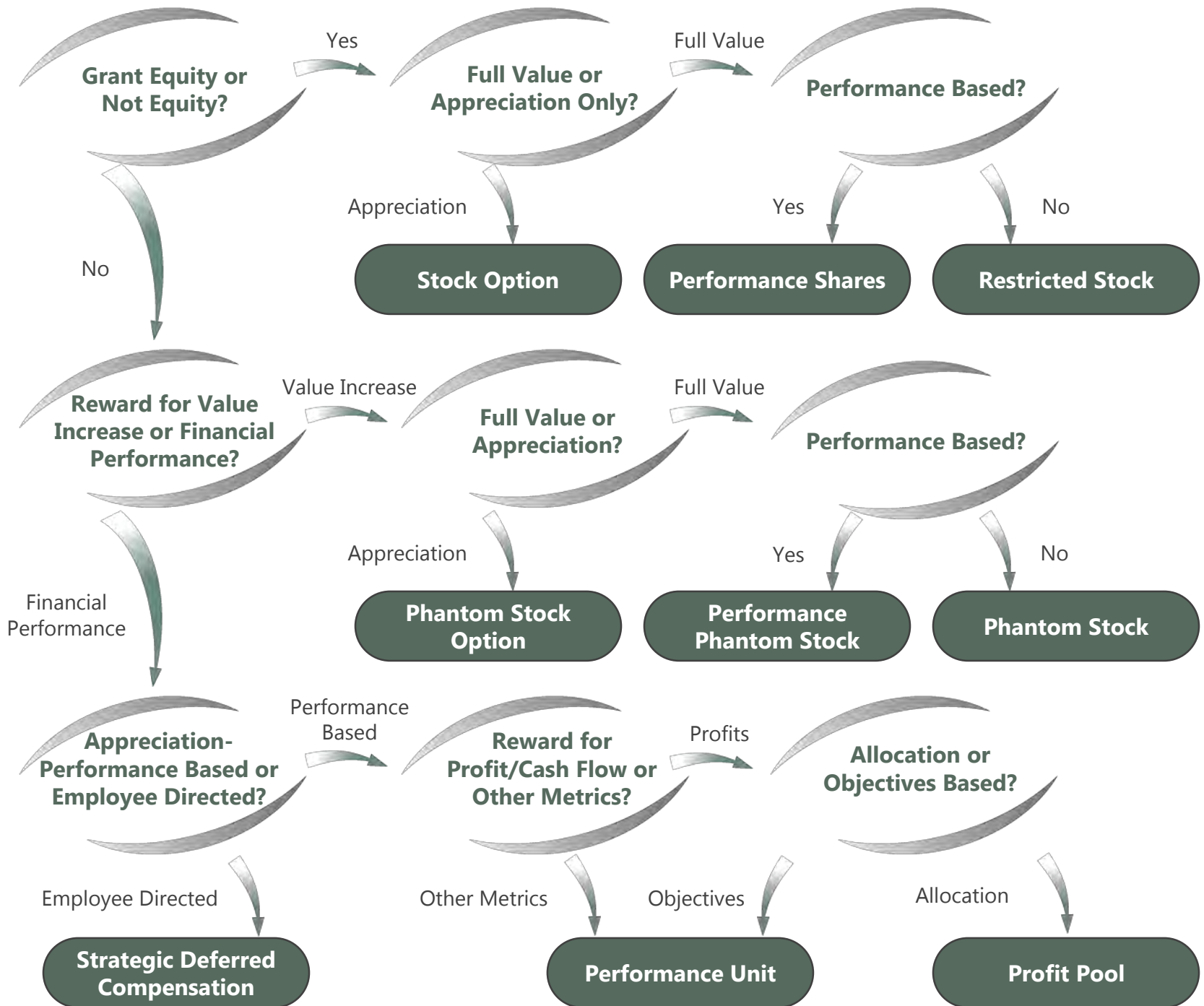
**Full Value • Not Performance-Based  
Phantom Stock**



# Phantom Stock

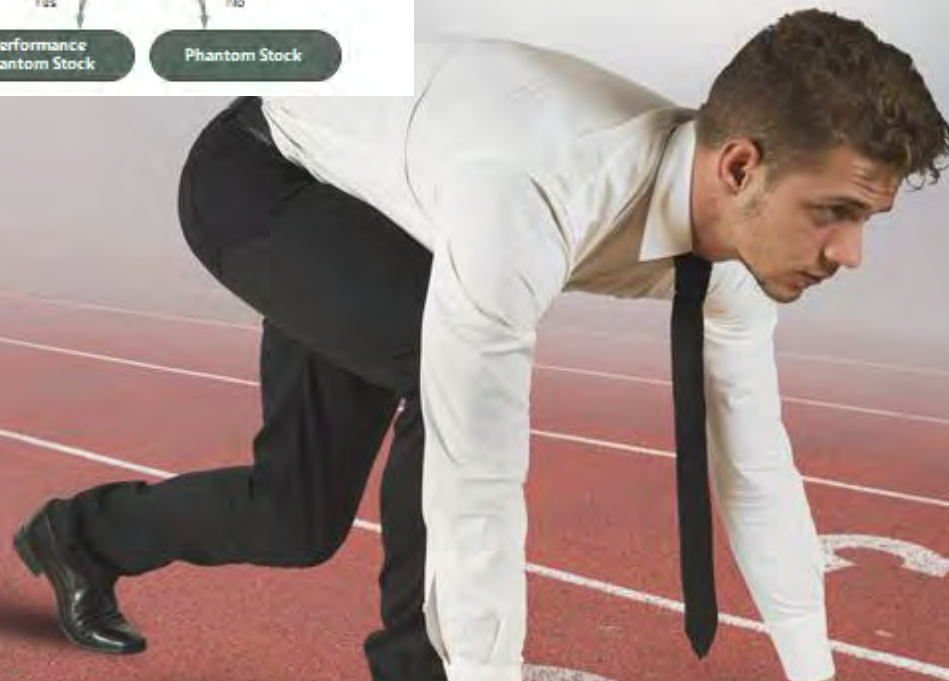
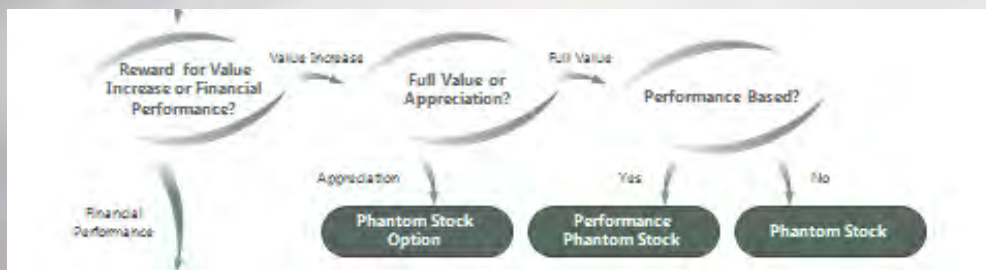
- Company establishes a phantom share value (formula or valuation)
- Employees given an award that has current value essentially equivalent to company stock value (subject to vesting schedule)
- No rights of ownership
- Rewards for past contributions and future growth
- Payments will be made in cash (or stock) at pre-determined dates
- Full value awards create a direct link to ownership





# No Stock • Reward For Value Increase

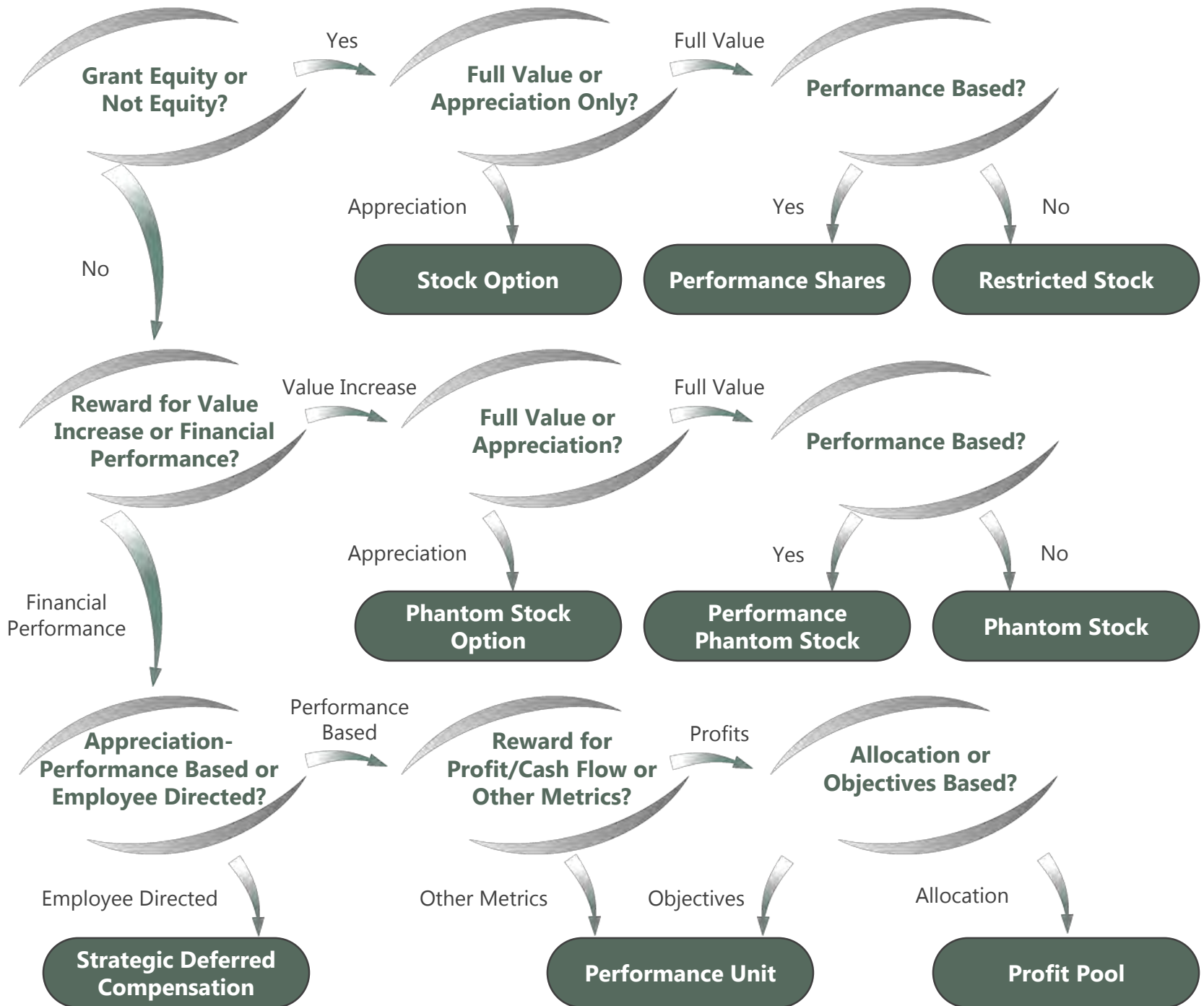
## Full Value • Performance-Based Performance Phantom Stock



# Performance Phantom Stock

- Employees given the promise to receive phantom shares upon fulfillment of pre-determined (often annual) financial goals
- Shares can be full value or appreciation
- “Double” pay-for-performance concept
  - You earn shares based on performance
  - Share values go up based on performance

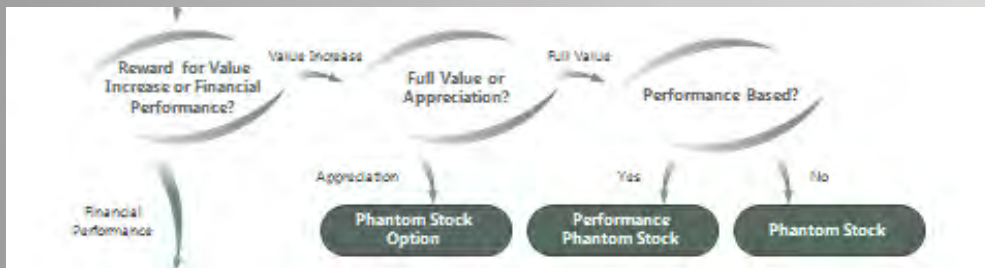






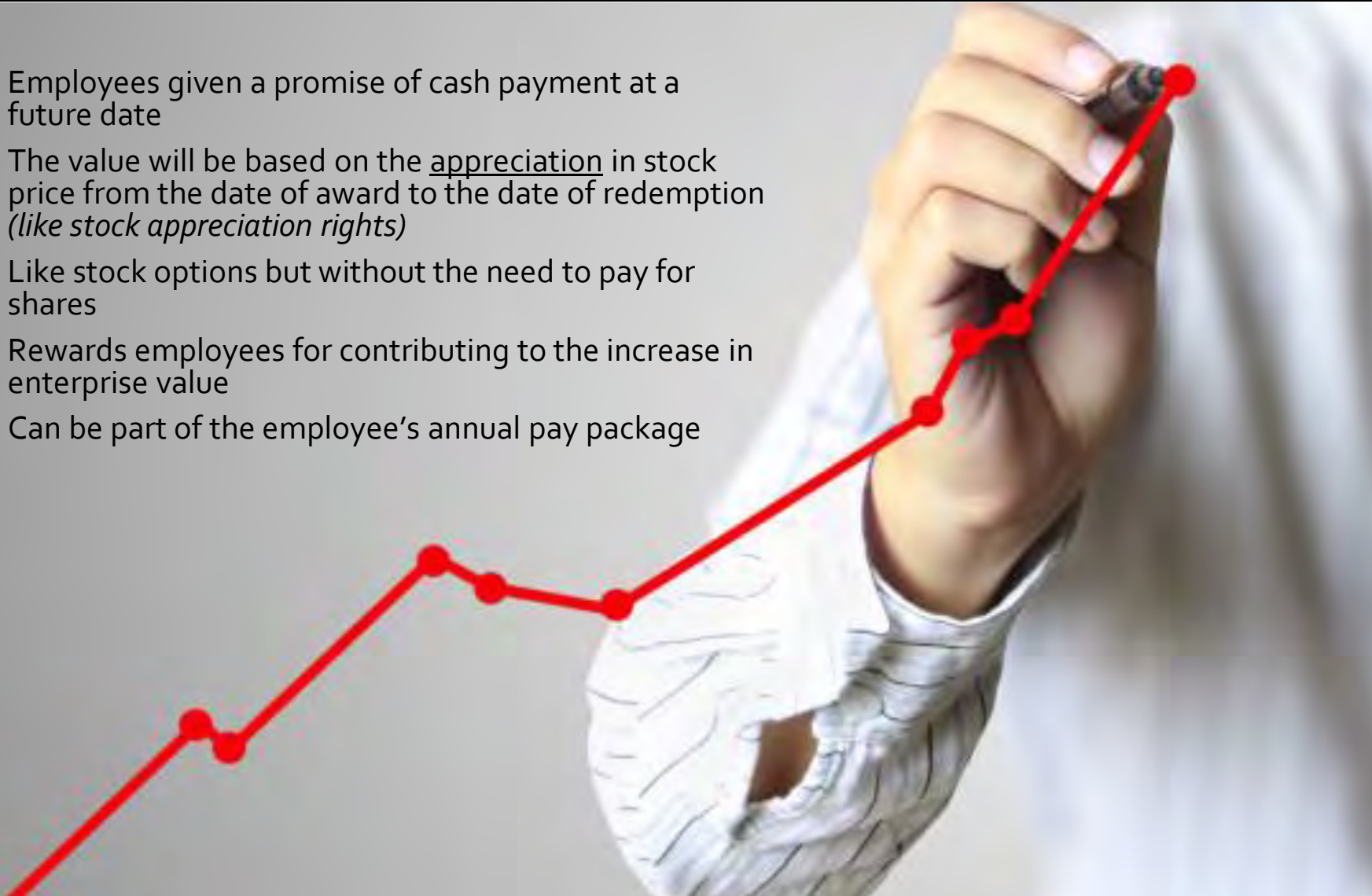
# No Stock • Reward For Value Increase

## Future Value Only Phantom Stock Option




# Phantom Stock Options

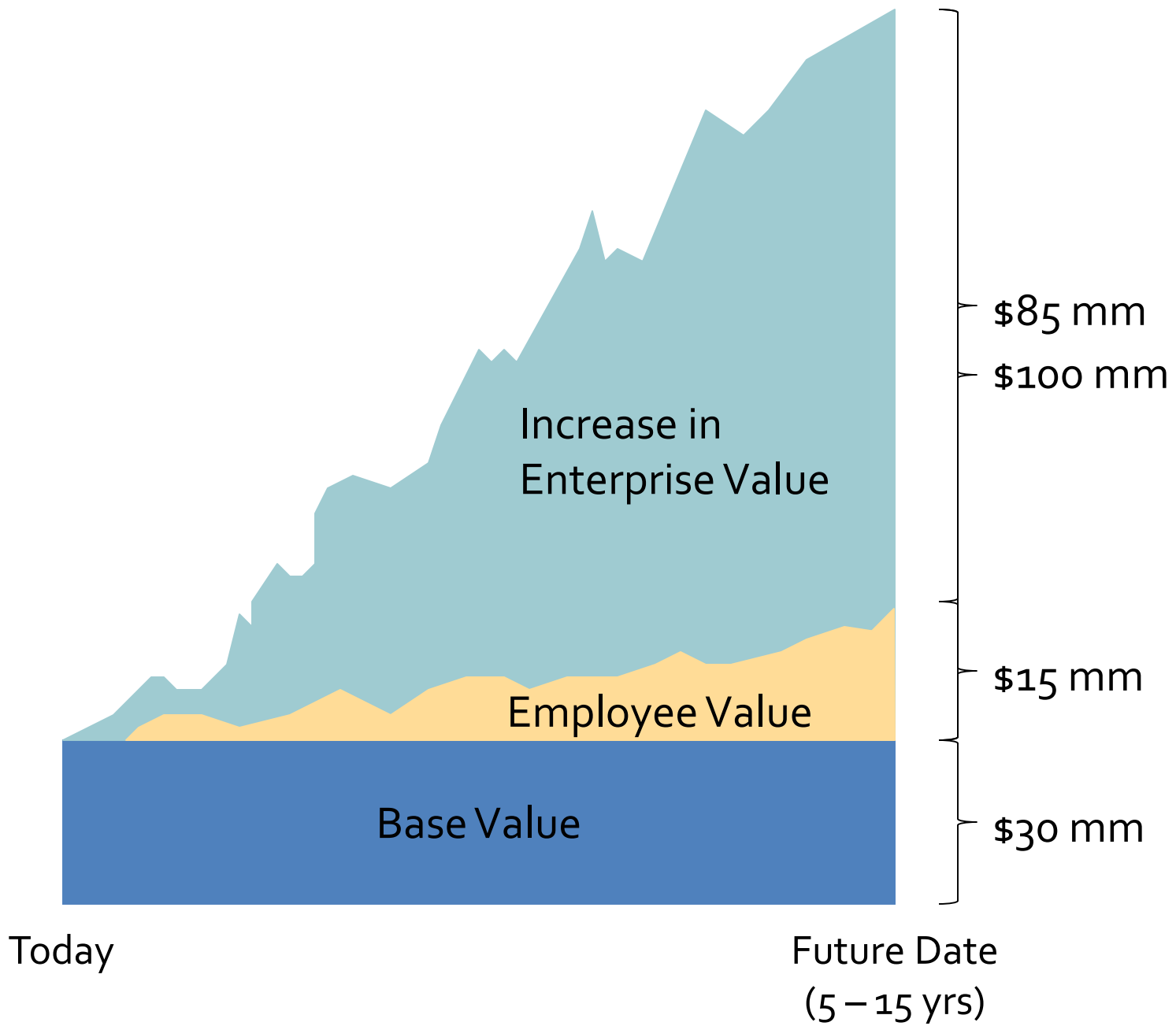
- Employees given a promise of cash payment at a future date
- The value will be based on the appreciation in stock price from the date of award to the date of redemption (*like stock appreciation rights*)
- Like stock options but without the need to pay for shares
- Rewards employees for contributing to the increase in enterprise value
- Can be part of the employee's annual pay package



# Which Plan is Best for You?



	Value Tied To	Total Value or Appreciation Only?	Awarded or Earned?	When Redeemed (Typically)?	Executives or Broad (Typically)?
<b>Phantom Stock Options</b>	Share Price	Appreciation	Awarded	3-7 years	Executives
<b>Full Value Phantom Stock</b>	Share Price	Total	Awarded	6-10 years	Executives
<b>Performance Phantom Stock</b>	Share Price	Either	Earned	3-10 years	Executives



# So, in 2016 you wanted to hire John...

- New Chief Revenue Officer
- What did you offer him?
  - Significant salary
  - Meaningful target bonus
  - ???



# John's Value Proposition

2016 Compensation Package	
Annual Salary	\$325,000
Annual Bonus	\$85,000



# What You Offered John

## Employee Value Statement

*John Ferry @ Target*

<b>Cash Needs</b>							
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Annual Salary	\$ 325,000	\$ 334,750	\$ 344,793	\$ 355,136	\$ 365,790	\$ 376,764	\$ 388,067
Bonus	\$ 85,000	\$ 87,550	\$ 90,177	\$ 92,882	\$ 95,668	\$ 98,538	\$ 101,494
<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>\$ 489,561</b>
<b>Security Needs</b>							
Core Benefits	\$ 21,000	\$ 22,260	\$ 23,596	\$ 25,011	\$ 26,512	\$ 28,103	\$ 29,789
Executive Benefits	\$ 18,000	\$ 18,540	\$ 19,096	\$ 19,669	\$ 20,259	\$ 20,867	\$ 21,493
<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>\$ 51,282</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	\$ 19,702
Deferred Comp Match	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
<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>\$ 489,561</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>\$ 51,282</b>
<b>Annual Value of LTIP</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Annual Value of Ret Plan Contr's</b>	<b>\$ 26,500</b>	<b>\$ 26,995</b>	<b>\$ 27,505</b>	<b>\$ 28,030</b>	<b>\$ 28,571</b>	<b>\$ 29,128</b>	<b>\$ 29,702</b>
<b>Total Annual Value</b>	<b>\$ 475,500</b>	<b>\$ 490,095</b>	<b>\$ 505,166</b>	<b>\$ 520,728</b>	<b>\$ 536,801</b>	<b>\$ 553,400</b>	<b>\$ 570,545</b>
<b>Total Wealth Projection</b>	<b>475,500</b>	<b>\$ 965,595</b>	<b>\$ 1,470,761</b>	<b>\$ 1,991,489</b>	<b>\$ 2,528,290</b>	<b>\$ 3,081,690</b>	<b>\$ 3,652,235</b>

# John's Expected Contribution

1. Deliver on annual budget goals
  2. Deliver on 5-year growth plan
    - a) Revenue from \$19 mm to \$39mm
    - b) Net Income from \$6 mm to \$14 mm
    - c) Book value from \$19mm to \$43 mm
    - d) Market value (conservative) from \$25mm to \$67mm
- 



“No thanks!”



# John's "Amplified" Pay Package

## Employee Value Statement

John Ferry @ Target

<i>Cash Needs</i>							
	2016	2017	2018	2019	2020	2021	2022
Annual Salary	\$ 325,000	\$ 334,750	\$ 344,793	\$ 355,136	\$ 365,790	\$ 376,764	\$ 388,067
Bonus	\$ 85,000	\$ 87,550	\$ 90,177	\$ 92,882	\$ 95,668	\$ 98,538	\$ 101,494
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<i>Wealth Accumulation</i>							
<b>Long-Term Incentive Plan (SAR)</b>							
Annual Distribution	\$ -	\$ -	\$ -	\$ 287,767	\$ 287,159	\$ 291,978	\$ 272,602
Increase in Vested Value	\$ -	\$ -	\$ 287,767	\$ 287,159	\$ 291,978	\$ 272,602	\$ 254,940
Remaining Unvested Value		\$ 81,408	\$ 256,731	\$ 257,488	\$ 259,262	\$ 266,263	\$ 232,738
<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>\$ 760,279</b>
<b>Retirement Plans</b>							
401(k) Company Match	\$ 16,500	\$ 16,995	\$ 17,505	\$ 18,030	\$ 18,571	\$ 19,128	\$ 19,702
Deferred Comp Match	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
<i>Total Value Projection</i>							
<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>\$ 489,561</b>
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<b>Annual Value of LTIP</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 287,767</b>	<b>\$ 574,926</b>	<b>\$ 579,137</b>	<b>\$ 564,580</b>	<b>\$ 527,541</b>
<b>Annual Value of Ret Plan Contr's</b>	<b>\$ 26,500</b>	<b>\$ 26,995</b>	<b>\$ 27,505</b>	<b>\$ 28,030</b>	<b>\$ 28,571</b>	<b>\$ 29,128</b>	<b>\$ 29,702</b>
<b>Total Annual Value</b>	<b>\$ 475,500</b>	<b>\$ 490,095</b>	<b>\$ 792,933</b>	<b>\$ 1,095,655</b>	<b>\$ 1,115,938</b>	<b>\$ 1,117,980</b>	<b>\$ 1,098,087</b>
<b>Total Wealth Projection</b>	<b>475,500</b>	<b>\$ 965,595</b>	<b>\$ 1,758,528</b>	<b>\$ 2,854,182</b>	<b>\$ 3,970,120</b>	<b>\$ 5,088,100</b>	<b>\$ 6,186,187</b>

“Much better. Let’s  
do this!”



# How Do You Build a Plan?



# Select the Right Plan Type

Phantom Stock

Performance  
Phantom Stock

Phantom Stock  
Option

# Create a Financial Model & Dashboard

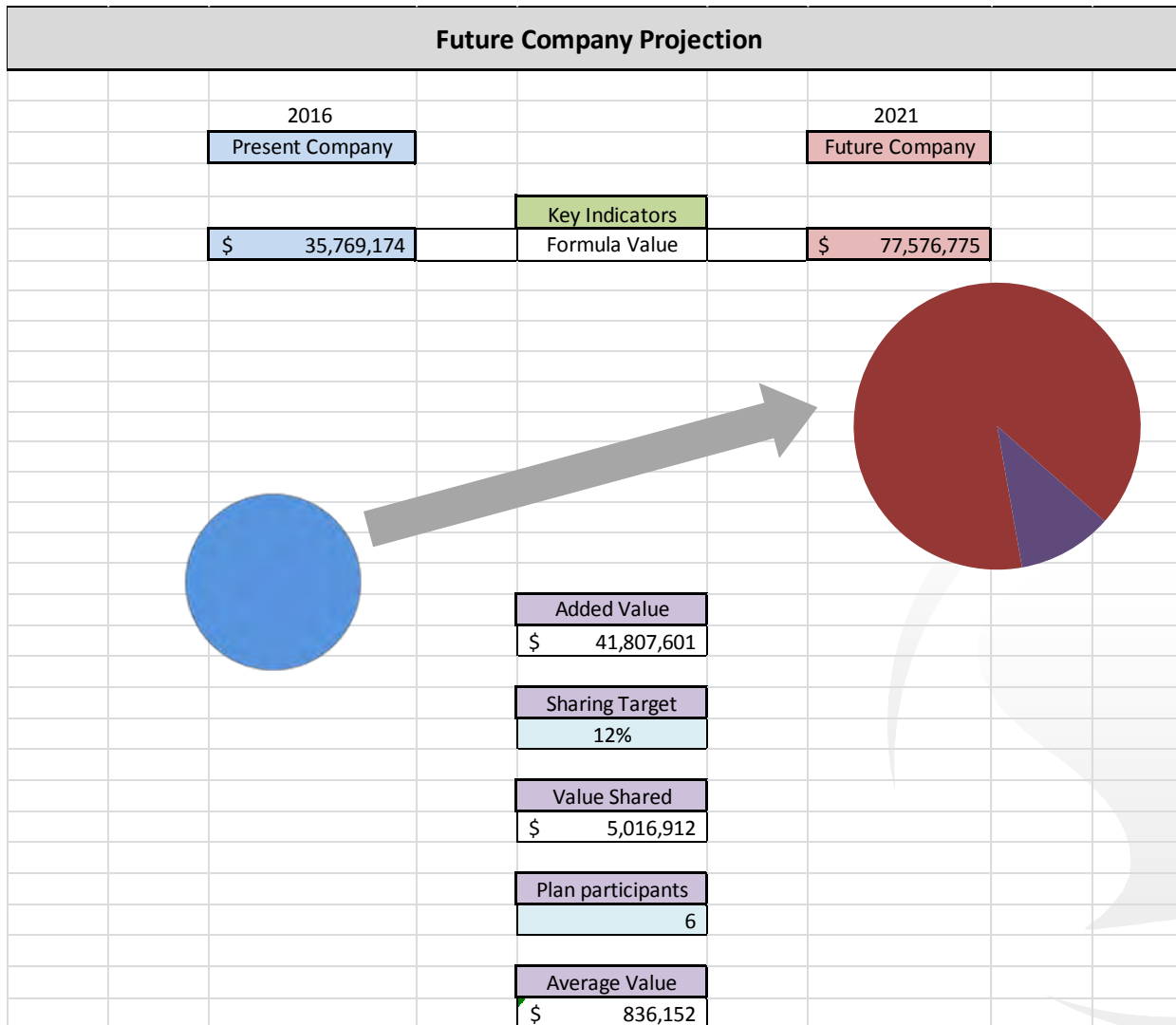


- Detailed operation projection
- Award guidelines by participant
- Vesting, redemption, payment schedules
- Performance standards
- Over/under performance assessment (Base, Target, Superior)
- Success measurements
- Cost controls
- Cash flow and earnings assessment
- Funding standards

# Select Potential Participants

ID	First Name	Last Name	Position / Job Title	Date of Hire	Tier	Initial Annual Salary
1	John	Ferry	CRO	7/1/2016	1	\$ 325,000
2	Patrice	Cornyn	CFO	1/15/2010	2	\$ 225,000
3	Angela	Jimenez	COO	5/8/2009	2	\$ 220,000
4	Jordan	Fisher	SVP Marketing	2/15/2011	2	\$ 215,000
5	Armand	Higuera	SVP Sales	6/15/2012	2	\$ 210,000
6	George	Arnold	SVP International Ops	2/11/2013	2	\$ 205,000

# Set Your Budget





# Projected Values P&L

Target	P&L Forecast								
	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>P&amp;L FORECAST</b>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
Net Sales	19,355,766	22,259,131	25,598,001	29,437,701	33,853,356	38,931,359	44,771,063	51,486,723	59,209,731
Cost of Goods Sold	7,161,633	8,235,878	9,471,260	10,891,949	12,525,742	14,404,603	16,565,293	19,050,087	21,907,601
<b>Gross Profit</b>	<b>12,194,133</b>	<b>14,023,253</b>	<b>16,126,740</b>	<b>18,545,752</b>	<b>21,327,614</b>	<b>24,526,756</b>	<b>28,205,770</b>	<b>32,436,635</b>	<b>37,302,131</b>
Operating Expenses	6,219,008	6,871,394	7,579,568	8,345,588	9,597,426	11,037,040	12,692,596	14,596,486	16,785,959
<b>Income From Operations</b>	<b>5,975,125</b>	<b>7,151,859</b>	<b>8,547,172</b>	<b>10,200,163</b>	<b>11,730,188</b>	<b>13,489,716</b>	<b>15,513,173</b>	<b>17,840,149</b>	<b>20,516,172</b>
<b>Net Income</b>	<b>5,977,062</b>	<b>7,153,835</b>	<b>8,549,188</b>	<b>10,202,219</b>	<b>11,732,285</b>	<b>13,491,855</b>	<b>15,515,355</b>	<b>17,842,375</b>	<b>20,518,442</b>
<b>Book Value (BOY)</b>	19,327,766	22,615,150	26,549,759	31,251,812	36,863,033	43,315,789	50,736,310	59,269,755	69,083,061
<b>Net Income (EOY)</b>	5,977,062	7,153,835	8,549,188	10,202,219	11,732,285	13,491,855	15,515,355	17,842,375	20,518,442
<b>Taxes</b>	(2,390,825)	(2,861,534)	(3,419,675)	(4,080,888)	(4,692,914)	(5,396,742)	(6,206,142)	(7,136,950)	(8,207,377)
<b>Additional SH Distributions</b>	(298,853)	(357,692)	(427,459)	(510,111)	(586,614)	(674,593)	(775,768)	(892,119)	(1,025,922)
<b>Book Value (EOY)</b>	<b>22,615,150</b>	<b>26,549,759</b>	<b>31,251,812</b>	<b>36,863,033</b>	<b>43,315,789</b>	<b>50,736,310</b>	<b>59,269,755</b>	<b>69,083,061</b>	<b>80,368,204</b>
<b>Share Price multiple</b>	5	5	5	5	5	5	5	5	5
<b>Formula Value</b>	\$ 35,769,174	\$ 42,745,940	\$ 51,011,096	\$ 58,661,424	\$ 67,459,274	\$ 77,576,775	\$ 89,211,873	\$ 102,592,208	\$ 112,568,952
<b>Formula Share Price</b>	\$ 3.58	\$ 4.27	\$ 5.10	\$ 5.87	\$ 6.75	\$ 7.76	\$ 8.92	\$ 10.26	\$ 11.26
<b>Annual Increase in FV</b>		\$ 6,976,766	\$ 8,265,156	\$ 7,650,328	\$ 8,797,851	\$ 10,117,501	\$ 11,635,098	\$ 13,380,335	\$ 9,976,744
<b>Capital Charge (12%)</b>	\$ 2,713,818	\$ 3,185,971	\$ 3,750,217	\$ 4,423,564	\$ 5,197,895	\$ 6,088,357	\$ 7,112,371	\$ 8,289,967	\$ 9,644,184
<b>Total Rewards Investment</b>	\$ 3,855,785	\$ 4,260,264	\$ 4,699,332	\$ 5,174,265	\$ 5,470,533	\$ 6,070,372	\$ 6,600,150	\$ 7,342,032	\$ 8,174,762
<b>Productivity Profit</b>	\$ 2,119,340	\$ 2,891,595	\$ 3,847,840	\$ 5,025,899	\$ 6,259,655	\$ 7,419,344	\$ 8,913,023	\$ 10,498,117	\$ 12,341,410
<b>ROTRI</b>	35.5%	40.4%	45.0%	49.3%	53.4%	55.0%	57.5%	58.8%	60.2%

# Project Values by Person

PSO Projection (CO) - Target							
	2016	2017	2018	2019	2020	2021	2022
<b>Assumed Market Value</b>	\$ 37,391,912	\$ 44,827,967	\$ 53,653,761	\$ 64,118,910	\$ 76,516,644	\$ 87,992,136	\$ 101,188,912
<b>Formula Value</b>	\$ 24,927,941	\$ 29,885,311	\$ 35,769,174	\$ 42,745,940	\$ 51,011,096	\$ 58,661,424	\$ 67,459,274
<b>Increase in Formula Value From Inception</b>	4,304,881	9,262,251	15,146,114	22,122,880	30,388,036	38,038,364	46,836,214
<b>Total Phantom Shares</b>	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
<b>Weighted Share Value (EOY)</b>	\$ 2.49	\$ 2.99	\$ 3.58	\$ 4.27	\$ 5.10	\$ 5.87	\$ 6.75
<b>TOTAL PLAN PROJECTION</b>							
Annual Grants (BOY)	580,704	494,834	424,449	365,133	315,314	271,918	243,336
Cumulative Grants	580,704	1,075,538	1,499,987	1,865,120	2,180,433	2,452,351	2,695,688
Dollar Basis of PSOs	\$ 398,750	\$ 410,713	\$ 423,034	\$ 435,725	\$ 448,797	\$ 462,261	\$ 476,128
Plan Value (BOY)	\$ -	\$ 249,703	\$ 787,472	\$ 1,672,464	\$ 1,676,041	\$ 1,712,299	\$ 1,550,033
Annual Distributions	\$ -	\$ -	\$ -	\$ 882,670	\$ 880,805	\$ 895,587	\$ 836,154
Cumulative Distributions	\$ -	\$ -	\$ -	\$ 882,670	\$ 1,763,475	\$ 2,659,062	\$ 3,495,215
Vested Value (EOY)	\$ -	\$ -	\$ 882,670	\$ 880,805	\$ 895,587	\$ 836,154	\$ 781,978
Unvested Value (EOY)	\$ 249,703	\$ 787,472	\$ 789,794	\$ 795,236	\$ 816,712	\$ 713,879	\$ 662,801
Plan Value (EOY)	\$ 249,703	\$ 787,472	\$ 1,672,464	\$ 1,676,041	\$ 1,712,299	\$ 1,550,033	\$ 1,444,779
Cum Plan Value (Pd, Unpd, Vstd, Unvstc)	\$ 249,703	\$ 787,472	\$ 1,672,464	\$ 2,558,711	\$ 3,475,774	\$ 4,209,094	\$ 4,939,994
<i>CPV as % of Formula Value</i>	1.0%	2.6%	4.7%	6.0%	6.8%	7.2%	7.3%
<i>CPV as % of Increase in Formula Value</i>	5.8%	8.5%	11.0%	11.6%	11.4%	11.1%	10.5%
<b>John Ferry</b>							
	2016	2017	2018	2019	2020	2021	2022
Annual Grants (BOY)	\$ 189,320	161,325	138,378	119,040	102,798	88,650	79,332
Annual Distributions	\$ -	\$ -	\$ -	\$ 287,767	\$ 287,159	\$ 291,978	\$ 272,602
Cumulative Distributions	\$ -	\$ -	\$ -	\$ 287,767	\$ 574,926	\$ 866,904	\$ 1,139,506
Vested Value (EOY)	\$ -	\$ -	\$ 287,767	\$ 287,159	\$ 291,978	\$ 272,602	\$ 254,940
Unvested Value (EOY)	\$ 81,408	\$ 256,731	\$ 257,488	\$ 259,262	\$ 266,263	\$ 232,738	\$ 216,086
Cumulative Plan Value	\$ 81,408	\$ 256,731	\$ 545,255	\$ 834,188	\$ 1,133,168	\$ 1,372,244	\$ 1,610,531
<b>Patrice Cornyn</b>							
	2016	2017	2018	2019	2020	2021	2022
Annual Grants (BOY)	81,917	69,804	59,875	51,508	44,480	38,358	34,326
Annual Distributions	\$ -	\$ -	\$ -	\$ 124,515	\$ 124,252	\$ 126,337	\$ 117,953
Cumulative Distributions	\$ -	\$ -	\$ -	\$ 124,515	\$ 248,766	\$ 375,103	\$ 493,055
Vested Value (EOY)	\$ -	\$ -	\$ 124,515	\$ 124,252	\$ 126,337	\$ 117,953	\$ 110,310
Unvested Value (EOY)	\$ 35,225	\$ 111,085	\$ 111,413	\$ 112,181	\$ 115,210	\$ 100,704	\$ 93,499
Cumulative Plan Value	\$ 35,225	\$ 111,085	\$ 235,928	\$ 360,947	\$ 490,313	\$ 593,759	\$ 696,864

# Study Different Scenarios

	Base		Target		Superior	
	2018	2022	2018	2022	2018	2022
<b>Increase in FV since Inception</b>	\$ 21,835,870	\$ 44,250,010	\$ 32,084,240	\$ 72,437,820	\$ 47,554,260	\$ 117,625,420
<b>CPV for all Participants</b>	\$ 3,426,720	\$ 7,395,060	\$ 5,177,840	\$ 12,321,560	\$ 7,819,860	\$ 20,222,250
<b>Value Sharing Percentage</b>	15.7%	16.7%	16.1%	17.0%	16.4%	17.2%
<b>Totals</b>	\$ 3,426,720	\$ 7,395,060	\$ 5,177,840	\$ 12,321,560	\$ 7,819,860	\$ 20,222,250
<b>Todd Warren</b>	\$348,480	\$752,040	\$526,560	\$1,253,040	\$795,240	\$2,056,500
<b>John Anderson</b>	\$232,320	\$501,360	\$351,040	\$835,360	\$530,160	\$1,371,000
<b>Carol Watson</b>	\$232,320	\$501,360	\$351,040	\$835,360	\$530,160	\$1,371,000
<b>Wilson Harrendale</b>	\$232,320	\$501,360	\$351,040	\$835,360	\$530,160	\$1,371,000
<b>Charlie Hills</b>	\$232,320	\$501,360	\$351,040	\$835,360	\$530,160	\$1,371,000
<b>Virginia Johnson</b>	\$232,320	\$501,360	\$351,040	\$835,360	\$530,160	\$1,371,000
<b>Barb Tanaka</b>	\$232,320	\$501,360	\$351,040	\$835,360	\$530,160	\$1,371,000
<b>Dennis Aguirre</b>	\$232,320	\$501,360	\$351,040	\$835,360	\$530,160	\$1,371,000
<b>Eve Allendale</b>	\$232,320	\$501,360	\$351,040	\$835,360	\$530,160	\$1,371,000
<b>Cheryl Flink</b>	\$174,240	\$376,020	\$263,280	\$626,520	\$397,620	\$1,028,250
<b>Tessa Gray</b>	\$174,240	\$376,020	\$263,280	\$626,520	\$397,620	\$1,028,250
<b>Emily Jordan</b>	\$174,240	\$376,020	\$263,280	\$626,520	\$397,620	\$1,028,250
<b>David Bartholomew</b>	\$174,240	\$376,020	\$263,280	\$626,520	\$397,620	\$1,028,250
<b>Jordan Kyle</b>	\$174,240	\$376,020	\$263,280	\$626,520	\$397,620	\$1,028,250
<b>Shannon Lightwood</b>	\$174,240	\$376,020	\$263,280	\$626,520	\$397,620	\$1,028,250
<b>Steven Barnes</b>	\$174,240	\$376,020	\$263,280	\$626,520	\$397,620	\$1,028,250

# Consider Payout Events

Change in Control Report 2020--at Target				
Transaction Value	Total Employee Payments Made Prior to CIC	Total Value to Employees at CIC	Total Plan Employee Value	
\$ 121,782,700	\$ 5,227,990	\$ 4,419,926	\$ 9,647,916	
		Employee CIC Value as Percent of Total CIC Value	Total Employee Value as Percent of Total CIC Value	
		3.63%	7.92%	
Increase in MV from Plan Inception	Total Employee Payments Made Prior to CIC	Employee CIC Value as Percent of Increase in MV from Plan Inception	Total Employee Value as Percent of Increase in MV from Plan Inception	
\$ 70,280,090	\$ 5,227,990	6.29%	13.73%	

Employee	Payments Received Prior to CIC	Value Due at CIC	Total Value
Todd Warren	\$ 531,660	\$ 449,484	\$ 981,144
John Anderson	\$ 354,440	\$ 299,656	\$ 654,096
Carol Watson	\$ 354,440	\$ 299,656	\$ 654,096
Wilson Harrendale	\$ 354,440	\$ 299,656	\$ 654,096
Charlie Hills	\$ 354,440	\$ 299,656	\$ 654,096
Virginia Johnson	\$ 354,440	\$ 299,656	\$ 654,096
Barb Tanaka	\$ 354,440	\$ 299,656	\$ 654,096
Dennis Aguirre	\$ 354,440	\$ 299,656	\$ 654,096
Eve Allendale	\$ 354,440	\$ 299,656	\$ 654,096
Cheryl Flink	\$ 265,830	\$ 224,742	\$ 490,572
Tessa Gray	\$ 265,830	\$ 224,742	\$ 490,572
Emily Jordan	\$ 265,830	\$ 224,742	\$ 490,572
David Bartholomew	\$ 265,830	\$ 224,742	\$ 490,572
Jordan Kyle	\$ 265,830	\$ 224,742	\$ 490,572
Shannon Lightwood	\$ 265,830	\$ 224,742	\$ 490,572
Steven Barnes	\$ 265,830	\$ 224,742	\$ 490,572

# Assess the Financial Impact

<b>Accrual Info - company totals by grant year</b>										
Totals	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Plan Value	\$ 118,000	\$ 646,640	\$ 1,545,800	\$ 1,934,610	\$ 2,204,830	\$ 2,521,070	\$ 2,830,820	\$ 3,157,090	\$ 3,498,700	\$ 3,876,300
Annual Accrual	\$ 38,940	\$ 304,440	\$ 815,474	\$ 1,001,938	\$ 1,132,204	\$ 1,297,150	\$ 1,450,615	\$ 1,614,800	\$ 1,788,868	\$ 1,982,011
Total Accrual	\$ 38,940	\$ 343,380	\$ 1,158,854	\$ 2,160,793	\$ 3,292,997	\$ 4,590,147	\$ 6,040,762	\$ 7,655,562	\$ 9,444,431	\$ 11,426,442
Cumulative Accrual	\$ 38,940	\$ 343,380	\$ 1,158,854	\$ 1,478,753	\$ 1,689,967	\$ 1,933,377	\$ 2,173,312	\$ 2,427,572	\$ 2,690,701	\$ 2,981,182
PSO Liability (credit)	\$ -	\$ -	\$ 682,040	\$ 920,990	\$ 1,053,740	\$ 1,210,680	\$ 1,360,540	\$ 1,525,740	\$ 1,691,530	\$ 1,874,430
Distribution (positive #)	\$ -	\$ -	\$ -	\$ 682,040	\$ 920,990	\$ 1,053,740	\$ 1,210,680	\$ 1,360,540	\$ 1,525,740	\$ 1,691,530
PSO Liability (negative #)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrual Adjustment (credit)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Vested Plan Value	\$ -	\$ -	\$ 682,040	\$ 920,990	\$ 1,053,740	\$ 1,210,680	\$ 1,360,540	\$ 1,525,740	\$ 1,691,530	\$ 1,874,430
2013 Grant	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Plan Value	\$ 118,000	\$ 382,320	\$ 682,040	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
% Accrued	33%	67%	100%	100%	100%	100%	100%	100%	100%	100%
Annual Accrual	\$ 38,940	\$ 217,214	\$ 425,885	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Accrual	\$ 38,940	\$ 256,154	\$ 682,040	\$ 682,040	\$ 682,040	\$ 682,040	\$ 682,040	\$ 682,040	\$ 682,040	\$ 682,040
Cumulative Accrual	\$ 38,940	\$ 256,154	\$ 682,040	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PSO Liability (credit)	\$ -	\$ -	\$ 682,040	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Distribution (positive #)	\$ -	\$ -	\$ -	\$ 682,040	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PSO Liability (negative #)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrual Adjustment (credit)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Vested Plan Value	\$ -	\$ -	\$ 682,040	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2014 Grant	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Plan Value	\$ -	\$ 264,320	\$ 564,040	\$ 920,990	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
% Accrued	0%	33%	67%	100%	100%	100%	100%	100%	100%	100%
Annual Accrual	\$ -	\$ 87,226	\$ 290,681	\$ 543,083	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Accrual	\$ -	\$ 87,226	\$ 377,907	\$ 920,990	\$ 920,990	\$ 920,990	\$ 920,990	\$ 920,990	\$ 920,990	\$ 920,990
Cumulative Accrual	\$ -	\$ 87,226	\$ 377,907	\$ 920,990	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PSO Liability (credit)	\$ -	\$ -	\$ -	\$ 920,990	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Distribution (positive #)	\$ -	\$ -	\$ -	\$ -	\$ 920,990	\$ -	\$ -	\$ -	\$ -	\$ -
PSO Liability (negative #)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrual Adjustment (credit)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Vested Plan Value	\$ -	\$ -	\$ -	\$ 920,990	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2015 Grant	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Plan Value	\$ -	\$ -	\$ 299,720	\$ 656,670	\$ 1,053,740	\$ -	\$ -	\$ -	\$ -	\$ -
% Accrued	0%	0%	33%	67%	100%	100%	100%	100%	100%	100%
Annual Accrual	\$ -	\$ -	\$ 98,908	\$ 341,061	\$ 613,771	\$ -	\$ -	\$ -	\$ -	\$ -
Total Accrual	\$ -	\$ -	\$ 98,908	\$ 439,969	\$ 1,053,740	\$ 1,053,740	\$ 1,053,740	\$ 1,053,740	\$ 1,053,740	\$ 1,053,740
Cumulative Accrual	\$ -	\$ -	\$ 98,908	\$ 439,969	\$ 1,053,740	\$ -	\$ -	\$ -	\$ -	\$ -
PSO Liability (credit)	\$ -	\$ -	\$ -	\$ -	\$ 1,053,740	\$ -	\$ -	\$ -	\$ -	\$ -
Distribution (positive #)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,053,740	\$ -	\$ -	\$ -	\$ -
PSO Liability (negative #)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrual Adjustment (credit)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Vested Plan Value	\$ -	\$ -	\$ -	\$ -	\$ 1,053,740	\$ -	\$ -	\$ -	\$ -	\$ -

# \*Employee Taxation (General Rules)

## At Grant

- No Compensation Earned
- No Income Taxation
- Assumes plans retains “substantial risk of forfeiture”

## At Distribution

- Payments taxed as ordinary income when received
- Same true of installment payments

\*Disclaimer: VisionLink does not practice accounting; therefore, this information should not be construed as tax advice. Webinar attendees should consult with their CPA firms regarding the tax implications of a phantom stock plan for their companies.

# \*Employer Taxation (General Rules)

## At Grant

- No Compensation Paid
- No Income Tax Deduction

## At Distribution

- Distributions tax deductible as paid
- Same true of installment payments

\*Disclaimer: VisionLink does not practice accounting; therefore, this information should not be construed as tax advice. Webinar attendees should consult with their CPA firms regarding the tax implications of a phantom stock plan for their companies.

# Statutory: ERISA

Most phantom stock plans are exempt from the portions of ERISA pertaining to participation, vesting, funding and fiduciary responsibilities. However, phantom stock plans usually are subject to the following ERISA requirements:

- Limitation of participation to “a select group of management or highly compensated employees
- Notification to the Department of Labor (DOL) within 120 days of the plan’s effective date.
- ERISA-prescribed claims procedures: The claims procedure sets forth the form and timing of appeals regarding payments from the plan.
- Enforcement of the plans (litigation): Notwithstanding any requirement for mediation or arbitration set forth in the plan document, if a conflict arises with regard to the plan, it would be resolved in federal, not state courts.
- Funding: Nonqualified arrangements, including most phantom stock plans, must remain “unfunded” (accessible to the claims of general creditors of the company).



\*Disclaimer: VisionLink does not practice law; therefore, this information should not be construed as legal advice. Webinar attendees should consult with their general counsel regarding the legal implications of a phantom stock plan for their companies.



# Statutory: 409A

## The application of 409A is extensive and can include phantom stock plans.

Limits the flexibility an employer might otherwise have with regard to payment form and timing. Programs subject to 409A may only make a distribution in the following circumstances:

- Death;
- Disability;
- Separation from service;
- Change in control;
- Unforeseeable emergency; and
- A specified date.
- Most of these terms have special definitions under 409A that must be strictly followed.



\*Disclaimer: VisionLink does not practice law; therefore, this information should not be construed as legal advice. Webinar attendees should consult with their general counsel regarding the legal implications of a phantom stock plan for their companies.

# Getting it “Right”

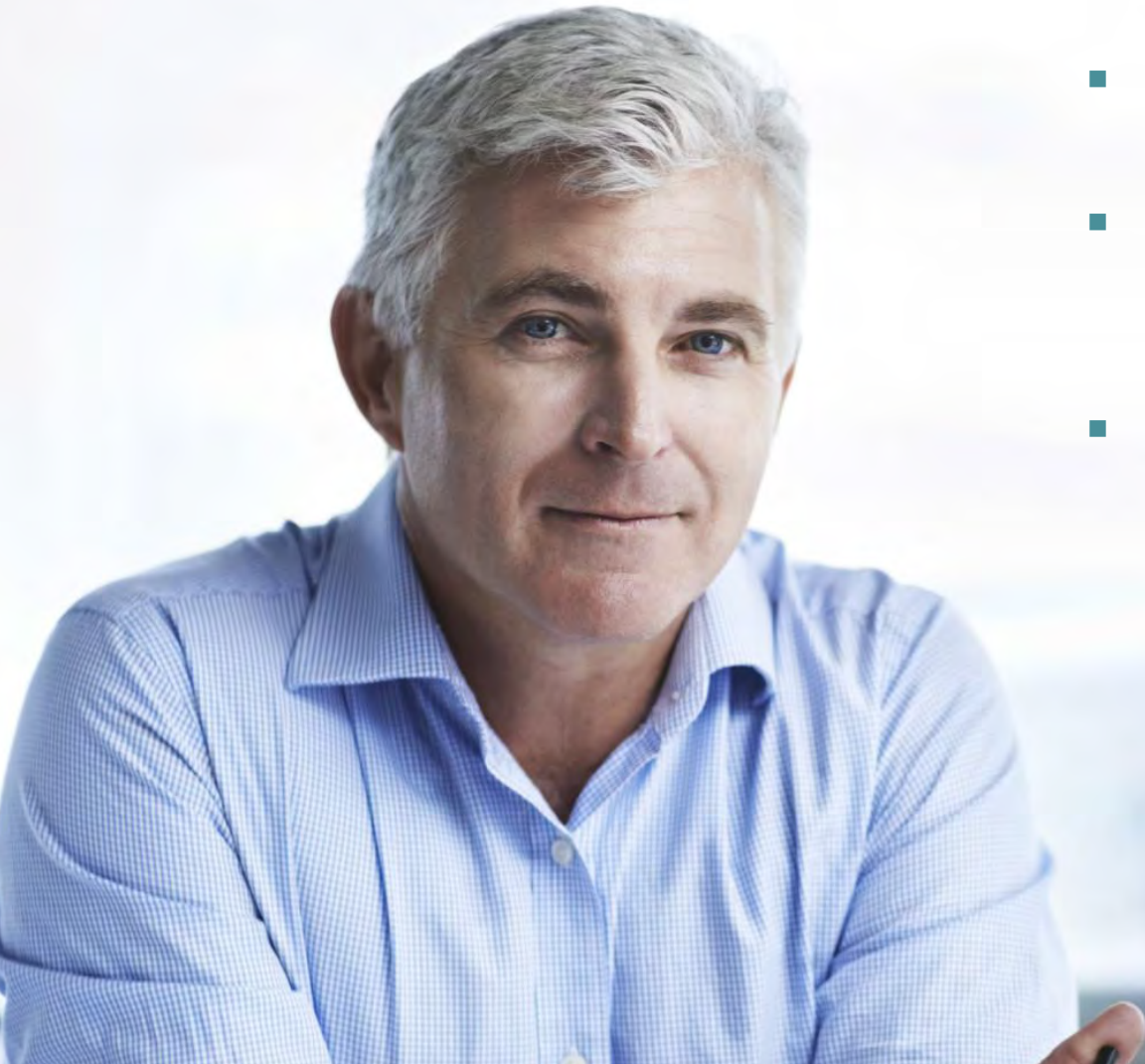
## Good Plan

- Simple Valuation Method
- Annual Awards
- In-Service Payouts (Fixed Date Redemptions)
- Budgeted Grants
- Drafting Precision

## Not So Good Plan

- Appraisal or Over-Engineered Formula
- One Time “Block” Awards
- No Redemption Until Major Event
- Random Grants
- Casual Documentation

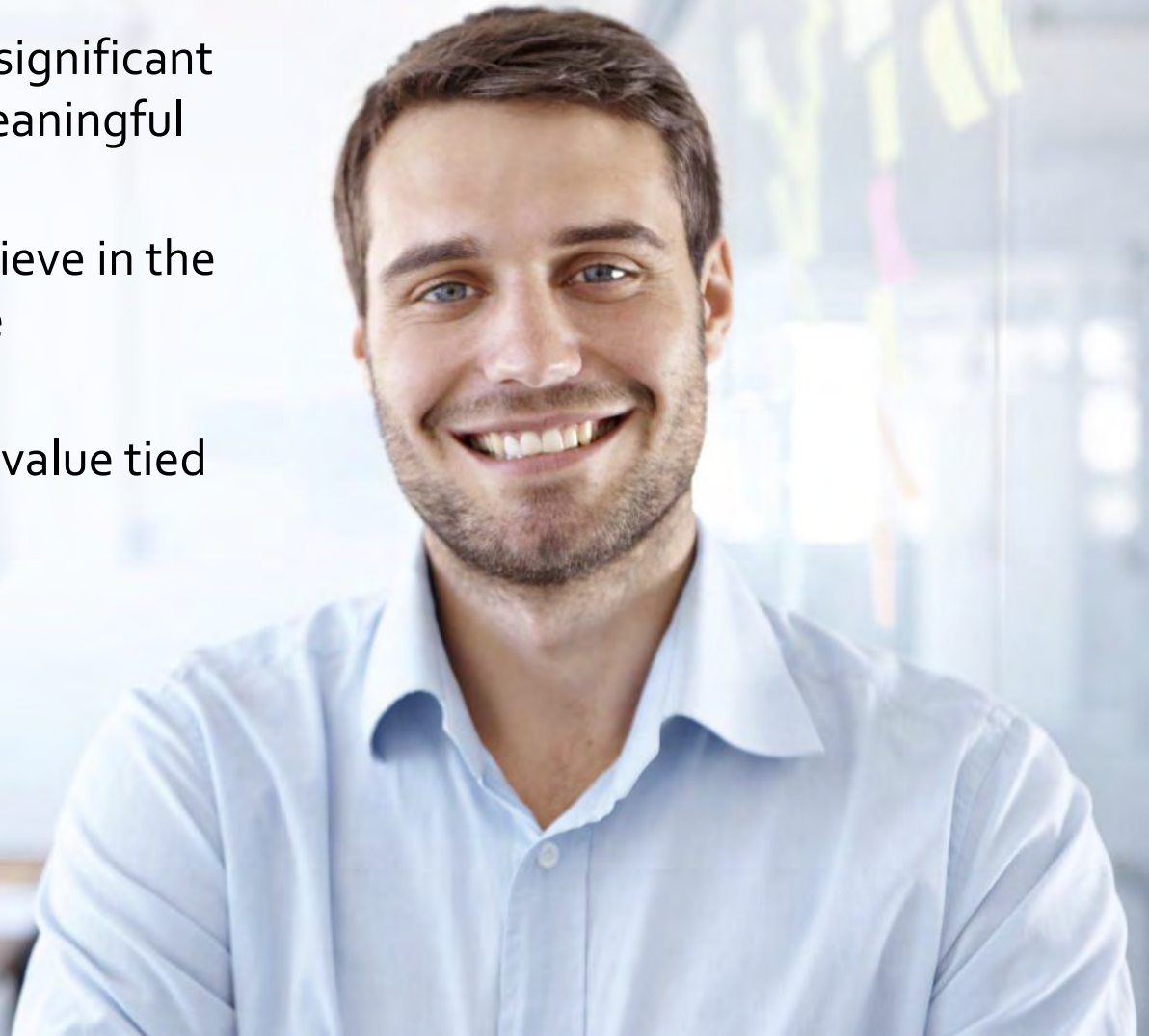
# Employer Must...



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

# 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



# Partnership



# Market a Future that's Relevant

- Here's our future
- Here's how we're going to get there
- Here's the role we picture for you
- Here's how we encourage our people to grow and contribute
- Here's our philosophy about pay and rewards
- Here are our specific pay programs
- Here's how our pay programs could work for you if we achieve our plan



# Employee Value Statement

Year	1	2	3	4	5
Targeted Results	100%	100%	100%	100%	100%
Salary	\$160,000	\$166,400	\$173,056	\$179,878	\$187,177
STVS	\$64,000	\$66,560	\$69,222	\$71,991	74,871
LTVS (EOY)	--	\$74,000	\$186,000	\$311,000	\$448,000
401(k) @7%	\$17,120	\$36,123	\$57,169	\$80,428	\$106,086
Total Cash	\$224,000	\$232,960	\$242,278	\$251,970	\$262,048
Wealth Accrual	\$17,120	\$110,123	\$243,169	\$391,428	\$554,086
Total Value	\$241,120	\$567,083	\$942,407	\$1,342,636	\$1,767,343

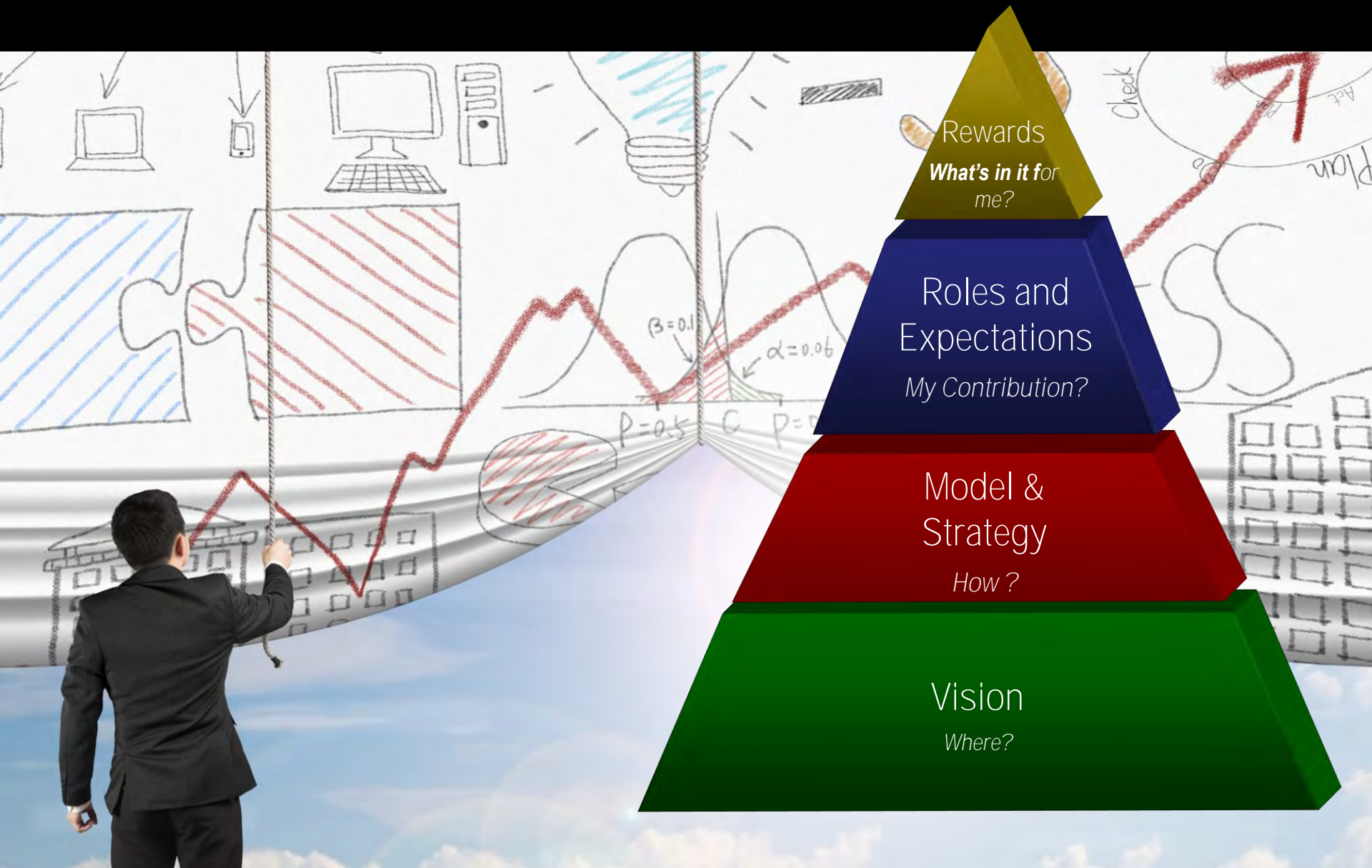
# Continuity & Fairness

There is operational integrity between mission, vision, strategy, roles, expectations, results and rewards.





# Line of Sight




Rewards  
*What's in it for me?*

Roles and Expectations  
*My Contribution?*

Model & Strategy  
*How?*

Vision  
*Where?*

# Closing Thoughts...

- 
- Companies need to be able to attract catalysts.
  - Catalysts want to participate in a financial partnership where they participate in the value they help create.
  - Owners want to be able to share company value without diluting equity.
  - A phantom stock (or similar long-term incentive) plan is an ideal way to meet the financial objectives of both shareholders and key employees

# Post Webinar Intro

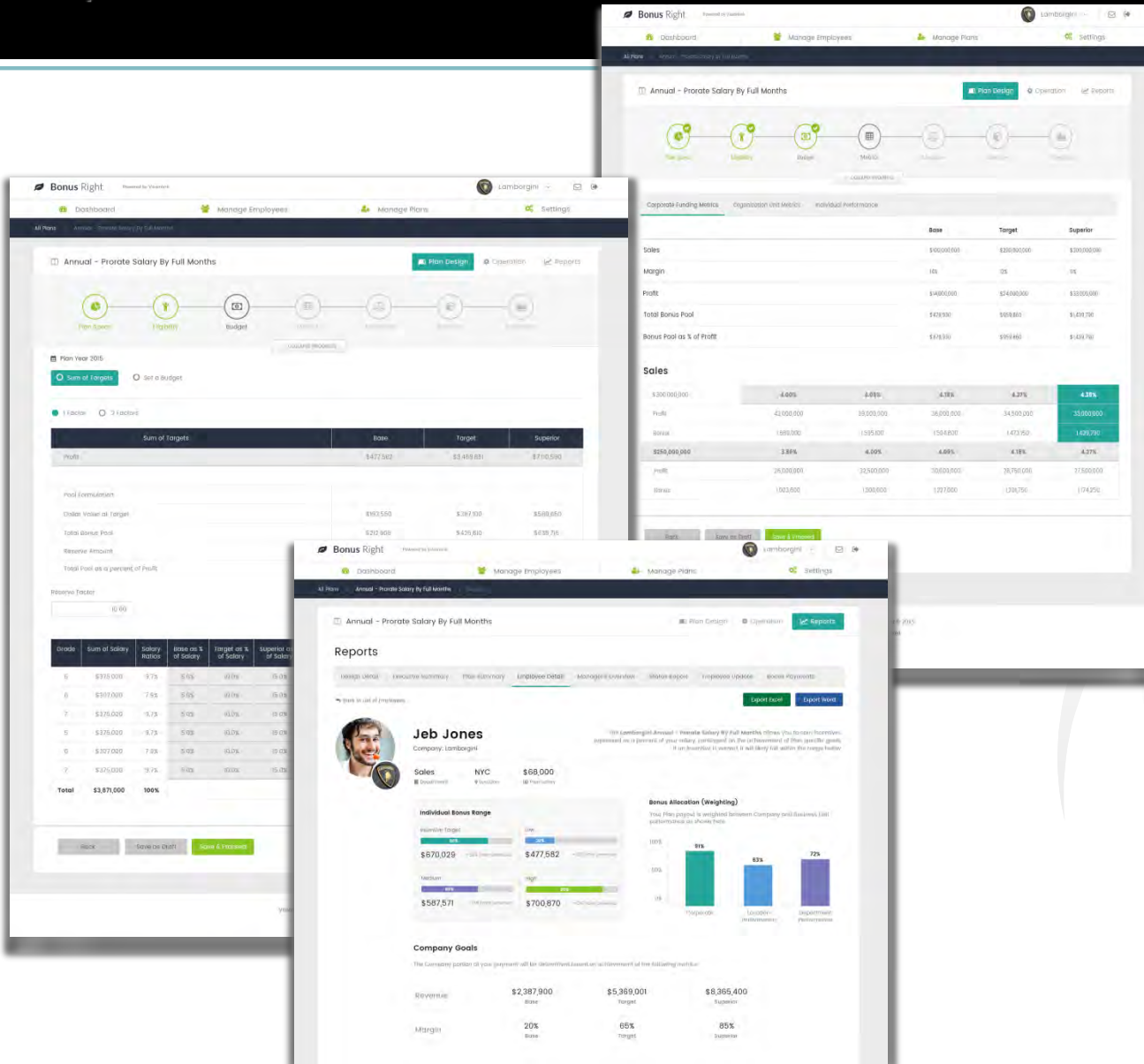


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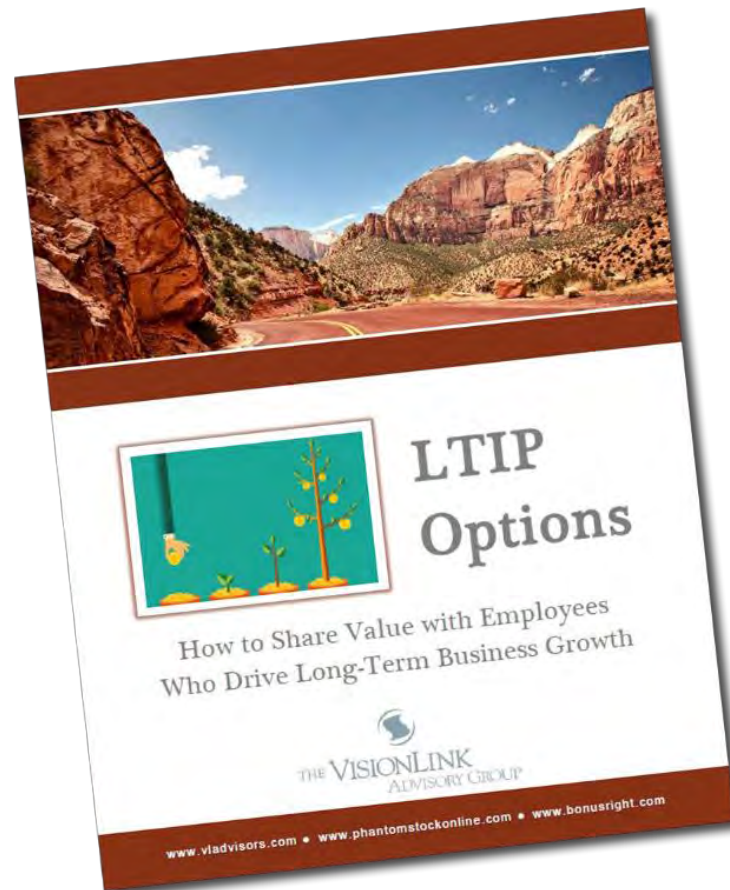
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# LTIP Options

How to Share Value with Employees  
Who Drive Long-Term Business Growth



Request your copy on the attendee survey

# Subscribe to our blog!

## 3 Ways Your Value Proposition is Impacting Recruiting and Retention

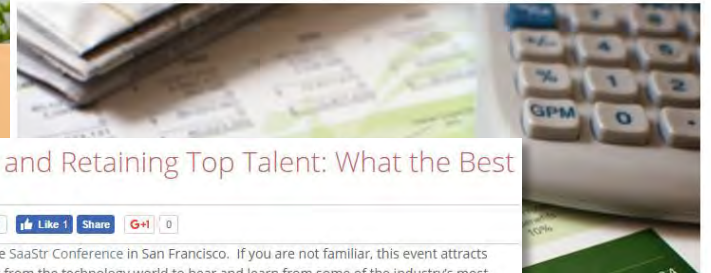
Tweet Share 1 Like 5 Share G+

When you are speaking with a potential new employee, does the subject of compensation ever come up? Or when one of your key people announces she is taking an opportunity at another company, is pay ever mentioned as a factor? Okay, forgive the insulting questions. But with all that has been written in recent years about how small a role a rewards strategy plays in an employee's performance, engagement and loyalty, I just thought I would ask what your "real life" experience has been. I imagine the truth is that compensation is a huge factor in recruiting and retaining the kind of talent you want. For most business leaders, having a compelling value proposition can make or break their ability to secure the people they are trying to attract—or keep. So let's stop pretending it's not a big issue and examine how your compensation approach is impacting your competitiveness in today's talent market place.

### How Do You Make Incentive Plans "Self-Financing?"

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CEOs and business owners are always concerned about costs—because costs diminish profits. As a result, if you lead a company, one of the first questions you likely ask when an incentive plan is proposed is this: "What is it going to cost?" The question is understandable and appropriate; however, it starts a discussion about the merits of incentive plans on a wrong premise. In theory, an incentive plan shouldn't "cost" the company anything. Let me explain.



### Attracting and Retaining Top Talent: What the Best Expect

Tweet Share 0 Like 1 Share G+ 0

Last week I attended the SaaStr Conference in San Francisco. If you are not familiar, this event attracts about 10,000 attendees from the technology world to hear and learn from some of the industry's most successful SaaS company founders and leaders. These are individuals who have had to attract and develop talent in a highly competitive environment—and have succeeded in doing so on their way to building valuable companies. However, the principles and practices they apply in attracting and retaining top talent are not unique to their industry. They are what every successful organization does. So, let's learn from them, shall we?



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**Q&A**



THE VISIONLINK  
ADVISORY GROUP

Today's Presenter:

**Ken Gibson**

Senior Vice President

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**Thank You!**

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# Calculating Value Creation

Focus on  
Productivity Profit



# Value Creation Example:

Item	Amount
Capital Account	\$20,000,000
Cost of Capital	12%
Capital Charge	\$2,400,000
Operating Income	\$10,000,000
Productivity Profit	\$7,600,000
Total Rewards Investment	\$25,000,000
ROTRI™	30.4%

(ROTRI™ = Productivity Profit/Total Rewards Investment)

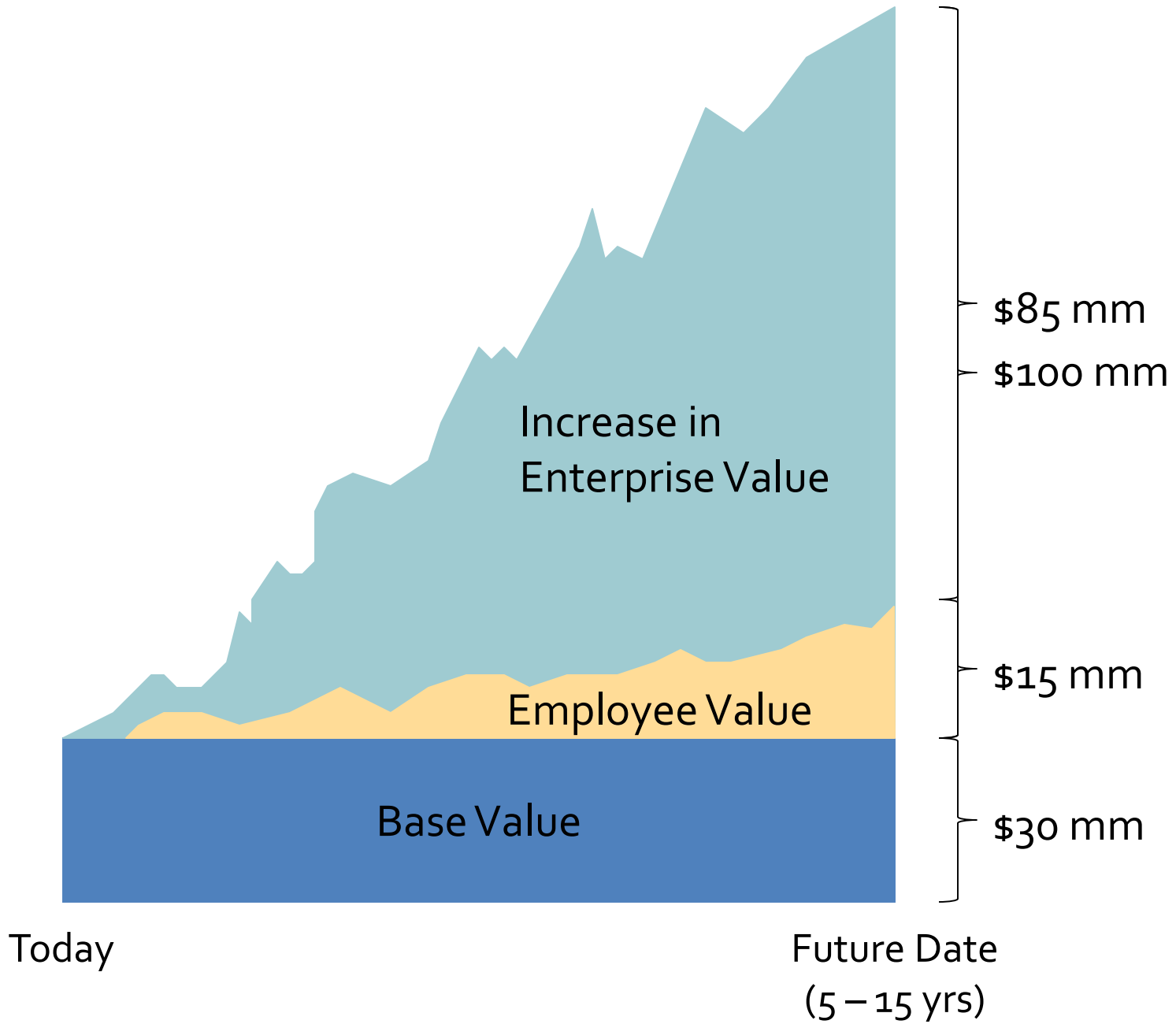


# ROTRI™ Example:

Item	Figure
Capital Account	\$20,000,000
Cost of Capital	12%
Capital Charge	\$2,400,000
Operating Income	\$10,000,000
<b>*Productivity Profit</b>	<b>\$7,600,000</b>
Total Rewards Investment	\$25,000,000
ROTRI™ (Return on Total Rewards Investment)	30.4%

**\*Variable Pay Plans** (Value Sharing) are financed from Productivity Profit

(ROTRI™ = Productivity Profit/Total Rewards Investment)



# Post Webinar Intro



**+ B2B**  
COMPENSATION DESIGN  
& MANAGEMENT



**+ Our Focus**  
BE CEO GROWTH  
PARTNER

DESIGN COMP THAT DRIVES RESULTS  
SUPPORT WEALTH MULTIPLIERS  
ATTRACT & RETAIN GREAT TALENT  
ENABLE AN ENGAGED,  
COMMITTED WORKFORCE



**+ Client Profile**

MIDDLE-MARKET COMPANIES  
GROWTH ORIENTED  
RESULTS CENTERED  
DEFINED BUSINESS MODEL

**+ Seasoned Team**

**7** WITH BACKGROUNDS IN:  
COMPENSATION DESIGN  
HUMAN RESOURCES  
EXECUTIVE BENEFITS  
LAW  
FINANCE  
PROFESSIONALS

**+ Reach**

CLIENTS IN 40+ STATES  
BREADTH OF INDUSTRIES

OVER **500**  
CLIENTS SERVED

**+ Our Commitment**

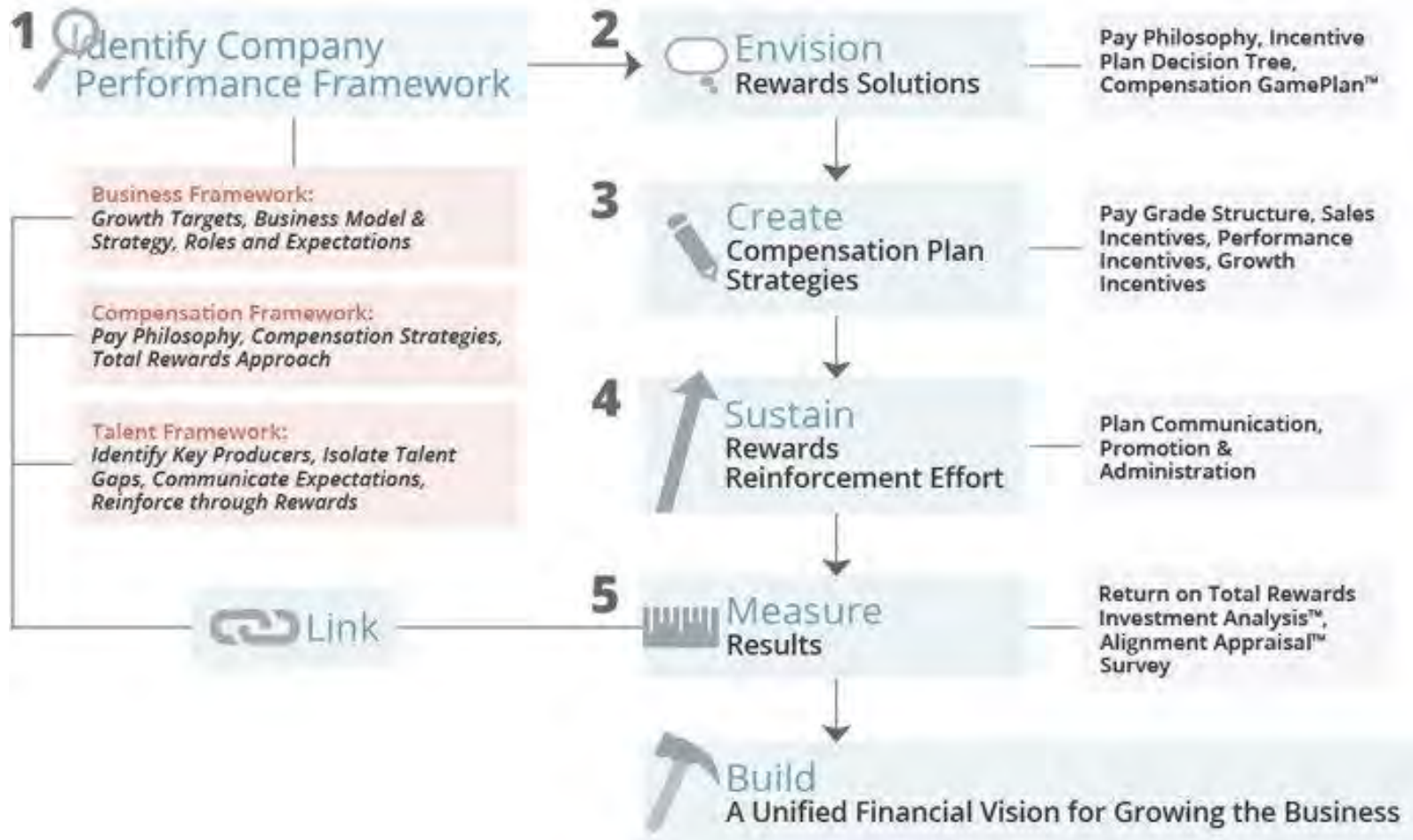
DRIVE GROWTH  
INCREASE VALUE



THE VISIONLINK  
ADVISORY GROUP









THE VISIONLINK  
ADVISORY GROUP

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