What is a Management Incentive Compensation Plan?

• A management incentive compensation plan is any compensation arrangement between an owner and management that is designed to motivate management while aligning behavior and job performance with the goals of the owner.

• Potential owner goals that can be addressed by a plan include:
  
  – Retain & Attract Key Talent
  – Improve Financial Performance
  – Increase Business Value
  – Transfer of Ownership
  – Create Ownership Thinking
  – Reward Result-Focused Behavior
  – Align Behavior with Company Values and Goals
  – Consider Tax Consequences
What is Management’s Mentality?

• Maintenance Management
  – Sustains day-to-day operations well
  – Maintains business in good working order
  – Technical knowledge
  – Key to performance of business

• Decision-Making Management
  – Problem solver
  – Strategic thinking
  – Develops customer relationships
  – Financial acumen
  – Key to success of business

• Key Leaders Capable of Ownership Legacy
  – Leadership & entrepreneurial abilities
  – Trusted
  – Deepens & expands customer relationships
  – Critical to future legacy of business
Which Plan fits?

Management  
- Bonus Incentive Plan  
- Deferred Comp Plan  
- Stock Appreciation Rights  
- Phantom Stock  
- Stock Option Plans  
- Net Profits Interest  
- Minority Ownership

Never promise or design a plan without professional legal and tax review.
Process

1. Develop Goals
   - Establish business goals
   - Determine what you can afford today and the long term cost
   - Define behaviors you are trying to encourage
   - Consider long term success and failure scenarios

2. Select the Plan Type
   - This includes developing the terms and conditions of the plan such as eligibility, vesting, calculation methods, time period, and any termination/forfeiture considerations

3. Model the Financial Impact
   - Consider dilutive impact in various scenarios
   - Consider cash-flow effect of benefits to be paid by the Company
   - Consider tax impact on employees and the company

4. Implement
   - Get professional help (legal and tax) before making any commitments
   - Inform and educate the recipients of the plan
   - Legal documentation

5. Follow-Up
   - Monitor effectiveness of plan to encourage desired behavior and results
   - Consider options for including future recipients
   - Adjust plan as your business changes
Characteristics of an Effective Plan

• An effective plan should:
  – Align the interest of owners and managers
  – Reward long term performance, not just showing up
  – Influence behavior
  – Provide measurable standards (how performance will be measured and what requirements must be met to earn the reward)
  – Clearly defines who is eligible to receive the reward and how it will be shared
  – Offer reasonable time frames
  – Anticipate long shot scenarios and failure scenarios
  – Always be reviewed by legal and tax professionals
What Behavior Do You Want to Encourage?

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<tr>
<th>Characteristics</th>
<th>Bonus Incentive Plan</th>
<th>Deferred Compensation Plan</th>
<th>Stock Appreciation Right</th>
<th>Phantom Stock Plan</th>
<th>Stock Option Plans</th>
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<th>Minority Ownership</th>
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<td>Align Behavior with Company Goals</td>
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