PRIVATE COMPANY

Long Term Incentive Plan (LTIP)
Design Template

Five Primary Components to an Effective LTIP

I. Determine business drivers that trigger awards. For private companies, the measures that we have worked with include:

A. Return on Equity: Once the annual pre-tax returns exceed a pre-determined yield on shareholder equity (hurdle rate), then there is a sharing of some portion of this "excess" yield. Typical hurdle rates are in the 12 to 18% range - depending on the capital requirements of the business.

B. PTI/EBITDA/EBIT: Whatever we call it, the measurement is determined by how much profit is earned. The hurdle is always set in advance and typically a fixed target or percentage increase year over year.

C. Company Performance vs. Outside Index: Under this system, an outside index is selected as the measurement to determine success of company performance. The index can be as narrowly defined as the company wants, such as a self-compiled comparator group consisting of peer public companies, all the way to published indexes such as the S&P.

D. Economic Value Added (EVA): EVA is a measure of how large an increase in value is attributable to management. This method is typically complicated and difficult to explain. The logic behind it is sound, but the mechanics often do not have clear lines of measurement.

II. Determine what level of executive should be eligible to participate. Typically, the LTIP will start at the top level or two. Over time, we see it cascade down a few levels at lesser bonus opportunities, assuming the LTIP is judged a success in driving the desired performance.

III. Determine Share Rates. Assuming the minimum threshold to trigger an award is met, what share rate should create the award pool? Step IV (below) creates the target awards for the group. The Step IV data is helpful in modeling the share rate for the pool.

IV. Allocation of Award among Eligible Group.

- Method of Allocation should be consistent with participant responsibilities and contributions. In other words, the allocation criteria between CEO, COO and CFO may be different, depending on the focus the company desires from the participant.

- Amount of Award is often determined as a multiple of base salary. For example:

POSITION	THRESHOLD	TARGET	MAXIMUM
CEO	50%	125%	200%
COO	50%	75%	100%
CFO	50%	75%	100%

These are samples only. They do represent an average of what we see; however, each company is unique.

V. Award Distribution. In order to accomplish typical LTIP purposes of Retain & Reward, we suggest automatic (mandatory) award deferrals and unique vesting to align with corporate objectives.
Following are some examples:

A. Deferral Account Measurement

- Deferral measurement as Phantom Stock:
Each award is deposited into a non-qualified 409A account. The dollar award is divided by the current share price of the company stock. Each year after the company valuation, the share price of the Phantom units is marked to the current share price. This ownership of Phantom equity

in a 409A plan is economically tantamount to holding actual shares in a tax deferred account. The mandatory deferral, or hold period, has wide latitude and design.

- Deferral measured in <u>mutual funds</u> - similar to 401(k): During the hold period, participants manage the investment allocation of their LTIP balance much the same way as their 401(k), until a distribution year or event occurs.

- Deferral measured in a <u>fixed credit rate</u>: This is often tied to the company's cost to borrow some bond index or other fixed crediting reference.

B. Deferral Periods. Automatic deferral periods (mandatory) are typically a minimum of three years to a maximum of retirement, with multi-year payout at retirement. <u>Often we will have a mix.</u> For example:

- 50% of annual award deferred for 3 years, with individual option to re-defer.

- 50% of annual award deferred to retirement.

C. Vesting. <u>Vesting and deferral periods do not have to coincide</u>. Typically, we recommend three year rolling cliff vesting on each award. Additionally, we recommend super vesting in the event of:

- Death

- Disability

- Retirement (age determined by company)

- Other types can be discussed as well.

The above summary is broad and non-specific to the unique features that will build the Private Company LTIP. The intention here is to start with the wide view and narrow down to the features that will drive the desired performance. Please do not take any of the foregoing information as a recommendation.

Securities offered through Registered Representatives of ValMark Securities, Inc. Member FINRA, SIPC, 130 Springside Drive, Suite 300, Akron, OH 44333-2431, Tel: 1-800-765-5201. Investment Advisory Services offered through ValMark Advisers, Inc., which is an SEC Registered Investment Advisor. Fulcrum Partners LLC is a separate entity from ValMark Securities, Inc. and ValMark Advisers, Inc.

G. Scott Cahill
Managing Director
Fulcrum Partners, LLC
801 N. Orange Avenue, Suite 820
Orlando, FL 32801
www.fulcrumpartnersllc.com