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Give 'em a Piece of the Pie!

Finding good employees and keeping them has become one of the greatest workplace challenges in decades. More money, better benefits, flex-time, company cars, and yes, even a piece of the company, are but some of the demands being made by today's workforce. While entrepreneurs are typically reluctant to give away what they have worked so hard to build, it is important to find the proper balance between rewarding yourself for your years of hard work and rewarding the very employees that have helped your business become the success that it is. At the same time, rewarding employees for their hard work can become extremely frustrating if they turn around and take a job with one of your competitors.

One of the best ways of compensating key employees in a manner that promotes loyalty is to give that employee a stake in the success of your company---the company makes more money, they make more money. This can be accomplished through one of several programs, including outright Stock Bonuses or Stock Purchase Plan, Stock Option Plans, or through one or more devices that tie compensation to the performance of the business.

Under a Stock Purchase Plan, key employees are given the opportunity to purchase stock in the company, typically at a price under current market value. A Stock Bonus Plan, however, typically provides for the outright transfer of stock to key employees as a bonus (often in lieu of cash). Under these plans, the employee is taxed on the value received --- in the case of the stock purchase plan, on the difference between the purchase price and the price paid; and in the case of the stock bonus plans, on the actual value of the stock. It should also be noted that under these types of plans, there is usually a vesting period. For example, the employee is not given the stock bonus all at once, but rather, over a period of five years, thereby inducing loyalty and longevity with the company.

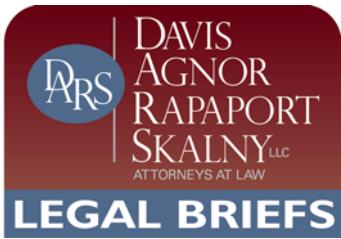
Another commonly used incentive mechanism is one of two types of stock option plans. The first is known as a Non-Statutory Stock Option Plan and is noted for not

being specifically restricted by Uncle Sam and the IRS Code. The second is an Incentive Stock Option and, while it is subject to stringent IRS regulations, it can serve as a valuable compensation tool for many employers. Under these plans, the employee is not actually given any stock or offered the right to purchase stock at that time, but rather, is given an option to purchase a pre-determined number of shares at a certain price at some point in time in the future. Much like with the above two plans, option plans typically do vest over a period of time.

The final two plans which I will address in this article are the Stock Appreciation Right Plan ("SAR") and the Phantom Stock Plan. Under the former, the employee is given the right to a payment by the company in an amount equal to the difference in the value of the company's stock over the value of the stock at the time that the SAR was granted. This plan is attractive to employees because, unlike many of the others previously discussed, it does not require a cash outlay by the employee.

Finally, a Phantom Stock Plan is an arrangement, pursuant to which the company allocates hypothetical shares of stock in the company to key employees. The employees are then allowed, at some future time, to convert the phantom stock into cash or, in some instances, to actual stock in the company. The main advantage of a Phantom Stock Plan is that it allows employees to participate in the growth of the company, without the company having to issue actual stock in the business and without employees having to fork --out considerable sums of cash.

While each of the plans discussed in this article have their advantages, it is important to note that they all have significant tax implications and restrictions (which are beyond the scope of this article). As such, before implementing any of the plans discussed, a meeting with your accountant or financial advisor, as well as your attorney, is in order.



Keeping employees happy and productive makes good business sense! Consider one or more of these programs, or ones similar in nature, and you will find that your employees are happier, more productive, will stay with your company longer, and will make you more money!