# Developing The Lifetime Stay Bonus Plan

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In this issue, we follow fictional owner John Ewing through the decision making process of creating Stay Bonuses to ensure the continued presence of his key employees during the transition of his business.

John had "informally" promised his three key managers a total of 10 percent of the anticipated sale price. Using that as a basis for his Stay Bonus Plan, John and his Exit Planning Advisor Team began designing a plan using the following steps.

**Step 1.** Upon the sale of the company, John agrees to escrow an amount equal to 10 percent of the purchase price. The escrow will be outside of the acquiring company's ownership. In effect, John will own the monies in the escrow account, subject to the three key managers vesting in that money.

**Step 2.** Each manager will be entitled to a Stay Bonus equal to his or her prorata share of the escrow amount, as he or she becomes vested.

**Step 3.** Unlike typical key employee compensation plans, the vesting schedule is also the payment schedule for this Stay Bonus Plan. A manager becomes vested in his or her share at the closing of the sale and receives one-third of the payment at that time, one-third at the first anniversary, and the remainder at the second anniversary of the closing date. If a manager chooses not to remain with the new company for the entire two years, he or she will not receive the full amount of the Stay Bonus. Any funds remaining in the escrow after two years will revert to John. If the employee is involuntarily terminated by the new owner, he or she will still receive the balance of the escrow amount.

This stay bonus program helps to accomplishes several vital objectives for John's management team. These include:

**Cash.** The key employee's economic reward is divorced from the rise or fall in the value of the acquiring company's stock. Rather, it is based upon the value of the company at the date of sale. Payments are in cash, not in stock of the new company.

**Accelerated vesting and pay out.** Payment will be made from the escrow account when the key employee vests in that portion of this account. Unlike most incentive plans that vest over an extended period of time and pay only after vesting is completed, this program provides a rapid reward for the key employees — provided they remain with the new organization.

**Minimal risk.** Because the money is in escrow for the exclusive benefit of the management team and is not controlled or owned by the acquiring company, the chance that key employees will leave the new organization is minimized or eliminated. The key employees must simply remain employed for a period of two years. As they stay, they receive their entire benefit amount, in cash.

**Outside of new employer control.** Because the Stay Bonus Plan is completely separate from the acquiring company, it is easier to negotiate the management team's participation in the acquiring company's stock option program, or other program, it provides for its key employees. Ewing Lubricants' existing stock option and deferred compensation plans for its key employees were replaced with a Stay Bonus program, thus making it easier for the key employees to participate in any new plans.

The Stay Bonus program meets John's exit objective of selling his company for top dollar. Having the plan in place makes the company more "saleable" and makes Ewing Lubricants more valuable in the eyes of a prospective buyer due to management continuity and the simplification of key benefit programs. The next step, then, is to properly present the plan to the employees. If both the employees and the employer are to view the benefit plan as a "win-win," the manner in which the program is presented to key employees is critical.