

EDITORIAL

Coast to coast for the most?

Perhaps the most coveted prize for today's security integrator is the national account. What could be better? You land one Starbucks, you land them all. Instead of selling to 100 local guys each located around a different corner, you sell to one security director, and then each time a new store opens, guess who gets the call.

It's no wonder then, that PSA Security (see page 1) has launched a new National Accounts Program to help its members bag this pretty bird, or that Toshiba (see page 49) has done the same to help support its dealers. It's no surprise, either, that TAC (see page 17) has national accounts in its sights as it looks to grow and acquire.

It's no secret, either, that everyone from

HSM to National Guardian to ADT would like to make the claim that they are the choice for security directors at the national chains looking for national coverage.

But it's also no secret that successful security integrators, when it comes right down to it, are focused first on service, less so on growth and new technology. Good integrators, quite simply, deliver the system that solves the customer's problem, and is immediately responsive when something goes wrong with that solution. That's why there will always be a role for the local guy, as long as priorities are in order. No matter how many branch offices the big boys

open, no matter how attentive they are to serving their customers, as the security market matures and more and more businesses realize that security is more than just keeping things safe, there should always be an opportunity for a local, intelligent integrator to be closer and more attentive to local businesses.

Maybe you do that on your own, or maybe you make yourself attractive as a partner and get yourself a couple of Starbucks along the way, but if you're not solving someone's problem, it's clear that people in the future are going to have a lot more options for finding someone who will. **SSN**



L. Samuel Pfeifle

Phantom stock

Use shadow equity plans to motivate, retain employees

Good help is hard to find. Yet every successful security provider must hire and retain quality employees to deliver first-rate service. Access to business capital is another important ingredient in the overall success of a security provider, particularly given the upfront investment necessary to create recurring monthly revenue. Good help often costs employers real dollars in real time. No wonder closely held security providers can feel so pinched.

Here's a suggestion: A "shadow equity" or "phantom stock" plan can offer a closely held security provider an effective way to attract, retain and motivate key employees while preserving capital that might otherwise be used for employee compensation. In my experience, these plans can offer some real economic advantages and often aren't given sufficient consideration. The phantom stock is not actual equity but is tied to the value of your company's stock.

A plan is a form of deferred compensation. Properly structured, a plan provides key employees chosen to participate in the plan (participants) with significant monetary incentives while tying the participant's right to compensation to retirement or a liquidity event such as the sale of the company to a third party. (Shadow equity plans are non-qualified plans, which means the company can legally discriminate in favor of key employees.)

Participants are more likely to be tied to the company long-term by "golden handcuffs" since resignation or termination under the plan results in a complete forfeiture of any right to compensation.

Typically the plan works like this: A

company establishes the plan by written agreement that outline all of the plan's necessary details. This includes determining which employees are eligible to participate in the plan and under what circumstances, setting vesting periods and the maximum number of units a participant can receive. The agreement also sets forth other details, such as how to value units and when participants receive compensation under the plan.

The agreement also establishes a committee to administer the plan. The committee is typically comprised of the company's owners and possibly designated management members. Thus, the committee, armed with a well-drafted agreement, should provide the company ample control over the plan.

A plan usually substitutes units for stock shares. These units are accumulated in an employee's memorandum account, which acts as a bank account for the employee's units.

The account is set up for a specific period, which may be tied to any number of events such as the employee's death, non-competitive resignation or retirement or may be linked to some liquidity event such as a sale of the company's assets to a third-party acquirer.

The value of the units in a plan typically shadow the value of the company's stock shares.

They also often issue phantom stock units to participants. As a result, participants often enjoy a sense of participation in the company's ownership based on ownership of the phantom stock units and because the value of issued units often corresponds to an increased value of the



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company's stock. Indeed, a good plan provides employees a positive sense of participation in the company's long-term success without forcing the company's owners to share the company with participants.

From the company's perspective, a plan should compensate participants for shareholder value created after the establishment of a plan.

For example, a plan may compensate participants for increases in the value of company stock or be tied to the payment of dividends.

Plans can also compensate participants for increased earnings, increased EBITDA or some other measurement. Ultimately, however, plans permit a great deal of latitude in creating a plan to suit a company's needs.

Perhaps most important issue is how the company will fund payments due under the plan, especially if a possible future payment obligation is not tied to a liquidity event. For example, the company may be required to make a large cash payment following an unexpected event such as an employee's death.

The company should prepare projections of potential awards to determine the impact of certain events on the company's future cash flows. For example, the impact upon the company of substantial payments can be mitigated through installment payments.

Accurate valuation of units is a technical, financial and legal issue that will require advice and guidance from your company's legal and accounting professionals.

Shadow equity plans can provide a real "win-win" situation for the security provider and its employees. Consider one for your company. **SSN**

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SECURITY SYSTEMS NEWS

THE BUSINESS NEWSPAPER FOR THE SECURITY SYSTEM INTEGRATOR & INSTALLER

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