

The View from Level VII™

PRIVATE WEALTH PLANNING

Employee Stock Options

Whether publicly or private, actual or phantom, Maximizing the value of your Employee Stock Options (ESOs) is part art and part science. The challenge is to carefully consider the many variables that impact your ESOs and to plot a course that will result in achieving your personal financial goals. While many option-holders choose to either wait until expiration and hope for the best or cash-out their options when they need the money, a disciplined approach will enable you to make more informed decisions regarding your ESOs.

The 3-step "High Value Stock Option Planning" (HVSOP) process is as follows:

1. **Educate** with respect to the value and dynamics of your option portfolio so that you may **establish goals and an option strategies** for future actions.
2. **Monitor key changes** in your option position so that appropriate actions are taken on a planned and timely basis.
3. **Analyze exercise & sell strategies** when your monitoring criteria are triggered so that you can achieve your diversification, wealth accumulation and cash flow goals.

The most important element of the HVSOP process is the development and review of your *Personal Option Profile (POP)*. The POP sections are:

- **Portfolio Value:** The current *in-the-money, cash-out* and *Black-Scholes* values of your vested and unvested options
- **Investment Risk/Reward:** The value and leverage of your options as the price of **BUD** increases or decreases
- **Personal Risk/Reward:** An evaluation of your options in relationship to achieving your financial goals, and an analysis of the risk inherent in your current position
- **Monitoring:** The events and ratios used to monitor your option portfolio

Monitoring your *Personal Option Profile* in Step 2 provides the basis for taking the most informed action with one or more of your option holdings in Step 3. We welcome working with you on your ESOs or discussing this important planning item further.

Weir Financial Resources, LLC is a financial advisory firm offering information, ideas and solutions in Executive Benefits, Business Succession and Private Wealth Planning.

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EMPLOYEE BENEFITS

Medical Benefits Strategies

We've received preliminary input from all 3 of our Western NY Medical Benefits carriers indicating that 2003 rates for their most popular fully insured programs will be approximately **20% higher** than 2002 rates. This follows the 20% increases that occurred in 2002. While no single approach is appropriate for every group, following are strategies that have helped our customers manage these rapidly rising costs.

- "Partnerships" with a single carrier to develop "high option - low option" programs.
- Experience-rated or partially self-insured programs to take advantage of favorable group demographics.
- Prescription drug benefits programs with providers other than the basic medical benefits carriers to take advantage of unique provider network and alternative funding options.
- Alternative rate structures and employee contribution requirements that can be based on income and the number of covered dependents.
- Proposals from national commercial carriers to take advantage of unique benefit designs and alternative funding options.
- New benefit options for fully insured programs from our 3 local carriers that provide better value for employers and employees.
- New benefit and funding options for retirees.
- Flexible benefits programs that allow employees to direct dollars towards the benefits that best meet unique needs.
- Voluntary benefits programs that meet unique employee needs without any additional employer funding.

Benefits Advantage, Inc. provides consulting and insurance brokerage services for all types of employee benefits programs. Emphasizing personal service, creative ideas, and positive results; Benefits Advantage Inc. has 30 years of industry experience in working with clients.

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In this and/or future issues you will find short, yet meaningful articles on:

- Human Resources
- Risk Management
- Executive Compensation
- Executive Benefits
- Employee Benefits
- Private Wealth Planning
- Business Succession

The View from Level VII™

HUMAN RESOURCES

Lowest Pay Hikes in Decades

Cautious executives, waiting for an economic upturn, are holding annual salary increases this year to 3.5%, according to a recent survey.

It was the first time in 10 years that the median yearly pay increase moved substantially below the 4% percent level. Preliminary estimates offered by more than 500 companies indicated that 3.5% is a likely median pay increase for 2004 as well.

U.S. business continues to struggle back from the recent economic downturn. Caution is the prevailing mood with companies paying careful attention to controlling costs.

The insurance industry was the only sector showing a somewhat higher projection – 4% - for salary increases in 2003 and 2004.

Some companies have taken actions which have the effect of reducing the amount spent for salary increases and are not reflected in the size of the budget. These actions include: delayed merit increases, hiring freezes, furloughs, and layoffs.

The average 2003 salary increase budgeted for nonexempt employees has declined from 4% estimated a year ago to 3.5% for all industries.

Also, the median 2003 salary increase for exempt employees declined from 4% estimated a year ago to 3.5% in the latest survey.

Budgeted annual increases for executives also dropped from 4% to 3.5% for 2003. Preliminary estimates for next year showed executive pay raises at a 3.6% median across all industry groups.

HR Professional Consultants, Inc. offers human resource services and outsourcing for businesses of various sizes.

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V *isit our website:*

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EXECUTIVE COMPENSATION

Board of Directors

Did it really take the Sarbanes-Oxley legislation to remind companies the importance of a Board of Directors?

Apparently in some publicly listed companies the answer was.....Yes.

For closely held/private companies the issue of having a well experienced and actively contributing Board can be even more vital. Unfortunately relatively few private companies take the time to contemplate whether they have a Board that is comprised of Directors who have high level operational (or Board) experience with a company that fits one, or preferably, several of the following criteria:

- Experience in the industry in which the company competes; and/or
- Experience in a field in which the company currently operates, or may enter, as a new strategic direction;
- Contacts or relationships with financial institutions, potential customers or knowledge in an area(s) that is essential to successful company results. This could include: 1) Access to equity or financing; 2) Marketing, sales, distribution, R&D know-how, etc.

Contributions from Board of Directors are usually significantly more meaningful when:

- The large majority of Directors are non-family members and not company employees, except for the CEO/President.
- Meetings are held at least 4 times annually, in addition to Committee meetings.
- Agenda items extend well beyond the “legal entity regulatory” objectives (ie) Directors actively participate in Strategic, Business Planning ethics plus major operational issue discussions.

Selection of Directors could also take into account their knowledge and expertise in areas such as environmental, venture financing, human resources, government relationships, if they are important to the company.

Do you have a 21st century Board that meets most of these criteria?

Harman & Associates with its fortune 500 background, has extensive national and international experience in executive compensation planning for private and public companies.

Ray Harman
Harman & Associates
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Who are the Level VII™ Companies?

This is the 8th issue of *The View from Level VII™*, a bi-monthly forum for valuable information and ideas from some of the top business and financial services professionals around. *The View's* contributors, the **Level VII™ Companies** is an *alliance of business professionals*, who have chosen to share some of their 150 years of experience and complement of backgrounds in business, law, accounting, finance, insurance and investments.

Through *The View*, we are committed to educating our clients and community by bringing timely and accurate information on a variety of business and financial topics. It is our hope that this broad yet incisive source of information, presented in a quick read format, becomes one that the business and professional community will pause to look at in their increasingly busy day.

For more information about us, topics from *The View*, as well as requests or recommendations, please contact us via our website: www.LevelVIICompanies.com. Thank you for your time and interest.