

A decorative graphic on the left side of the slide consists of two overlapping semi-circles. The top semi-circle is green and the bottom semi-circle is yellow, both with their flat edges facing left.

STAR LEASING COMPANY

Methodology for determining our
ability to meet our ESOP Repurchase
obligation



QUESTIONS WE NEED TO ANSWER



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- 1. How much will need to be paid out?
 - 2. When will it need to be paid?
 - 3. Will we have the money to pay it?
 - 4. What can we do to prepare?



INITIAL REPURCHASE STUDY

OF SHARES GENERATED WITH TELESCOPE SOFTWARE

YEAR	SHARES	7% / YR		10% / YR	
		PRICE	AMOUNT	PRICE	AMOUNT
2004	2000	\$ 60.00	\$ 120,000.00	\$ 60.00	\$ 120,000.00
2005	2200	\$ 64.20	\$ 141,240.00	\$ 66.00	\$ 145,200.00
2006	2500	\$ 68.69	\$ 171,735.00	\$ 72.60	\$ 181,500.00
2007	2750	\$ 73.50	\$ 202,132.10	\$ 79.86	\$ 219,615.00
2008	6500	\$ 78.65	\$ 511,210.44	\$ 87.85	\$ 570,999.00
2009	7000	\$ 84.15	\$ 589,071.73	\$ 96.63	\$ 676,414.20
2010	7100	\$ 90.04	\$ 639,311.13	\$ 106.29	\$ 754,684.99
2011	7150	\$ 96.35	\$ 688,880.25	\$ 116.92	\$ 835,999.64
2012	7240	\$ 103.09	\$ 746,380.08	\$ 128.62	\$ 931,174.98
2013	4000	\$ 110.31	\$ 441,230.21	\$ 141.48	\$ 565,907.45
2014	4150	\$ 118.03	\$ 489,820.69	\$ 155.62	\$ 645,841.87
2015	4200	\$ 126.29	\$ 530,422.69	\$ 171.19	\$ 718,985.41
2016	4200	\$ 135.13	\$ 567,552.28	\$ 188.31	\$ 790,883.95
2017	4300	\$ 144.59	\$ 621,740.01	\$ 207.14	\$ 890,685.97
2018	4500	\$ 154.71	\$ 696,204.22	\$ 227.85	\$ 1,025,324.55
2019	4600	\$ 165.54	\$ 761,492.71	\$ 250.63	\$ 1,152,920.49
2020	4950	\$ 177.13	\$ 876,792.63	\$ 275.70	\$ 1,364,706.98
2021	5100	\$ 189.53	\$ 966,597.45	\$ 303.27	\$ 1,546,667.91
2022	5800	\$ 202.80	\$ 1,176,216.43	\$ 333.60	\$ 1,934,851.23
2023	6400	\$ 216.99	\$ 1,388,746.57	\$ 366.95	\$ 2,348,509.07
	<u>96640</u>		<u>\$ 12,326,776.63</u>		<u>\$ 17,420,872.68</u>



DETERMINING OUR ABILITY TO MEET OBLIGATION



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- Need to update our cash flow projections to include future repurchase liability
 - Need to determine how valuator determines our share value so we can project it into future
 - Need to extend our projections out to at least 20 years
 - Need to be able to run projections with varying assumptions
 - Projection needs to be updated annually

DETERMINING OUR ABILITY TO MEET OBLIGATION



- Valuator uses primarily discounted cash flow method of valuation. Does **not** figure cash used for repurchase into model
- Revise company cash flow projections to emulate his method and project the share price along with our cash flow. We add the cash required for repurchase to the model.



DISCOUNTED CASH FLOW
METHOD OF VALUATION



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- **PROBLEM:** When you add the repurchase liability to the projection, the share price changes which changes the repurchase liability. The calculation is reiterative and you end up “chasing your tail”
 - **SOLUTION:** Excel can be set to perform reiterative calculations until both values stabilize



MEETING OUR OBLIGATION



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- **THEORY:** Discounted cash flow valuation is “self correcting”
 - Since stock value is based on future cash flows. You will generate enough cash to meet your obligation over the long run.
 - **Must be true when you reach “the end of time”.** (Last guy gets all that’s left.)

(Presenter not responsible if you disprove theory)



MEETING OUR OBLIGATION



POSSIBLE PROBLEM: The timing differences between the repurchase obligation and the cash flow may leave you with inadequate cash in some years.

IDENTIFYING PROBLEM YEARS



YEAR	SHARES	PROJECTED PRICE	AMOUNT	CASH BEFORE REPURCHASE	CASH AFTER REPURCHASE	CUMULATIVE CASH FLOW
2004	2000	\$ 60.00	\$ 120,000.00	\$ 130,000.00	\$ 10,000.00	\$ 10,000.00
2005	2200	\$ 65.00	\$ 143,000.00	\$ 180,000.00	\$ 37,000.00	\$ 47,000.00
2006	2500	\$ 68.00	\$ 170,000.00	\$ 210,000.00	\$ 40,000.00	\$ 87,000.00
2007	2750	\$ 74.00	\$ 203,500.00	\$ 270,000.00	\$ 66,500.00	\$ 153,500.00
2008	6500	\$ 82.00	\$ 533,000.00	\$ 340,000.00	\$ (193,000.00)	\$ (39,500.00)
2009	7000	\$ 91.00	\$ 637,000.00	\$ 400,000.00	\$ (237,000.00)	\$ (276,500.00)
2010	7100	\$ 94.00	\$ 667,400.00	\$ 480,000.00	\$ (187,400.00)	\$ (463,900.00)
2011	7150	\$ 100.00	\$ 715,000.00	\$ 590,000.00	\$ (125,000.00)	\$ (588,900.00)
2012	7240	\$ 112.00	\$ 810,880.00	\$ 650,000.00	\$ (160,880.00)	\$ (749,780.00)
2013	4000	\$ 120.00	\$ 480,000.00	\$ 700,000.00	\$ 220,000.00	\$ (529,780.00)
2014	4150	\$ 140.00	\$ 581,000.00	\$ 730,000.00	\$ 149,000.00	\$ (380,780.00)
2015	4200	\$ 160.00	\$ 672,000.00	\$ 760,000.00	\$ 88,000.00	\$ (292,780.00)
2016	4200	\$ 170.00	\$ 714,000.00	\$ 790,000.00	\$ 76,000.00	\$ (216,780.00)
2017	4300	\$ 181.00	\$ 778,300.00	\$ 830,000.00	\$ 51,700.00	\$ (165,080.00)
2018	4500	\$ 192.00	\$ 864,000.00	\$ 890,000.00	\$ 26,000.00	\$ (139,080.00)
2019	4600	\$ 201.00	\$ 924,600.00	\$ 930,000.00	\$ 5,400.00	\$ (133,680.00)
2020	4950	\$ 214.00	\$ 1,059,300.00	\$ 960,000.00	\$ (99,300.00)	\$ (232,980.00)
2021	5100	\$ 223.00	\$ 1,137,300.00	\$ 990,000.00	\$ (147,300.00)	\$ (380,280.00)
2022	5800	\$ 230.00	\$ 1,334,000.00	\$ 1,040,000.00	\$ (294,000.00)	\$ (674,280.00)
2023	6400	\$ 245.00	\$ 1,568,000.00	\$ 1,090,000.00	\$ (478,000.00)	\$ (1,152,280.00)
		96640	\$ 14,112,280.00			



MAKE A PLAN TO HANDLE PROBLEM YEARS



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- Possible solutions include
 - Changes to plan payout provisions
 - Use cash accumulated in the plan
 - Have large shareholders coordinate their retirements to spread obligation
 - Create a 'sinking fund'
 - Change your business plan in a way that would cause it to accumulate more cash
 - Sale of company