Calculation of Present Value of Losses Which Would Accrue Coincidental With Loss of Critical Employee

CEO Assumed Below but Applies to Any Member of the Critical Personnel Group ("CPG")

	Notes Below	Years Following Loss of CEO 1	2	3	4	5
Total company annual revenue	1	$10,000,000	$10,000,000	$10,000,000	$10,000,000	$10,000,000
Percent revenue attributable to key employee	2	31%	31%	31%	31%	31%
Dollar revenue		$3,100,000	$3,100,000	$3,100,000	$3,100,000	$3,100,000
Key employee's total compensation package						
Base	3	$500,000	$500,000	$500,000	$500,000	$500,000
Load factor		30%	30%	30%	30%	30%
Total		$650,000	$650,000	$650,000	$650,000	$650,000
Key employee's net contribution after comp.		$2,450,000	$2,450,000	$2,450,000	$2,450,000	$2,450,000
Value of replacement to key employee in time	4	20%	25%	40%	50%	75%
Projected revenue attributed to replacment		$620,000	$775,000	$1,240,000	$1,550,000	$2,325,000
Total cost of replacement acquisition						
Base	5	$300,000	$315,000	$330,750	$347,288	$364,652
Load factor		30%	30%	30%	30%	30%
One time costs						
Recruitment	6	$150,000				
Relocation package		$75,000				
Training/development costs		$20,000				
Total		$245,000				
Total replacement costs		$635,000	$409,500	$429,975	$451,474	$474,047
Replacement's net contribution after costs		-$15,000	$365,500	$810,025	$1,098,526	$1,850,953
Reduction in net contribution key:replacement		$2,465,000	$2,084,500	$1,639,975	$1,351,474	$599,047
Assumed rate of return on tangible assets	7	10%	10%	10%	10%	10%
Present value factor		0.909	0.826	0.751	0.683	0.621
Present value of loss of key employee		$2,240,685	$1,721,797	$1,231,621	$923,057	$372,008
TOTAL PRESENT VALUE OF KEY EMPLOYEE LOSS		$6,489,168				
MULTIPLE: PV OF CONTRIBUTION LOSS VS. DCB COMP.		9.98				

Notes:
1. Enter total revenue of company from all sources
2. Enter percent of total revenue dependent on services of CEO
3. Enter CEO's total compensation package (if variable estimate it based on a percent of total revenue)
4. In years 1-5 determine what the learning/productivity curve would be for CEO's replacement. This is a percent of the revenue you allocated for CEO above.
5. Enter the comp. package that would be required to replace CEO. A less experienced executive can be assumed with lower comp. requirements and a steeper learning curve.
6. The one time replacement acquisition costs have been assumed. Add or delete costs as you feel necessary.
7. The present value calculation requires that you determine a "discount rate" this is typically your cost of capital, minimum rate of return on investments, etc. The lower you set that number, the higher the present value requirement will be (i.e., you need more today to get to "x" in the future at a lower year to year interest rate). Ten percent is reasonable and is often used by IRS as a baseline.