

CASE STUDY

## Chappell Studios

### Challenging Management Transition

**Our Client:** Chappell Studios is the leading provider and marketer of graduation event and endurance sports photography in North America.

**Situation:** The Company's key management team consisted of four shareholders and several non-shareholder executives. To align the financial interests of non-shareholder managers with the shareholders, the Company implemented a phantom stock plan under which the non-owners could participate in the value they were helping to create. The shareholders expected the phantom stock plan to retain certain key members of the management team which would further enhance the value of the business to potential buyers when the shareholders decided to sell the business.

**Challenge:** The phantom stockholders perceived the phantom stock plan as a deferred compensation plan to be paid in full upon a sale of the Company. When the phantom stockholders were informed that certain buyers would expect them to reinvest some portion of the proceeds from the sale of their phantom shares they were caught off guard. The uncertainty of the situation resulted in some managers expressing concern about cooperating with the sale process. Some threatened to leave the Company.

**The Solution:** Through a carefully orchestrated sale process, The Fortune Group was able to establish appropriate expectations with potential buyers and with the phantom stockholders as to a reasonable amount of "skin in the game" necessary to motivate performance and ensure a productive ongoing employment relationship. The phantom shareholders were also educated about the significant opportunity for getting a "second bite of the apple" under new ownership and the prospect for realizing a significant increase in the value of their investment during the buyer's ownership.

**The Results:** By disclosing the phantom stock plan early in the process and properly setting buyer expectations for reinvestment by phantom stockholders, The Fortune Group was able to negotiate and structure a transaction that maximized the value of the Company for the original shareholders and provided attractive reinvestment terms for the phantom stockholders. The new structure gave phantom shareholders an option to sell their stock back to the Company after a reasonable period, regardless of whether the buyer pursued a transaction to sell or recapitalize the Company.

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**About The Fortune Group:** Founded in 1987, The Fortune Group is a mergers and acquisitions advisory firm serving middle market companies considering a sale or recapitalization of their business. With over 200 years of combined dealmaking experience, the firm has established itself as a leader in creating value for its clients by completing transactions that meet both financial and strategic objectives. Learn more at [fortunegrp.com](http://fortunegrp.com).

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