


THE PERFORMANCE-BASED EQUITY COMPENSATION MATRIX

 GEMS Goal-based Equity Management Solution	Primary Compensation Use	Typical Plan Sponsor	Typical Recipient	Common KPI (Key Performance Indicators) and Metrics	Key Advantages	Key Disadvantages	Key Accounting Issues	Common Communication Issues	Common Administration Issues	The GEMS Solution
Performance Awarded Shares Award of restricted outstanding shares. Award size based on meeting defined goals. Vesting is typically based on time	Motivate and Retain	Public companies with limited ability to define long-term KPI and metrics, but a need to meet stock ownership guidelines	Upper Management	Internal and soft goals, including annual performance reviews. Project oriented goals including delivery dates and approvals of new products by regulators	Communicates value of equity awards prior to award date. Fairly easy to translate dollar value to award size	In down times awards may be severely limited providing little in the way of retention. Award creates immediate dilution. Goals are usually based on a maximum term of one-year	Liability accounting until award is made. Fixed accounting after award is made. Generally no need for valuation services	Communicating a hypothetical future award can be difficult and potentially dangerous. Performance orientation is general short-term	Pre-award information not kept in stock admin system. Accounting not fully supported by any system	GEMS can support both equity and cash-based values during the pre-grant period and provide a final grant file to the stock admin system
Performance Awarded Units Award of Restricted Stock Units. Award size based on meeting defined goals. Vesting is typically based on time	Motivate and Retain	Public companies with limited ability to define long-term KPI and metrics	Upper and Middle Management	Internal and soft goals, including annual performance reviews. Project oriented goals including delivery dates and approvals of new products by regulators	Communicates value of equity awards prior to award date. Fairly easy to translate dollar value to award size	In down times awards may be severely limited providing little in the way of retention. Goals are usually based on a maximum term of one-year	Liability accounting until award is made. Fixed accounting after award is made. Generally no need for valuation services	Communicating a hypothetical future award can be difficult and potentially dangerous. Performance orientation is general short-term	Pre-award information not kept in stock admin system. Accounting not fully supported by any system	GEMS can support both equity and cash-based values during the pre-grant period and provide a final grant file to the stock admin system
Performance Leveraged Units Award of Restricted Stock Units. Spread at vest is typically multiplied or divided by factors of between 1 and 5, based on performance against goals	Motivate	Public and private financial firms.	Sales staff, market drivers, business-line owners and others where direct financial results can be associated to individuals	Sales Targets or Performance against growth or revenue goals	Top performers are rewarded in a meaningful way. Bottom performers receive limited payout	Corporate or market under-performance may result in top performers receiving less than intended. Leveraged multiples must be revisited regularly and monitored closely	Simple Valuation. Complex accrual. Expense booked is relative to probable payout. No expense reversal if goals are market based	Plans can be complex and difficult to explain. Regular, interim communications are a must. Unlikely to be fully understood by shareholders	Stock admin systems do not support. Dividends are difficult to track. Difficult to correctly track proximity and remaining effort to reach goals	GEMS can be structured for multiple goals and leverage factors. GEMS communicates what it takes to reach each goal level, in real time
Performance Earned Units Award of Restricted Stock Units. Shares at payout are determined as a percentage of shares awarded, as related to threshold, target or maximum goals	Attract and Motivate	Established public companies with history to support long-term goal definition	Upper and Middle Management	Revenue, Relative TSR, EPS, Recruitment, Cost-cutting, EBITDA	Can set thresholds to ensure payout even if performance is below expectations Excellent communication tool for high performance	Complex combinations of KPI, metrics, values and levels require intensive analysis. Improper design or poor performance can result in a competitor recruiting tool	Simple Valuation. Complex accrual. Expense booked is relative to probable payout. No expense reversal if goals are market based	Regular communication required to drive performance. Must provide proximity to goal and what still needs to be done to attain goals	Stock admin systems do not support. Dividends are difficult to track. Difficult to correctly track proximity and remaining effort to reach goals	GEMS can be structured for multiple goals and leverage factors. GEMS communicates what it takes to reach each goal level, in real time
Performance Accelerated Units Award of Restricted Stock Units. Award vesting is time-based, but can be moved forward if goals are met	Attract, Motivate and Retain	Public or private companies with goals that are best attained in shortened periods of time	Upper and Middle Management. Broad-based in certain industries	Revenue, Relative TSR, EPS, Recruitment, Cost-cutting, EBITDA	Provides motivating factor on top of standard Restricted Stock Units	Misaligned goals may accelerate awards too early, providing little or no long-term incentive or retention. Time-based element reduced optics of performance metrics	Simple Valuation. Basic accrual if goals are not probable. Expense acceleration if it is probable that goals will be met. No expense reversal if goals are market based	Communication may be easier than other performance awards. Must provide resource for explaining potential acceleration	Stock admin systems partially support. Dividends are limited and vesting acceleration is largely manual	GEMS can be structured to track performance goals during interim time-periods and provide updates if goals are met
Performance Priced Units Variable-priced units. Award price is set according to performance against defined goals or index of companies	Motivate	Companies with volatile stock prices where over or under payout is a concern	Executives (C-Suite)	Revenue, Relative TSR	Provides moderate payout vehicle for unpredictable companies or markets.	Can be seen as demotivating when price becomes too high in relation to expectations	Complex valuation. Complex accrual.	Complicated to explain and manage. Participants must be "in the loop" to truly be motivated by these types of plans	No systematic support. Reporting must be custom created and managed manually	GEMS can support both cash and equity-based awards. Variable prices are easily supported
Indexed Options Variable-priced Stock Options. Exercise price linked to performance to a present index or group of peers	Motivate and Attract Useful for attraction when company is seen as outperforming competitors in future	Public companies where performance against peers has been strong. Companies where over-payout has been suspected	Executives (C-Suite)	Peer Group Performance, Performance against specific industry index, Performance against general market index	Shareholder friendly and understood. Ensures that payout is relative to market performance as a whole	Participants view these as limiting. Over-performance may result in less than desired payout. Peer groups can be difficult to define	Valuation can be complex. Accrual is generally simple if goals are clearly understood.	Difficult to communicate the value relative to competitor awards if they are not also indexed. Can provide competitor recruiting tool	Stock admin systems offer little or no support for variable-priced options. Typically all admin is performed on spreadsheets between grant and vest dates	GEMS can accept outside feeds of index information and automatically show current potential, or actual, exercise price, relative to the index
Performance Granted Options Grant of Stock Options. Grant size based on meeting pre-set goals. Vesting is typically based on time	Motivate	Companies with limited ability to define long-term KPI and metrics, where options are more highly valued than units	Upper Management	Internal and soft goals, including annual performance reviews. Project oriented goals including delivery dates and approvals of new products by regulators	Communicates value of equity awards prior to grant date. Improves optics of grant size to participants	Complex formula needed to convert performance goal into a combination of shares and exercise price. Not based on a long-term goal	Liability accounting until award is made. Fixed accounting after award is made. Generally no need for valuation services	Communicating a hypothetical future award can be difficult and potentially dangerous. Performance orientation is generally short-term	Pre-grant information not kept in stock admin system. Accounting not supported well by any system	GEMS can support both equity and cash-based values during the pre-grant period and provide a final grant file to the stock admin system
Performance Accelerated Options Grant of Stock Options. Grant vesting is time-based, but can be moved forward if goals are met	Attract, Motivate and Retain	Public or private companies with goals that are best attained in shortened periods of time. "Tech friendly" design	Upper and Middle Management. Broad-based in certain industries	Revenue, Relative TSR, EPS, Recruitment, Cost-cutting, EBITDA, Stock Price over given period of time	Ensures vesting regardless of performance. Easily understood by participants with little downside	Reduces impact of performance on grant since shares will vest if participant remains eligible. Double hurdle for participants	May require complex valuation. Expense may be less due to potentially shortened life. Expense may be more due to potentially fewer forfeitures	Communication is easier than other performance awards. Must provide resource for explaining potential acceleration	Stock admin systems partially support these. Participant reports are limited and vesting acceleration is largely manual	GEMS can be structured to track performance goals during interim time-periods and provide updates if goals are met
Premium Priced Options Grant of Stock Options. Exercise price is set to a price higher than current FMV. Typical plans set price at a 10%-15% premium	Motivate	Companies emphasizing superior returns, or when current stock price has been reduced significantly by market pressures	Upper and Middle Management	Stock Price growth	Shareholder friendly and understood. Easy to administer. May have reduced expense impact	Creates double hurdle for participants. Very low perceived value until options are in the money.	Valuation requires additional analysis. Potentially longer life increase value. Spread at time of grant reduces value. Accrual is basic	Communication is easy at grant. Difficult as time progresses, unless performance meets goals. Can provide basis for competitor recruitment	Supported fairly well by most stock admin systems. Optics showing growth and movement to being in-the-money is limited	GEMS can support these as additional option type, but stock admin system may be sufficient
Performance Earned Options Grant of Stock Options. Options available to be exercised are determined as a percentage of total granted, as related to threshold, target or maximum goals	Motivate	Established public companies with history to support long-term goal definition	Executives (C-Suite) (complex goals). Broad-based (simple goals)	Revenue, Relative TSR, EPS, Recruitment, Cost-cutting, EBITDA, Stock Price over given period of time	Ensures that options only vest if performance is attained. Shareholder friendly. Payout in good situations can be higher than standard options	Double hurdle for participants. Difficult to set effective goals. Valuation is complex. Difficult to track approved pools of shares	Cost of plan difficult to predict until all variables are known. Goal type drives whether expense can be reversed if missed. Generally requires complex valuation	Regular communication required to drive performance. Must provide proximity to goal and what still needs to be done to attain goal	Stock admin systems do not support. Difficult to correctly track proximity and remaining effort to reach goals	GEMS can be structured for multiple goals and leverage factors. GEMS communicates what it takes to reach each goal level, in real time

