


## THE EQUITY COMPENSATION DESIGN AND USE MATRIX

 For more information contact: Dan Walter, President & CEO Performensation Consulting 917-734-4649 (direct/mobile) dwalter@performensation.com www.performensation.com	Primary Compensation Use	Typical Plan Sponsor	Typical Recipient	Main Features	Key Accounting Issues	Key Legal Issues	Key Tax Issues	Key Communication Issues	Key Administration Issues
<b>Incentive Stock Options (ISO)</b>	Attract and Motivate. Retention when stock price is growing steadily.	Pre-IPO and Publicly traded companies (high-tech/biotech and high growth sectors)	Execs at all sizes, High-tech staff at Small to Mid-size companies	Preferential tax treatment. Limits on use. Highly Leveraged. Pays only if price increases	Complex valuation and amortization. Difficult market comparisons	Limits on Grant Price, Value of Grant, Term of Grant and Term of Plan. Shareholder approval required within 12 months of BOD adoption.	No tax withholding at exercise. No Ordinary income if held for qualifying period. Not applicable to int'l ppts. Alternative Minimum Tax concerns	Difficult to show value if underwater. Leverage can be issue in highly volatile stocks. Tax issues, Dispositions, AMT	Activity peaks and valleys. Grant processing. Exercise processing. Termination rules. Int'l issues. Disposition tracking.
<b>Non-Qualified Stock Options (NQSO)</b>	Attract and Motivate. Retention when stock price is growing steadily.	Pre-IPO and Publicly traded companies (all sectors)	Widely used, grant size generally based on position. Consultants and Outside BOD members	Highly Leveraged. Guaranteed corporate tax deduction when exercised. Pays only if stock price increases	Complex valuation and amortization. Difficult market comparisons. Variable Fair Value accounting for non-employee service providers.	General plan documentation. Detailed documentation when used for outside BOD members. Post-termination rules and regulations.	Ordinary Income and Tax withholding at Exercise. 409A Supplemental Wages eligible (\$1MM threshold).	Difficult to show value if underwater. Leverage can be issue in highly volatile stocks. Tax issues at exercise.	Activity peaks and valleys. Grant processing. Exercise processing. Termination rules. Int'l issues. Tax at Exercise.
<b>Restricted Stock Shares (RSS)</b>	Attract and Retain. Motivation added when awarded at less than \$0 cost	Closely Held and Publicly traded companies (less volatile sectors)	Upper and Middle Management	Value if price drops. Minimally leveraged. Satisfies Exec Ownership requirements	Simple Valuation. Value is Intrinsic value on award date. Cost essentially equivalent to paying cash. Retirement eligibility can result in accounting for expense prior to vesting completion.	Private companies are subject to Blue Sky laws. Public companies are subject to SEC regulations at the time of award.	No income or tax until vested. 83(b) election to be taxed at award date. Sell-to-Cover requires sufficient trade volume. Withhold-to-cover requires sufficient corporate cash. Retirement eligibility can result in income and tax prior to retirement.	Event-based, forced income and taxation. Comparison to Options	Award processing. Event Planning w/ other corporate issues. Repurchases. 83(b) elections. Dividend tracking. Share issuance at time of award.
<b>Restricted Stock Units (RSU)</b>	Attract and Retain. Motivation added when awarded at less than \$0 cost	Closely Held and Publicly traded companies (mature tech, less volatile sectors)	Widely used above operational staff	Value if price drops. Minimally leveraged. Better internationally than RSS	Simple Valuation. Value is Intrinsic value on award date. Cost essentially equivalent to paying cash.	409A considerations. Registration of shares prior to award.	No income or tax until vested. Dividend Equivalents taxable unless fully restricted. Sell-to-Cover requires sufficient trade volume. Withhold-to-cover requires sufficient corporate cash. Deferral allowed with sufficient notification.	Event-based, forced income and taxation. Comparison to Options	Award processing. Event Planning w/ other corporate issues. Forfeitures. Dividend Equivalent tracking. Share movement at time of vest.
<b>Performance Stock Units (PSU)</b>	Motivate.	Publicly traded companies (mature finance sector and biotech)	Executives, Scientists, Finance staff	Preferred by shareholders. Payout only if goals are met. Complex to design	Very complex accounting. Market-based value cannot be reversed if missed	Possible challenges from shareholders and recipients regarding meeting and issuing of performance goals.	Income and taxes due at vesting. Due to nature of performance tax event is difficult to plan for. Deferral allowed with sufficient notification	Understanding and management of performance criteria. Event-based income and taxation	Monitoring goals against awards. Processing with limited pre-notification. Standard RSU issues
<b>Stock Appreciation Rights (SAR)</b>	Attract and Motivate	Large privately held companies	Upper and Middle Management	Can be settled in cash or stock. Provides option-like features	Stock-settled treated like options (fixed, Fair Value accounting). Cash-settled require variable accounting (quarterly remeasurement of Fair Value)	Possible ERISA issues with long-term holding period on broad-based plans. Generally not deemed "stock" for S Corps	Taxed at time of exercise. Ordinary Income and Taxes must be withheld.	Comparison to options (stock value w/no stock). Delivery of only the appreciation rather than whole grant	Limited support from brokers at exercise (unlike options). Limited overall software capabilities.
<b>IRC 423 Employee Stock Purchase Plan (ESPP)</b>	Retain, Motivate and create ownership	Publicly traded companies and those in the process of IPO	Broad-based (by law)	Preferential tax treatment. Very flexible. Requires "skin in the game" from participants. Excellent communication tool	Features drive valuation. Discount of 5% or less, and no look-back = no expense. Option-like element (look back) or discount of greater than 5% requires option valuation and expense under FAS 123R	Limits on participant inclusion/exclusion. Limits on Discount, Term of Offering, Value of share purchased in each calendar year. Shareholder approval is required within 12 months of BOD adoption.	No Ordinary Income or Capital Gain/loss until first transfer. Grant Date Discount is minimum amount of Ord. Income. Must hold shares for 2 yrs from grant and 1 yr from purchase to receive preferential treatment.	Comparison to 401K. Enrollment and contributions. Dispositions and tax consequences. Great tool for Exec Communication	Coordinating HR and Payroll systems and staff. Quick turn-around at purchase date. Surveys until all shares are transferred, even for terminated.
<b>Non-Qualified Stock Purchase Plan (NQ-ESPP)</b>	Retain and create ownership	Mature publicly traded companies (non tech sector)	Management-only and broad-based	Ease of purchase and admin. Low cost. Limited shareholder impact	Expense only if purchase is made at a discount.	Possible 409A issues if shares are restricted after purchase.	Ordinary Income and tax withholding at Purchase for any discount amount.	Comparison to purchases on open market. Understanding company role	Coordinating HR and Payroll systems and staff. Quick turn-around at purchase date. If discounted, taxation at purchase.
<b>Deferred Stock Units (DSU)</b>	Retain and create ownership. Retirement	Mature publicly traded companies (non tech sector)	Executives (C-Suite)	Income and Tax deferral. Flattens volatile pay cycles. Creates retirement income	Simple Valuation. Value is Intrinsic value on award date. Cost essentially equivalent to paying cash.	Deferral Election must be made within strictly defined period. Payout restrictions must be clearly defined to meet tax rules. 162(m) considerations	Employment Tax (FICA/FUTA) due at orig. vest date. Ord. Inc. and tax withholding at end of deferral period. Complex 409A issues	Complex tax issues. Complex release timing rules. Dividend income	Separating Employment Income from Ordinary Income. Limited software support. Long-term tracking issues.
<b>Phantom Stock Awards (PSA)</b>	Attract and Retain	Privately held and mature publicly traded companies	Upper and Middle Management	Can be settled in cash or stock. Provides restricted stock unit-like features	If award can be settled in cash variable accounting is required (quarterly remeasurement of Intrinsic Value)	Possible ERISA issues with long-term holding periods on broad-based plans. Generally not deemed "stock" for S Corps.	No income or tax until vested. Taxes generally withheld from final cash payment.	Comparison to RSS/RSU (stock value w/no stock). Delivery of only the appreciation rather than whole award	Limited software support. Coordination with Payroll and treasury at payout. Standard RSU issues