Executive Benefit Solutions

Attract. Retain. Reward.

Deferral & Diversification of RSUS &/ PSUS

Restricted Stock Units & Performance Stock Units have replaced stock options as the most commonly used form of long-term equity compensation. They offer greater flexibility of plan design, potential tax advantages and simplified stock plan administration.

However, RSUs and PSUs have one disadvantage compared to stock options: That is, the loss of control over the timing of taxation. RSUs and PSUs are subject to income tax upon vesting and distribution whereas stock options are taxable upon exercise, at the most favorable point during a 10-year window, as selected by the executive.

As a result, many publicly traded companies sponsor a deferred compensation plan that allows the deferral of RSUs and PSUs upon vesting thereby restoring control over the timing of taxation and providing the additional advantages noted below.

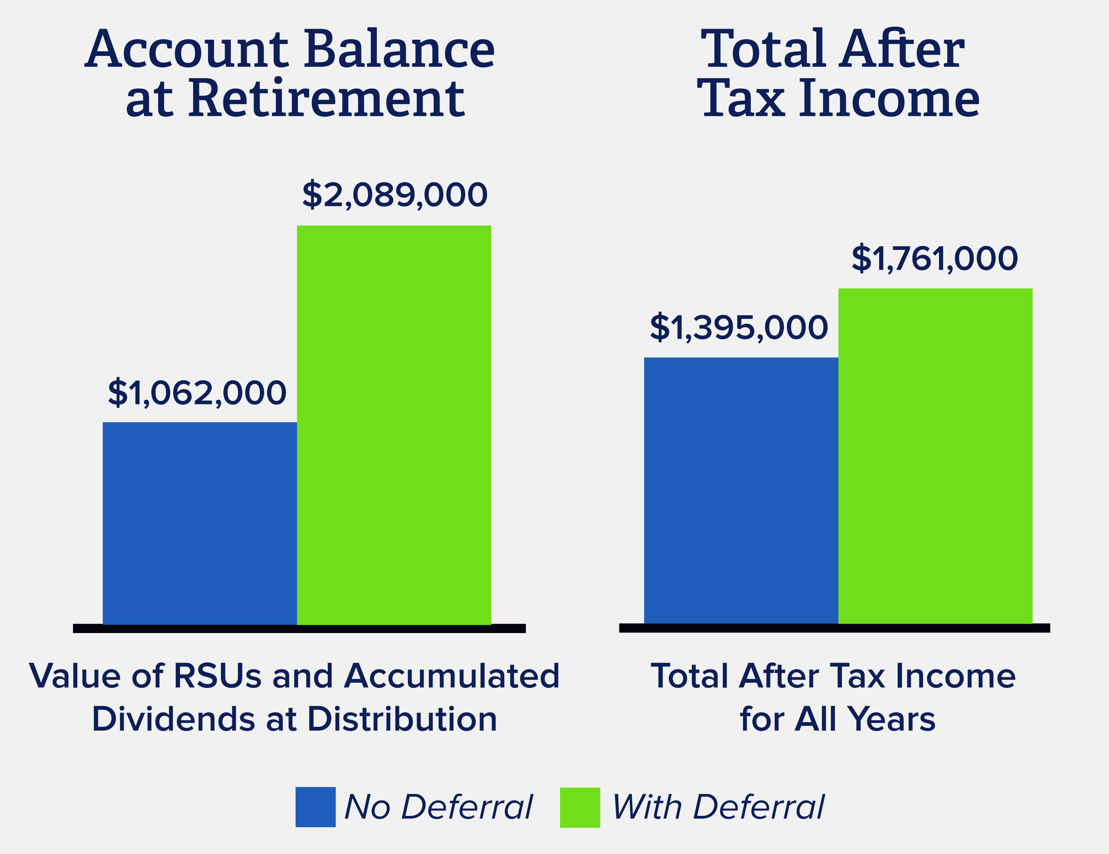
Potential Advantages

Deferral

- Deferral of Federal income taxes on the RSU / PSU income and, in some cases, reduction or elimination of related state income taxes.
- Appreciation of 100% of RSUs / PSUs vested rather than on the net after tax number of shares issued.
- Management of distributions in accordance with overall personal financial plans.
- The opportunity for a "look-back" deferral election; that is, the possibility, under certain conditions, to defer outstanding unvested RSUs / PSUs granted in a prior year.

Diversification

- Permits reallocation of RSUs / PSUs deferred to other investment options offered under the deferred compensation plan.
- Reduces exposure to the risk of a concentration of net worth tied to Company share price.
- Provides greater asset allocation flexibility to maximize returns and control market risk.



The above graphics illustrate potential benefit of deferral for a hypothetical grant of 55,000 RSUs to a 58-year-old executive who retires at age 65 and takes distributions over 10 years. Other assumptions include a 45% marginal tax rate, 4-year vesting, $20.00 share price appreciating at 6%, and a dividend of $.80 per share.

Issues/Risks

Creditor Risk
Plan benefits represent a legally binding obligation of the Company typically funded by corporate assets set aside in a trust. However, those assets are exposed to the claims of creditors in the event of bankruptcy or insolvency.

Tax Rates
Benefits paid (including the appreciation of the RSUs / PSUs deferred) represents "deferred compensation" taxable at ordinary income tax rates.

Accounting
It is important that the plan be properly structured to ensure favorable accounting treatment.

In Summary

- It may be possible to significantly enhance the value of the total rewards package for senior executives by allowing the voluntary deferral and diversification of RSUs and PSUs.

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