EXECUTIVE BENEFITS
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❑ Restricted Stock Unit – RSU

Restricted Stock Units are awards granted in units instead of actual shares—you can consider it a "promise to award shares/units." Each unit awarded usually represents the value of one share of stock. Generally, an award of Restricted Stock Units entitles you to stock or cash (with a value equal to the number of units awarded) upon vest. As a recipient of Restricted Stock Units, you usually have no dividend or voting rights until vest, since no shares are actually issued to you until that point. However, your company may choose to pay you a dividend equivalent. As with Restricted Stock Shares, Units are also subject to forfeiture prior to the vesting event.

❑ Performance Stock Unit – PSU

Performance Share Units are restricted stock awards granted in units instead of actual shares. Each unit awarded usually represents the value of one share of stock. Generally, an award of Performance Share Units entitles the recipient to stock (or the cash equivalent) upon vest. As a recipient of Performance Share Units, you usually have no ownership or voting rights until vest, since no shares are actually issued to you until that point. However, your company may choose to pay you a dividend equivalent. Performance Share Units are usually subject to risk of forfeiture until a specific performance measurement is satisfied.

❑ Employee Stock Option

A Stock Option is the right, but not the obligation, to purchase a company's stock at a fixed price for a fixed period of time. When the company's stock price rises above the grant or exercise price, the award is "in the money." When the price drops below the grant or exercise price, the award is "underwater" and loses its incentive value.

The primary difference between the two types of stock options—Non-Qualified Stock Options and Incentive Stock Options—lies in their tax treatment:

Non-Qualified Stock Options (NQSOs) have the following characteristics for U.S. taxpayers:

1. No income recognized and no taxes are due when NQSOs are granted.
2. When options are exercised, the difference between the Fair Market Value (FMV) on the exercise date and the grant date price (the "spread") is reported as ordinary income on your W-2 in the year of exercise.
3. Income taxes are withheld at the time of exercise on the spread and reported on your W-2 in the year of exercise.
4. When you sell shares you purchased from an NQSO exercise, if the sale price is higher (lower) than the FMV at exercise, you will have a capital gain (loss).

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Incentive Stock Options (ISOs) offer a tax incentive, have the following characteristics:

1. ISOs receive preferential tax treatment under the Internal Revenue Code. If the shares are held at least one year from the date of exercise and two years from the date of grant, any gain at sale will be taxed as capital gain rather than ordinary income. If shares are sold prior to the required holding period, the sale will be deemed a disqualifying disposition and treated for tax purposes as an NQSO.
2. No income is recognized and no taxes are due when ISOs are granted.
3. When options are exercised, no taxes are due or withheld.

❑ Employee Stock Purchase Plan (ESPP)

An ESPP is a way for you to purchase shares of your company's stock through payroll deductions, usually at a discount to the market price. Once you have enrolled in the plan, your company will collect your payroll contributions to purchase shares on a specific date.

❑ Non-Qualified Deferred Compensation (NQDC) Plans (i.e. Restoration Plans)

Non-qualified deferred compensation (NQDC) plans provide employers with a way to attract and retain especially valuable employees, since they do not have to be offered to all employees and have no caps on contributions.

Compensation is usually paid out when the employee retires, although payout can also begin: on a fixed date, upon a change in ownership of the company, or due to disability, death or a (strictly defined) emergency. Depending on the terms of the contract, deferred compensation might be retained by the company if the employee is fired, defects to a competitor or otherwise forfeits the benefit.

❑ Executive Life Insurance

A life insurance policy may be used to fund a deferred compensation program to provide additional retirement benefits to key executive. In this arrangement, the employer owns the policy on the executive and, when the employee retires, the company uses the policy's cash value to provide supplemental retirement income to the employee. If the executive dies prior to retirement, the proceeds would be paid to the company. The company can then use the money to re-coup premiums paid and provide a death benefit to the executive's family.

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