The following table describes the multitude of considerations available to companies when providing stock plans.

General Stock Planning Techniques		
Technique	**Advantages**	**Disadvantages**
A. Options		
1. Incentive Stock Options (ISOs)		
Options qualified for favorable tax treatment to executive provided that minimum price (at or above Fair Market Value), grant restrictions and holding period requirements are met.	Provides opportunity for executive to defer taxation until sale. Executive can elect to exercise before holding period ends and be taxed on gain as NQSOs are taxed. ISOs gains can be excluded from $1 million deductibility limit under OBRA '93. No accounting charges under APB 25, but footnote disclosure using option valuation model required.	Executive may be subject to Alternative Minimum tax. Company does not get tax deduction if executive meets holding requirements. Limit on number of shares first exercisable in any year. Accounting charge if FAS 123 used.
2. Non-Qualified Stock Options (NQSOs)		
Options may be granted at below market price without restrictions on holding period or number of shares that can be exercised in any year (other than plan restrictions as may be approved by shareholders)	Since options are non-qualified, there are many opportunities for creative plan designs. Options can be granted below market value (although OBRA '93 would count below market options in the $1 million deduction limit for the CEO and other Named Executive Officers in the proxy statement). No accounting charges under APB 25, but footnote disclosure using option valuation model required.	Executives only have upside potential for gains and do not have downside risk of ownership until they exercise options. Executives are taxed on gain at exercise. Accounting charge if FAS 123 used.
3. Indexed Options		
Initial option in series granted at market price — strike price of subsequent options adjusted for general stock market movement or risk free rate of return.	Executives are only rewarded for superior performance and are less likely to receive windfalls for short-term stock price movements.	Executives are not treated like shareholders, since shareholders can take advantage of short-term price movements. Indexing of price results in variable accounting charges for options.
4. Premium Options		
Option strike price set above market at time of grant.	Executives are rewarded for achieving business plans as reflected in target stock price movements. Executives are less likely to receive windfalls for short-term stock price movements.	Executives are not treated like shareholders, since shareholders can take advantage of short-term price movements.
5. Discount Stock Options		
Options strike price below market at time of grant.	Executives have immediate value of in-the-money stock options and can choose the timing of their gain by exercising.	Accounting charges to company for discount. Executives have something shareholders do not have when they buy stock. Discounted Options included in $1 million deductibility limit under OBRA '93.

General Stock Planning Techniques		
Technique	**Advantages**	**Disadvantages**
A. Options		
6. Performance Options		
Option vesting or strike price subject to specified performance criteria.	Executives get greater reward for greater performance; either through lower strikes price or earlier vesting.	If lower strike price used, creates variable accounting charges for options. Earlier vesting does not cause variable accounting as long as options ultimately vest. Shareholders may object to lower strike prices for executives, particularly if performance criteria are weak.
7. Options with Dividend Equivalents		
Attaches rights to receive an amount equal to dividends paid on specified number of option shares.	Encourages executives to provide attractive dividends to shareholders. Gives executives feeling of ownership while stock options are unexercised. Sometimes getting at dividend equivalents is tied to exercise of options to encourage earlier exercise and provide funds for purchase of stock. Dividend equivalents are deductible remuneration expense.	Executives have something that shareholders do not have.
8. Mega—Grants		
Large stock option grant representing multiple years worth of options granted at one time	Strong retention value when vesting period is extended. Often granted as part of new CEO employment package. No accounting charges under APB 25, but footnote disclosure using option valuation model required.	Accounting charge if FAS 123 used. One-time large grant may be viewed as give away by shareholders. Executive may not see value in grant if options are granted when market price is high (dollar cost averaging of annual grants is lost).
B. Vesting		
1. Option Performance Vesting		
Stock price must increase by specified percentage or dollar amount before option becomes exercisable.	Executives only are rewarded for greater performance. If performance goal not achieved, options are forfeited.	Short-term stock volatility can cause options to become exercisable when company performance does not warrant. Lack of fixed vesting point causes variable accounting.
2. Accelerated Option Vesting		
Vest original options for long period of time, which can be accelerated on the achievement of certain stock price increases or long term performance goals.	Executives get greater reward for greater performance, through earlier vesting. Earlier vesting does not cause variable accounting as long as options ultimately vest.	Earlier vesting may produce extraordinary option gains for executives in years when regular grants and performance grants both vest.

General Stock Planning Techniques		
Technique	**Advantages**	**Disadvantages**
C. SARs		
1. Formula-Value Appreciation Rights		
Same as SAR but initial value based on something other than market, i.e. book value.	Relates executive awards more closely to business performance; avoids windfalls (or lack of reward) due to short-term stock price movements.	Variable accounting charges. May discourage granting of dividends to build up book value. Weakens link of executives to shareholders.
2. Freestanding Stock Appreciation Rights		
Rights to receive gain on phantom stock option. Exercise of option does not cancel freestanding SAR.	Executive receives gain on stock price growth and has right to determine when to take the gain.	Creates possible windfalls when executive exercises SARs to take advantage of short-term market movements that may be unrelated to company performance. Variable accounting charges.
D. Grants		
1. Formula-Value Grants		
Value is based on something other than market, i.e. book value. Earned solely on continued employment.	Relates executive awards more closely to business performance; avoids windfalls (or lack of reward) due to short-term stock price movements.	Unless formula is considered Fair Market Value, causes variable accounting charges. May discourage granting of dividends to build up book value. Weakens link of executives to shareholders.
2. Performance Shares		
Actual shares of stock or stock units whose payment is contingent upon performance as measured against predetermined objectives.	Combines internal performance measures with stock market movement over performance period. Reinforces business-planning process.	Variable accounting charges related both to probability of performance achievement and period to period stock price changes. Possibility of windfalls (or shortfalls) depending on stock price at end of performance period.
3. Performance Units		
Grants of cash allotments or dollar units whose payment or value is contingent on performance as measured against predetermined objectives.	Ties executive rewards to business plans through internal performance goals. If paid out in stock, also creates a link to shareholders. Maximum accounting charges are known at grant.	If paid out in cash, may provide executives with substantial rewards when shareholders may be experiencing drops in stock price.
4. Phantom Stock		
Right to receive cash, shares of stock or combination, equal to sum of appreciation plus dividends paid out on phantom stock.	Does not require investment by executive. Ties executive to shareholders through stock growth and dividends.	Variable accounting charges. Shareholders have to put money at risk, while executives do not. Timing of payout fixed at grant does not allow executives to match taxable income to personal financial needs.

General Stock Planning Techniques		
Technique	**Advantages**	**Disadvantages**
5. Restricted Stock		
Grants of actual shares or units subject to restrictions until vested by continued employment.	No investment required by executive. Downside risk (on further gains) if stock price declines following grant. Dividends paid prior to executive taxation are deductible remuneration expense. Executive can elect to be taxed at grant and receive favorable capital gains tax treatment on future growth. Links executives with shareholders. Accounting charges fixed at grant.	Shareholders may object to "give away" of stock. If executive elects early taxation, dividends that are not tax deductible and executive may not take capital loss if restricted stock is forfeited.
6. PARSAPs		
Performance accelerated restricted stock award plans. Restrictions may lapse early based on performance as measured against predetermined objectives	Ties stock award to company business plans and internal performance goals. Links executives with shareholders. No investment required by executive. Dividends paid prior to executive taxation are deductible remuneration expense. Executive can elect to be taxed at grant and receive favorable capital gains tax treatment on future growth. Links executives with shareholders. Accounting charges fixed at grant.	Since executives must ultimately receive restricted shares, can still be viewed as potential give away if performance goals not achieved.
E. Purchase Opportunities		
1. Market Value		
Shares purchased at full market value, typically with company financing.	Loans to purchase stock may be full recourse and connected to performance bonuses, which the executive can use for loan repayment. Under this approach, executives are closely aligned with shareholders and the loan repayment requirements can be used as retention devices.	Financing arrangements may cause immediate taxation to the executive if not properly structured.
2. Discount		
Shares purchased at less than market value, often with company financing. Shares purchased generally subject to restrictions on disposition.	Loans to purchase stock may be full recourse and connected to performance bonuses, which the executive can use for loan repayment. Under this approach, executives are closely aligned with shareholders and the loan repayment requirements can be used as retention devices.	Depending on degree of discount, shareholders may view as opportunity for executives that they do not have. Financing arrangements may cause immediate taxation to the executive if not properly structured.

General Stock Planning Techniques		
Technique	**Advantages**	**Disadvantages**
3. Book Value		
Employee permitted to sell back to company and must do so upon termination.	Loans to purchase stock may be full recourse and connected to performance bonuses, which the executive can use for loan repayment. Under this approach, executives are closely aligned with shareholders and the loan repayment requirements can be used as retention devices. Book Value can avoid influence of short-term market fluctuations.	If used at corporate level of public companies, shareholders may object to executives avoiding affects of stock market. Book Value as measure may discourage dividends. Financing arrangements may cause immediate taxation to the executive if not properly structured.
4. Convertible Securities		
Rights to purchase non-transferable, interest bearing debentures or securities convertible into a fixed number of shares.	Provides executive with interest on debentures prior to conversion. Conversion avoids taxable event to executive. Executives can control timing of conversion.	Executive must make investment to purchase debentures. Current taxation to executive on interest received. Company does not get tax deduction on executive's gain at conversion.
5. Restricted Stock		
Stock purchase, usually at a discount, but full ownership privileges do not occur until certain restrictions are met.	Plans usually require executive to sell back stock at original purchase price prior to restrictions lapsing. Provides a retention device as well as a close link between executives and shareholders.	Executive may view restrictions as unfair, particularly if stock price grows substantially prior to restrictions lapsing.
6. Delta (Formula-Value) Plans		
Restricted rights subject to a non-lapse restriction to purchase stock at the formula price. May be bought at discount. Company must repurchase using same formula.	Executive can sell back to company and get profit.	Company may have substantial cash flow liability if stock price grows significantly. Unless restrictions on timing of sale, company may be in cash bind when executive sells back stock.
7. Junior Stock		
Employee purchases stock, which is "junior" to common stock (restricted rights). Stock converts to common stock after the achievement of a pre-specified goal.	Junior stock allowed executives to acquire equity at a lower price than common stock since the junior stock was inferior.	Variable accounting treatment. The tax deductibility of junior stock was never fully resolved.
F. Policies/Programs		
1. Stock in Lieu of Salary Increases		
Company replaces annual salary increases with restricted stock or stock option grants.	Increases link between executive and shareholders. Helps company conserve cash.	Executive personal financial needs may not be met. Executives may already own sufficient stock.
2. Restrict Cashless Exercise Program		
Company sponsors the cashless exercise program but restricts it to option profit payouts only.	Forces executive to own stock (at least until a regular sale can be made).	Executive still can sell soon after exercise since SEC Rule 16b considers grant of option to be purchase, allowing insider to sell immediately after exercise if 6 months have elapsed since grant.

General Stock Planning Techniques		
Technique	**Advantages**	**Disadvantages**
F. Policies/Programs		
3. Reduce/Eliminate Grant for Insufficient Ownership		
Company basically starts to reduce or eliminate future grants if executives don't meet ownership standards.	Forces executive to buy and hold stock. Strengthens executive/ shareholder linkage.	**3. Reduce/Eliminate Grant for Insufficient Ownership**
4. Forced Ownership		
The company forces ownership through mandatory deferrals until a certain ownership level is reached.	Forces executive to buy and hold stock. Strengthens executive/shareholder linkage.	**4. Forced Ownership**
5. Tax Gross up for all Stock Plan Shares Held		
Company agrees to pay executive taxes on the exercise of stock provided that the employee holds those shares for the remainder of his career.	Encourages executive to hold stock following exercise. Strengthens executive/shareholder linkage. As voluntary program, executive can choose to take advantage or pass on opportunity.	Shareholders may object to special treatment of executives -- they get something that shareholders do not have.
6. Stock Loans, Tied to Holding Shares		
Company loans executives funds to facilitate exercise with loan balances forgiven over time if option shares held	Encourages executive to hold stock following exercise. Strengthens executive/shareholder linkage. As voluntary program, executive can choose to take advantage or pass on opportunity.	Shareholders may object to special treatment of executives -- they get something that shareholders do not have. Financing arrangements may cause immediate taxation to the executive if not properly structured.
7. Bonus Deferral Premiums		
Company adds a premium of 20% which is then deferred as restricted stock.	Encourages executives to hold stock. Strengthens link between executives and shareholders.	May be viewed as give away by shareholders.
8. Bonus Conversion Program		
Bonus paid above target, converted to restricted stock tied to either time or performance.	Forces executive to increase ownership. Strengthens link between executives and shareholders.	Executive may have immediate cash needs.
9. Target Stock Ownership Levels		
CEO establishes verbal or written policy with desired targets for stock ownership as a multiple of pay, bonus or total remuneration.	Encourages executive to increase ownership. Strengthens link between executives and shareholders.	Although not formally a forced ownership situation, is difficult for executive not to comply, even if cash needs and portfolio diversification risk would lead executive to do otherwise.

General Stock Planning Techniques		
Technique	**Advantages**	**Disadvantages**
F. Policies/Programs		
Non-qualified Deferred Remuneration see Appendix A for detail (with substantial risk of forfeiture feature) —Remuneration is deferred to a specific, irrevocable future payment date, generally receiving earnings at a predetermined rate during deferral period.	"Strings" on payment date and forms may aid in retention of executive. No current taxation of deferred amounts or earnings credited to them. Deferred amounts can be held until specific time, to achieve specific objective, i.e., retirement. Deferred amounts can be secured by "rabbi trust" except in case of insolvency.	Substantial risk of forfeiture feature could result in loss of deferred amounts by Executive. Company recognizes a liability for accrued deferred amounts plus earnings credited to them. Executive is an unsecured creditor of Company as to deferred amounts and earnings. Benefits are unfunded.
Split Dollar Insurance see Appendix B for detail —Company and Executive share premiums. Company recovers its investment in health insurance at executive's death or retirement (or Company may provide executive with bonus of its investment at executive's retirement) — executive receives remaining cash value at retirement, or beneficiary receives death benefit.	Cash value accumulates tax deferred. May provide substantial amounts of death benefit. Provides Company earmarked account from which benefits are paid.	Cost of death benefit reduces amount of deferral available for retirement. Executive may not need additional life insurance protection. IRS positions relative to split-dollar insurance taxation are unclear.
Deferred Annuity —An annuity owned by the executive, whose premium is paid by the Company. Benefits are generally paid at executive's retirement or death.	Provides full security against Company later unwillingness or inability to pay benefits. Inside build-up of annuity earnings is tax deferred. Company does not have a financial statement liability. Benefit payments are only partially taxed.	If executive is owner, Company has no control over actual use of funds. If executive is owner, premium payments are taxed as income to executive in year paid. Simple to administer. "Gross up" for income taxes on premiums increase cost to Company.