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EXECUTIVE COMPENSATION OPTIONS - *RECRUIT, REWARD & RETAIN*

The competition for talented executives is intense, particularly in an economy where companies need to maximize every resource they have to succeed. Non-qualified deferred compensation ("NQDC") is very flexible tool that can be used to build a high-performing, loyal management team. This document is a brief summary of key points.

TYPICAL FORMS OF DEFERRED COMPENSATION

SUPPLEMENTAL EMPLOYEE RETIREMENT PROGRAM (SERP)	DEFERRAL PLAN	SYNTHETIC EQUITY
The company agrees to pay the executive an amount of money when they separate from service (e.g retire). The payment can be made under terms and conditions established independently for each executive.	The executive reduces his or her current income to avoid paying tax until the money is received at some point in the future. This option is generally used when an executive has maxed the company's 401(k).	Many executives want some equity stake in the company. The transfer of actual stock, however, has legal and tax consequences. A comparable result to stock ownership can be obtained through NQDC.

GENERAL BENEFITS OF EXECUTIVE COMPENSATION

Recruit High Performing Executives. NQDC can provide three benefits that can help recruit top talent. They are:

- Performance bonus, i.e., "do more – get more";
- Synthetic ownership interests, i.e., "skin in the game";
- Income tax deferral.

Retention of Key Employees. NQDC can provide vesting requirements so the executive only gets the compensation if they stay for a minimum period of time, through a merger or acquisition or until retirement.

Reduce Competition. NQDC allows for forfeiture of the compensation if the executive leaves for a competitor, shares trade secrets or in any way discloses facts about or impairs the business.

Support the Balance Sheet. NQDC is a contingent promise to pay. As such, the employer retains ownership of any funding vehicle. So, the asset stays on the company's balance sheet which helps with financial covenants, liquidity, etc.

Permitted Discrimination. The company gets to choose which employees participate, provided they are key employees. Rank-and-file employees are specifically prohibited from participation.

Executive Death Benefit. The company can provide each executive with a death benefit as part of the deferred compensation package.

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Income Tax Deferral. The executive is not taxed until the compensation is paid out. The company retains and is taxed on income until payment is made at which time a business deduction is taken. The program can be structured so that earnings are not subject to income tax.

Cost Recovery. The program can be designed using a life insurance. The death benefit is sufficient to recover all or a portion of the cost of the program. Special products exist for this market.

EXAMPLES OF SYNTHETIC EQUITY

PHANTOM STOCK - The company can customize contribution and vesting schedules measured by phantom stock values. In other words, the compensation available at retirement is based on both increases and decreases in the valuation of the company. This structure creates an ownership experience without the dilution that comes from actual equity grants (see grid).

TERM	METHOD
Formula	# of phantom shares awarded annual gross profit
Stock Valuation	Declared annually by the board
Vesting	20% per year based on meeting goals

BUYOUT STOCK - The company can fund a plan based upon the value of the actual stock. This value can vest and payout upon a "change in control" of the company. From a practical perspective, this structure gives the executive the same financial reward and protection as actual stock owners in the event of a sale. (see grid).

TYPE OF SALE	CHANGE OF CONTROL	VESTING TERMS
Sale to Insiders	Yes	Account vets and distributes to executives as a method to execute purchase
Sale to Outsiders	Yes	Account vests and distributes to executives as reward for years of service
No Sale	No	Optional triggering event can be retirement

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