Forms of Long-Term Incentives

Restricted Stock – Grants of stock that have restrictions, such as vesting periods or performance requirements, that prevent the recipient from transferring the stock and are subject to the risk of forfeiture until the restrictions lapse. Typically, restricted stock is time vested, and an individual must remain employed during the vesting period in order for the restrictions to lapse. Dividends or dividend equivalents are typically paid during the vesting period or deferred until the end of the period.

Restricted Stock Units – Grants of units representing restricted stock. "RSU's," as they are known, carry the same rights as restricted stock but allow companies to avoid having to issue a stock certificate until the vesting requirements have been satisfied.

Stock Options – A stock option gives the holder the right to purchase a share of company stock at a particular price for a set period of time, usually 10 years. The price at which the options may be exercised is usually the price of the company's stock on the date the options are granted (the "strike price"). If the company performs well, the stock price will increase over the exercise price, giving the options value and rewarding the executive for his role in the company's success. Typically, options may not be exercised for a period of time, usually between one and five years, before they vest.

There are many variations of stock options, including performance vesting, which requires the achievement of certain performance objectives for the options to vest, and premium priced options, in which the exercise price is higher than the stock price on the date of the grant.

Stock Appreciation Rights (SARs) – Similar to a stock option, a SAR grant allows the recipient to receive the increase in the company's stock price above the exercise price over a specified period of time. SARs have a vesting period and carry a certain term. For example, if an executive is granted a SAR on 500 shares when the current stock price is $30, and if after a three-year vesting period, the price has risen to $50, the SAR would pay the $20 increase per share for a total of $10,000. The payment could be either in cash or stock. SARs paid in stock are more attractive to the company because they use fixed accounting. SARs are used where companies cannot use stock options or where companies want to conserve the use of shares of stock, since the number of actual shares issued is based on the appreciation of the stock price between the date of grant and the date of exercise.

Performance Shares – Performance shares are shares of stock paid upon achievement of predetermined financial or nonfinancial objectives. Because they are denominated in shares of stock, the value of performance shares fluctuates with share price, providing for a level of alignment with shareholders. Performance shares can be paid out in stock or in cash.

Performance Cash – An annual or long-term incentive based on one or more performance metrics in which the payouts are denominated in and paid out in dollars.

Performance Units – Grants of units denominated in dollars that are contingent upon the achievement of one or more financial or nonfinancial performance objectives typically over a period of years. Unlike performance shares, the value of the award is not impacted by changes in stock price. Performance units can be paid out in cash or stock.