Computershare

Restricted Stock Programs

CHARACTERISTIC/ CONSIDERATION	RESTRICTED STOCK UNITS	RESTRICTED STOCK AWARDS
Concept	› A promise to transfer shares of the company's stock at a later date, after the applicable vesting conditions on the promise have been satisfied.	› Shares of stock, subject to a substantial risk of forfeiture, issued at grant at par value or at no cost to the holder.
Key Similarities	› Both are full value awards and provide the same economic benefit › Both have the same accounting expense impact (assuming RSU's are settled in stock, not cash)	
Key Differences	› Promise to deliver stock in the future › Recipient does not have voting rights	› Transfer of property at grant and subject to tax under Code Section 83 at the time the award is made › Recipient has voting rights even before vesting until distribution
Accounting	› If unit is payable only in stock, it is accounted for in the same manner as restricted stock awards for both income statement and EPS purposes. If payable in cash (liability award), units will be subject to variable-plan accounting. › The value on the date of grant is amortized to compensation expense over the vesting period (time based vesting).	› Vested restricted shares are considered out-standing and are included in the denominator for purposes of computing basic and diluted EPS. Non-vested restricted shares that vest based solely on continued service are included in the computation of diluted EPS using the treasury stock method. › The value on the date of grant is amortized to compensation expense over the restriction period (time based vesting).
Taxation	› No tax consequences to recipient at grant › Taxation can be deferred beyond vesting if distribution of underlying shares is deferred (either mandatorily or through a valid deferral election). Deferral only applies to income taxes; employment taxes are due when unit vests. › No 83(b) election is permitted (stock is not issued until unit vests so no transfer of property occurs at grant). › Participant is generally subject to tax upon vesting at the difference between the purchase price and the fair market value of the stock. › Company is entitled to a tax deduction equal to the ordinary income recognized by participant.	› No tax consequences to recipient at grant › Taxation cannot be deferred beyond vesting › Individual can make a Section 83(b) election to accelerate timing of taxation to the date of grant. › Participant is generally subject to tax upon vesting at the difference between the purchase price and the fair market value of the stock. › Company is entitled to a tax deduction equal to the ordinary income recognized by participant.

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Tax Payment Methods	› Best to have a default tax withholding method for both › Sell to Cover › Withhold to Cover › Cash › Payroll / Bonus Deduction › Sell all Shares › Other	
Share Counting	› Underlying shares are not considere issued and outstanding until distribution. If shares are forfeited, they are returned.	› Underlying shares are considered issued and out-standing before vesting. If shares are forfeited, they are returned to plan reserve.
Shares Granted	› Both are generally determined by job classification, company's performance over a period of time, employee-by-employee basis, or by calculating the number of shares granted as a percentage of employees annual salary. › Conversion ratio for both is generally 3:1 (three options to every one restricted share), but ultimately depends on cultural and participant perspectives and business/HR objectives	
Vesting	› May want to avoid vesting schedules where shares vest in frequent intervals for both due to the sizeable administrative process of assessing and collecting taxes that become due as shares vest. › Annual or quarterly vesting is most common for both › Best to schedule vesting events so that they do not coincide with quarter ends › Agreements should provide language for the treatment of a vesting event during a blackout period for both i.e. vesting will be deferred until blackout period has expired.	
Advantages	› Voting and dividend rights are received at grant for RSA's › Both provide strong retention value as they provide value even when the company's stock declines. › Both provide for decreased dilution to shareholders. Deliver value even in a declining market, and can award a smaller number than might be necessary for option grants, slowing the use of the share reserve. › Both have a decreased EPS impact › Both offer, for employees, a relatively low-risk way to acquire and maintain an equity interest in the company, and can be a strong motivational tool as employees recognize that their individual performance can directly affect the company's prospects and therefore the value of the company's stock. › Both are not subject to statutory eligibility restrictions so restricted stock can be offered to most anyone within plan limitations.	
Disadvantages	› No voting rights during vesting period for RSU's › Both don't result in cash inflow for the company and can result in cash outflow if shares are used to cover required tax payments. › Both may be subject to shareholder criticism because award provides value to employees even when the company's stock price declines.	