



Contact Us

For more information, please contact:

Jon Burg
 Vice President
 +1 (415) 486.7137
jburt@radford.com

Terry Adamson
 Senior Vice President
 +1 (215) 255.1802
tadamson@radford.com

Locations

Atlanta, Austin, Boston, Chicago, DC Metro, Denver, Hong Kong, London, New York, Philadelphia, San Diego, San Francisco, San Jose, Singapore

RADFORD PEERTRACKER

Communication Tool for Relative TSR Plans

The economic crisis over the last year has seen the increased scrutiny of executive compensation programs and rekindled discussion on the most appropriate form of long-term incentives, from stock options to time-based shares to shares tied to company performance. One of the fastest growing new forms of employee equity are Relative Total Shareholder Return (TSR) programs. These programs are rapidly gaining ground among Fortune 1000 companies and serve as a means to drive superior performance linked to broad-based financial rewards.

Typical TSR Plan Vesting Schedule

Awards are granted at the beginning of a performance period across a broad spectrum of employees. At the end of the period, the awards vest according to a schedule reflecting the organization's ranking within an established peer group or index, such as the S&P 500.

Sample Relative TSR Award Payout Schedule	Awards Earned Upon Vesting
MAXIMUM: 33% Above Comparator Group Median	200%
For every 1% in above Comparator Group median, vesting payouts increase by 3% of target	↑
Comparator Group Median TSR + 1%	103%
TARGET: Comparator Group Median TSR	100%
Comparator Group Median TSR - 1%	97%
For every 1% below Comparator Group median, vesting payouts decrease by 3% of target	↓
MINIMUM: 22% Below Comparator Group Median	33%

Radford's PeerTracker communication tool allows companies with TSR programs to clearly communicate to plan participants how their equity vesting percentage ties to the relative ranking of a company within an index or peer group during a performance period. PeerTracker:

- > Provides plan participants with an online, "real-time" snapshot of TSR rank as of prior business day; one-time, quarterly, or annual paper statements are also available
- > Offers a direct line of sight between the company's market performance and reward for the grant recipient
- > Reinforces the concept of stock price appreciation and keeps recipient engaged in the reward concept
- > Allows for easy auditability of TSR plans

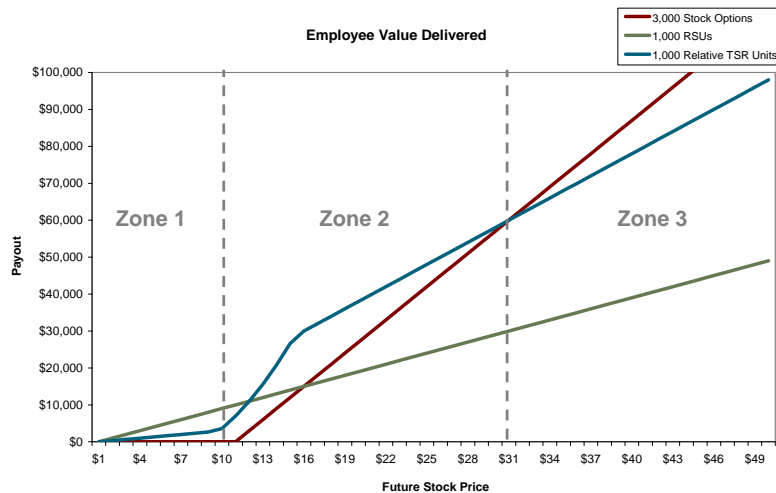
- > Provides the necessary reports on the expected number of shares to vest as of the end of the reporting period, to ensure compliance with the calculation of *diluted* earnings per share, and accruals for dividend equivalents
- > Can be seamlessly integrated into your current equity administration tool or broker

Effective Employee Communication

Incentive compensation programs effectively deliver the desired results of attraction, motivation and retention only when employees fully understand and appreciate their value. All statements are developed by Aon's Benefacts® service, a recognized leader in personalized communication for more than 40 years. Our Benefacts team will work with you to develop a concise personalized statement of the program for each eligible employee.

Payout Functions of Relative TSR Plans

The chart below outlines the value delivered to an employee holding either 3,000 traditional stock options, 1,000 time-based restricted stock units (RSUs) or 1,000 Relative TSR units. All three vehicles are assumed to be granted when the Company's stock is trading at \$10.00. Stock options have the greatest leverage if the Company's stock price appreciates after grant, as demonstrated by the steep red line in Figure 3. RSUs, illustrated with the green line, don't have as much upside leverage as the options, however they maintain significant value when the Company's stock price depreciates below \$10.00 whereas the options fall underwater and are worth nothing.



The blue line in the chart above is the payout curve for a Relative TSR plan (assuming the Comparator Group median TSR is 10% annually). Dividing the chart into three "zones" enables us to discuss the advantages of Relative TSR over the other two vehicles.

- > Zone 1 – Downside
 - Provides performance-based retention value when options otherwise fall underwater
 - Avoids RSUs' straight-lined "giveaway" often criticized by shareholders
- > Zone 2– Reasonable Upside
 - Greater upside leverage than RSUs
 - Similar to or greater upside than options
- > Zone 3 – Outlying Upside
 - Greater leverage than RSUs
 - Tempers what is often criticized by shareholders as "windfall" gains from options
 - Does not excessively reward risk, as the outlying upside returns are less leveraged compared to stock options