

Simon lavee-law office

18 Haro'e St. Ramat Gan, 52103

Tel: 972-3-6732299

Fax: 972-3-6739399

E-Mail: lavee@laveelaw.com

New Trends

Financial Instruments

For Executives & Employees

Simon lavee-law office

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Fax: 972-3-6739399

E-Mail:lavee@laveelaw.com

*Background

* Phantom Stock

*Restricted Stock

*Restricted Stock Units (RSU)

*Stock Appreciation Rights (SAR)

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Background

***Significant reduce in Stock Option granting.**

***The 2002 Enron Syndrome – Accounting and Financial Irregularities.**

***The Sarbanes-Oxley Act – Increase control on financial reports and responsibly on Directors.**

***The FAS 123R and the FIRS 2
Fair Value and not Intrinsic Value.**

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Phantom Stock

***Unfunded and unsecured promise to pay in the future a certain amount of money based upon change in the performance of the firm.**

***Performance – not of an individual performance but firms performance – Share price, Net Profit, Firm Assets, Completion of Targets, EBITDA etc.**

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***Valuation is not needed.**

***Discriminatory Planes – Higher Incentives to favorable Executives and Employees.**

***Employer Deductions is delayed until corresponding income is recognized.**

***Obligation must be unfunded and unsecured**

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Restricted Stock

***Stocks owned immediately by Beneficiary.**

***Risk of Forfeiture.**

***Not Transferable.**

***Vesting results taxable income to Beneficiary.**

***The Grant Date is amortized into expenses over the vesting Period.**

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Restricted Stock Units (RSU)

- *Promise to grant Stocks to beneficiaries in the future upon occurrence of certain event.**
- *Less and delayed Dilution - Firm is not issuing stocks until vesting.**
- *Grant doesn't create taxable income.**
- *Vesting creates taxable income equal to FMV of the stocks.**
- *Deduction to firm as expense, over vesting period corresponding the FMV.**

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Restricted Stock and Restricted Stock
Units

- *No payments by Beneficiaries.**
- *Plans are complicated and easy to understand.**
- *Incentives is provide regardless firm stock performance.**
- *Possible to reduce accounting expenses.**

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Stock Appreciation Rights (SAR)

- *Right to receive certain amount of money or stocks, equal to the difference between the exercise price and the FMV.**
- *Neither Grant nor vesting creates income tax. *The exercise creates income tax event, equal to cash received.**
- *Deduction to firm as expense, over vesting period corresponding the FMV.**