

Incentive Pay Practices: Privately Held Companies

July 2021

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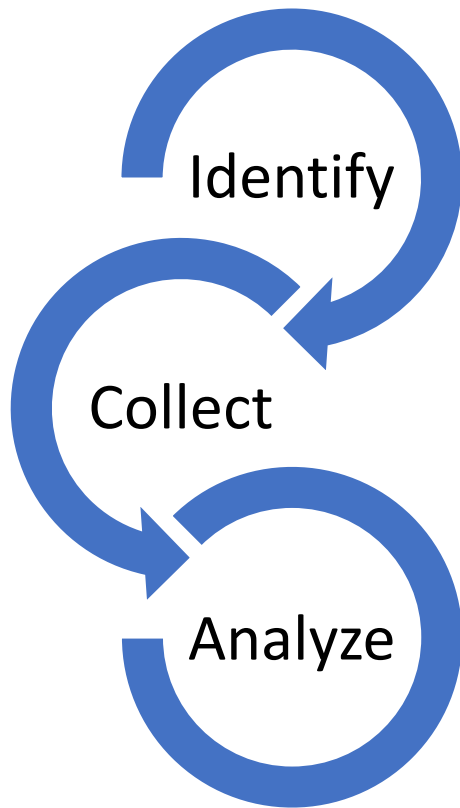
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Methodology



WorldatWork, in partnership with Compensation Advisory Partners (CAP), invited its broader membership base to participate in an electronic survey on incentive pay practices. This report is part of a larger report with 1,226 completed responses, 81% of which represent U.S. organizations. A total of 561 completed responses from privately held companies were received, representing organizations of different sizes and across multiple industries.

Email invitations were sent directly to participants on 03/24/2021 and results were collected over an 18-day period. Sample sizes vary by question.

Any questions with fewer than 30 responses were omitted from the survey results because of small sample size.

Key Findings

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Overview

- The results of the CAP-WorldatWork Incentive Pay Practices survey indicate that COVID-19 had an impact on privately held companies, but that it is largely temporary
- The prevalence of both short- and long-term incentive use at privately held companies dropped in 2021
 - Short-term incentive (STI) prevalence dropped to 93% in 2021 from 99% in 2019. The use of goal-based annual incentive plans dropped, while the use of spot awards, discretionary bonuses and profit-sharing plans increased.
 - Similarly, long-term incentive (LTI) prevalence dropped to 51% in 2021 from 62% in 2019. The 2021 prevalence was the lowest since the survey was launched in 2007.

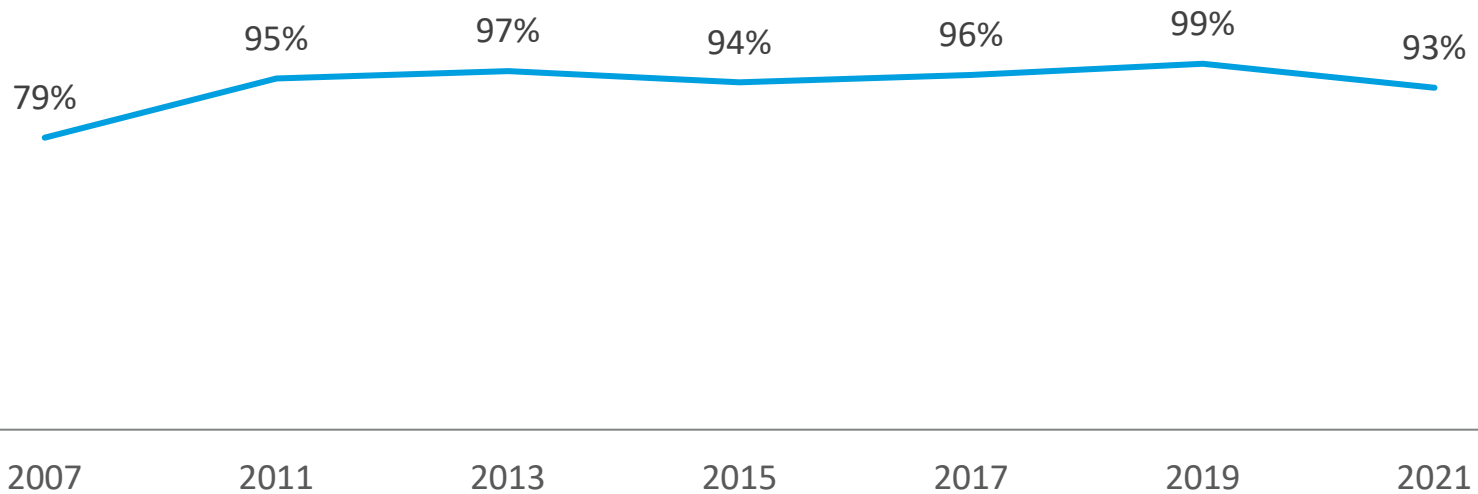
Overview (cont.)

- Spending on STIs dipped to 6% of operating income at median in 2020 but is projected to bounce back to 7% at median in 2021 which is the same percentage spend as public companies.
 - Spending for STI plans continues to increase each year for reasons such as:
 - Participation has broadened to include more employees.
 - Labor markets have tightened with increased competition for talent.
 - Economic performance is bouncing back to pre-COVID levels.
- We predict that LTI prevalence will increase as private companies realize that they need this pay component to compete for talent with public companies.
 - The choice of LTI vehicles depends on company strategy. Performance plans (long-term cash and performance shares/units) are the most popular as they are less complex than other vehicles and can be customized to fit with business strategy.

Short-term incentives (STIs) prevalent

Does your organization have a short-term incentive plan?

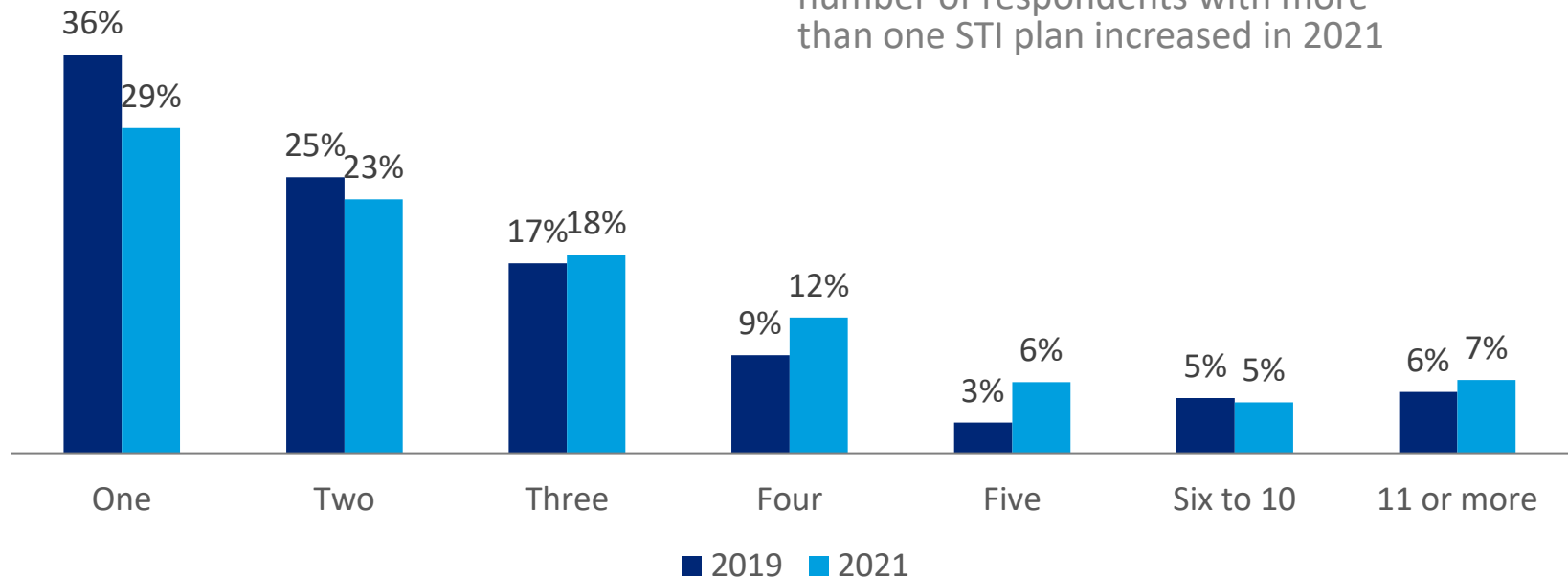
- STI programs are prevalent, but overall use dropped to 93% in 2021, although the use still remains high



Short-term incentives (STIs) prevalent

How many short-term incentive programs does your organization have?

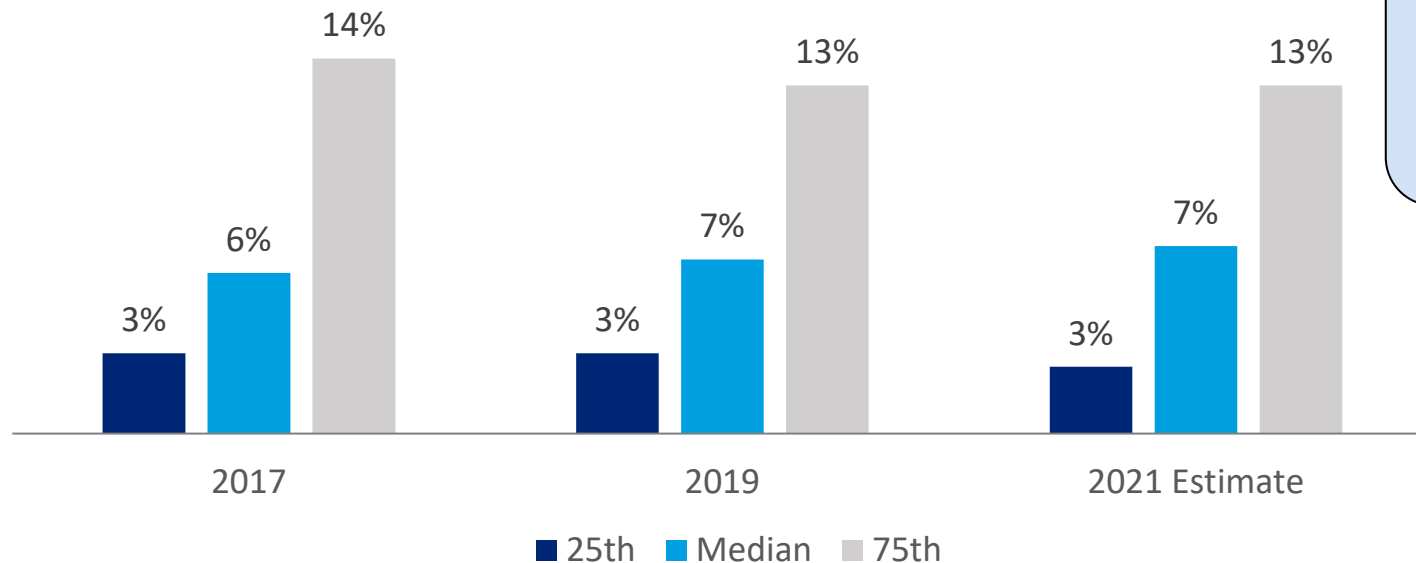
- While overall prevalence dropped, the number of respondents with more than one STI plan increased in 2021




STI budgets rising for 2021

What is your organization's approximate total annual budget/spending for short-term incentives, expressed as a percentage of operating income?

- Privately held companies remain steady in their STI budgets for 2021 compared to recent years



 **Insight**
STI spending dipped to 6% at median in 2020 because of COVID-19.

Some STI plan changes made for 2021



More than one-third (37%) of privately held companies added or modified their STI plans for 2021



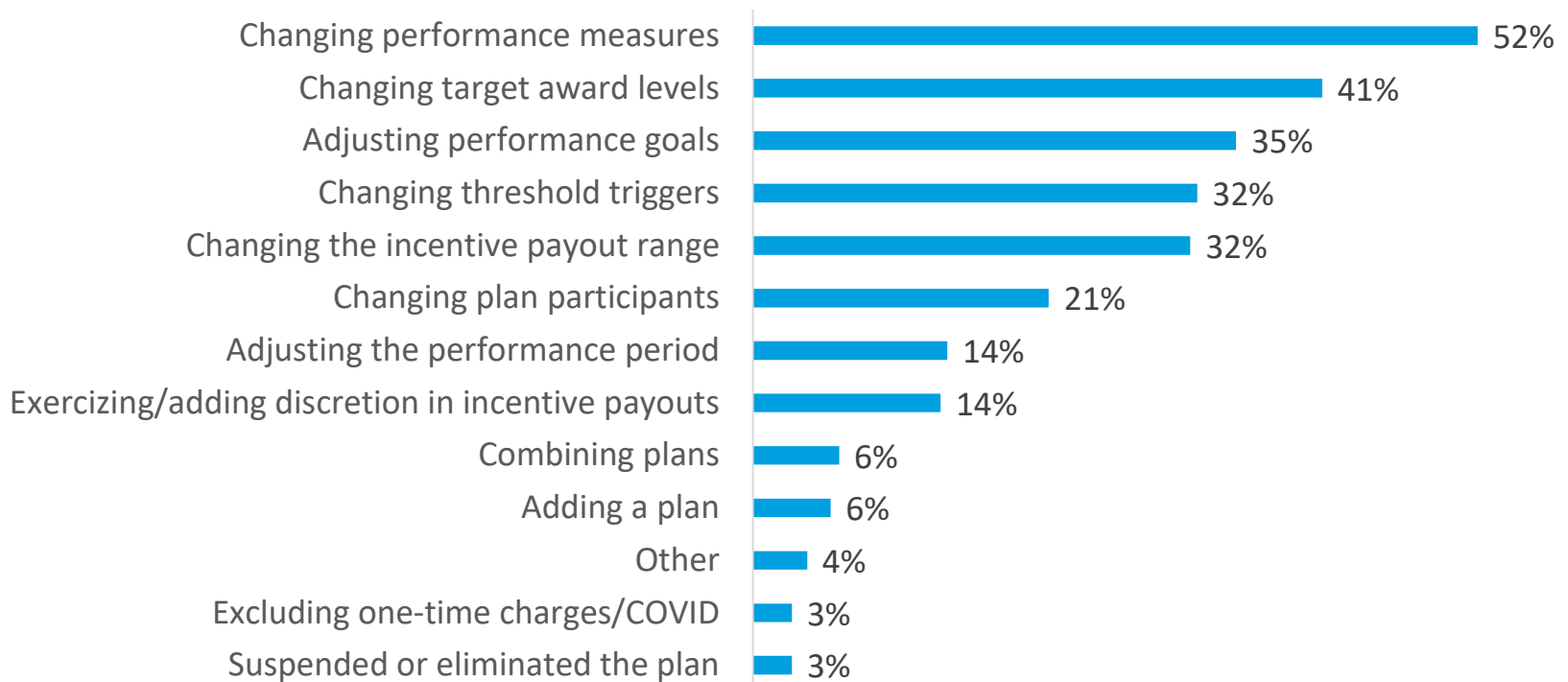
Out of the companies that modified STI plans, 29% reported they changed their plans due to the global pandemic/economy



82% of the pandemic-related changes were made on a temporary basis

STI modifications reported for 2021

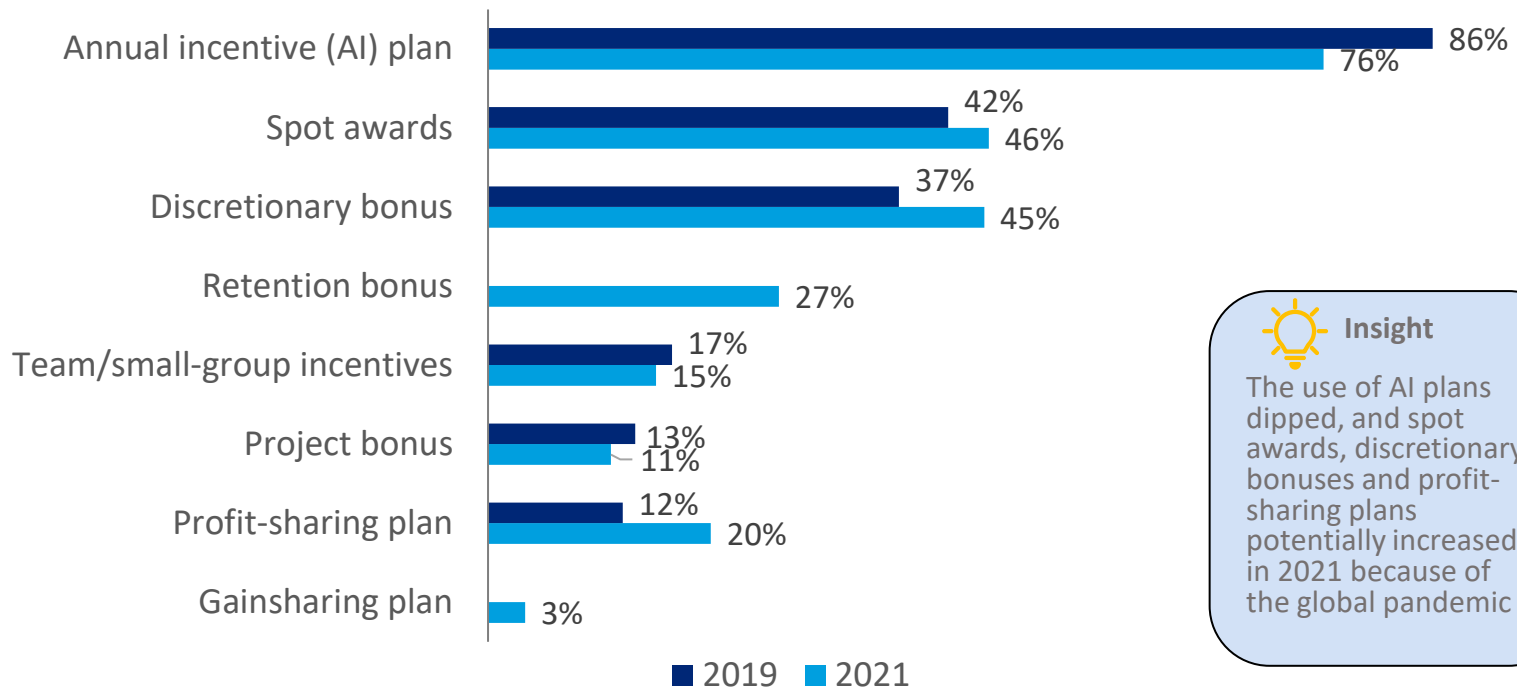
If your organization added or modified a short-term incentive program, what changes were implemented? Please select all that apply.



n = 178

Different types of STIs used

Which types of short-term incentive plans does your organization use? Please select all that apply.



Insight
 The use of AI plans dipped, and spot awards, discretionary bonuses and profit-sharing plans potentially increased in 2021 because of the global pandemic

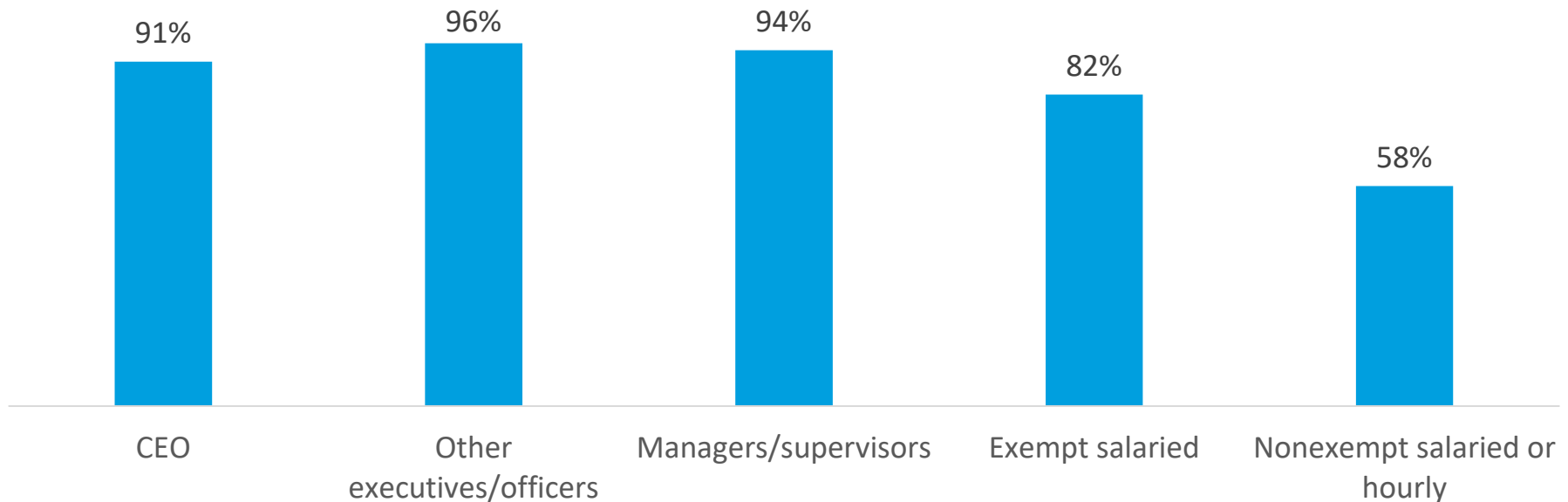
Note: Retention bonus and gainsharing plan responses were added in 2021.

n = 498

AIPs broadly offered across job levels

*Please indicate which of the following positions are eligible for annual incentives in 2021.
Please select all that apply.*

- More than half of privately held companies extend AIP participation to nonexempt employees



Target AIP awards

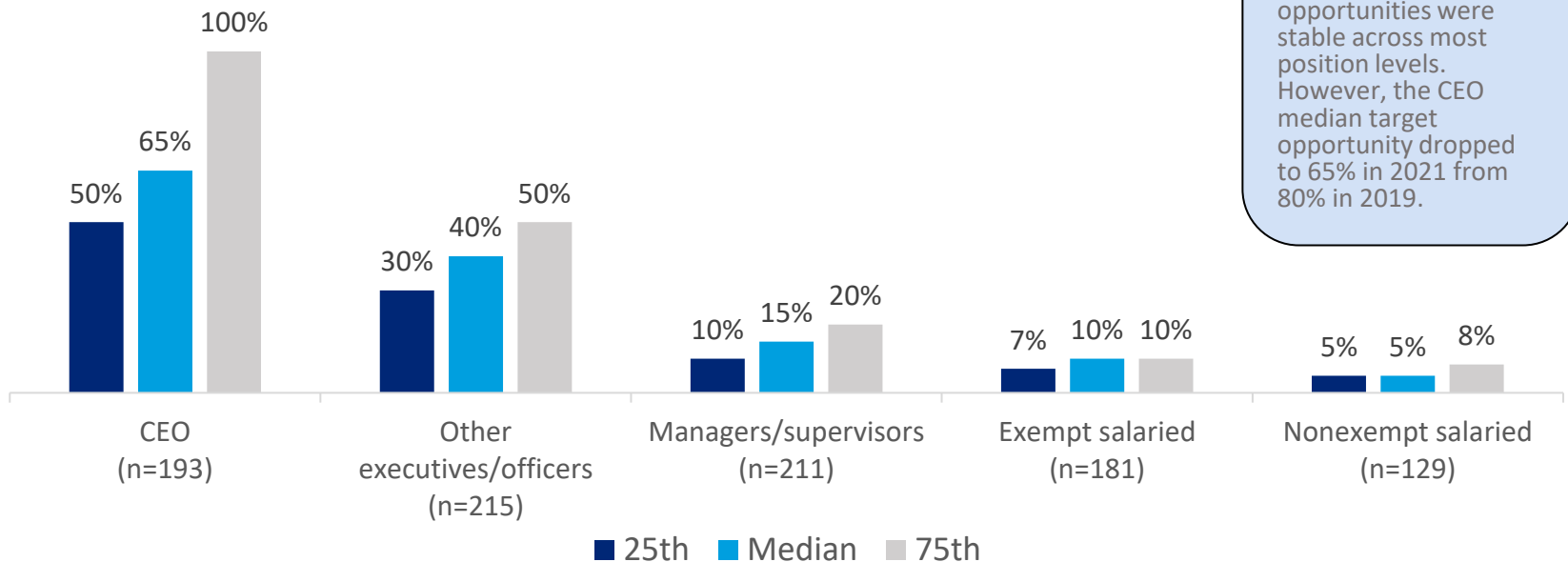
What is your target annual incentive pay level, as a percentage of salary, for the following positions?

- Target AIP opportunities are highest for the CEO at 65% of salary at the median, tapering down to 5% of salary for nonexempt employees



Insight

AIP award opportunities were stable across most position levels. However, the CEO median target opportunity dropped to 65% in 2021 from 80% in 2019.

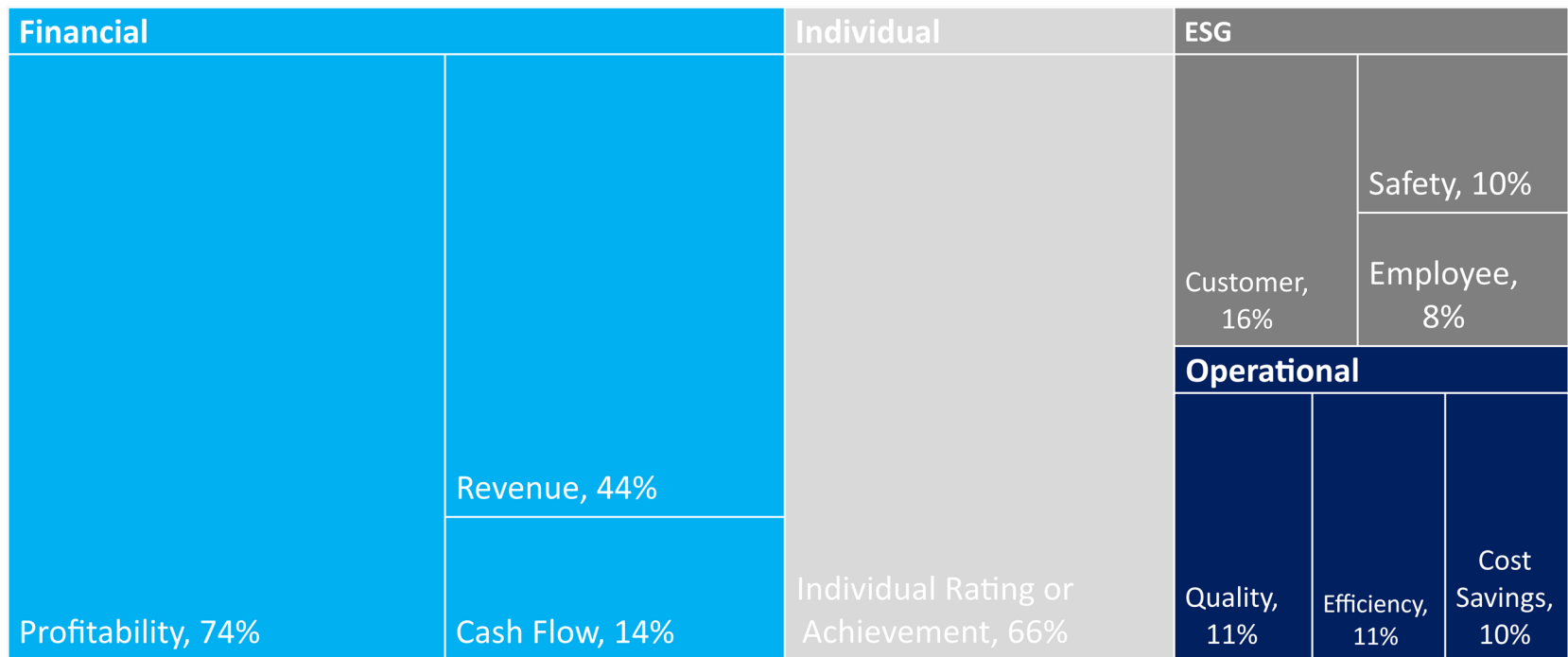


AIP award leverage and payouts

- **AIP payout leverage**
 - Threshold: AIP thresholds at privately held companies vary widely
 - About one-quarter of the respondents set their thresholds at 50% of target
 - More than 40% set their thresholds at or greater than 75% of target
 - The remaining responses vary
 - Maximum: 150% and 200% of target are the most prevalent maximums
 - 26% of the respondents set the maximum at 150% of target
 - 30% of respondents set the maximum at 200%
 - Practices vary widely for the rest of the respondents
- **AIP plan payout terms**: The majority of AIP plans payout:
 - On an annual basis (78% prevalence)
 - In cash (100% prevalence)

Four or fewer AIP measures typically used

Which of the following performance measures are used in your annual incentive plan? Please select all that apply.

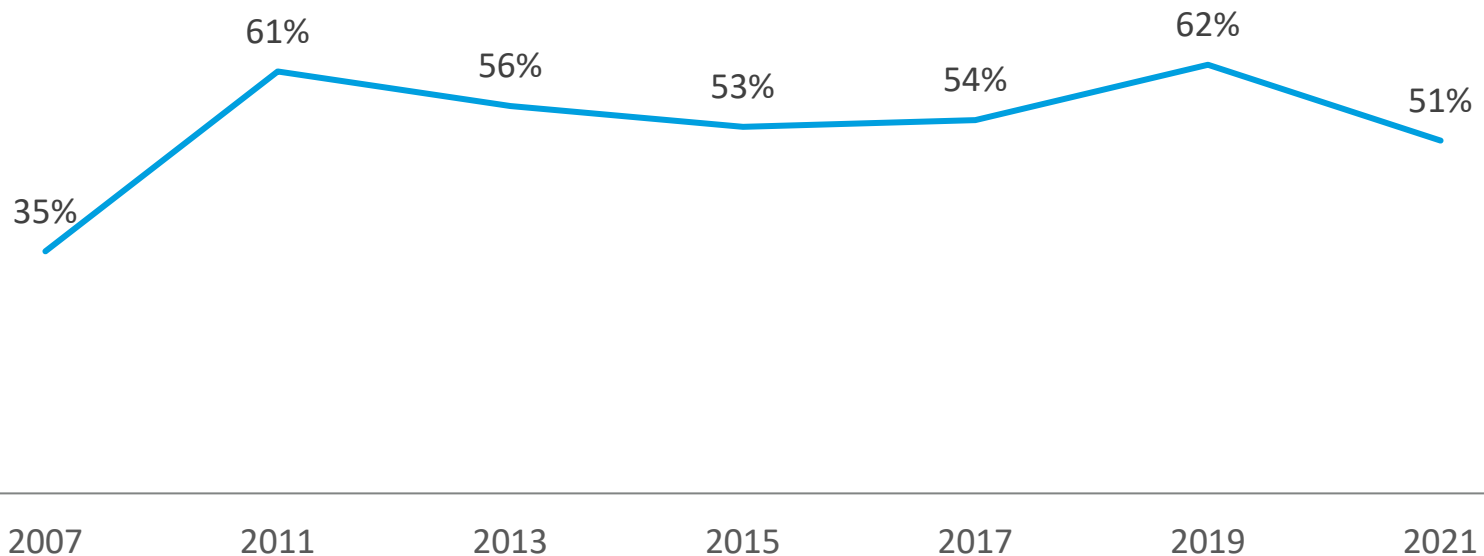


■ Financial ■ Operational ■ ESG ■ Individual

Long-term incentive (LTI) prevalence

Does your organization have a long-term incentive plan?

- LTI prevalence at privately held companies dropped to 51% in 2021, but are expected to return to previous levels due to competitive pressures

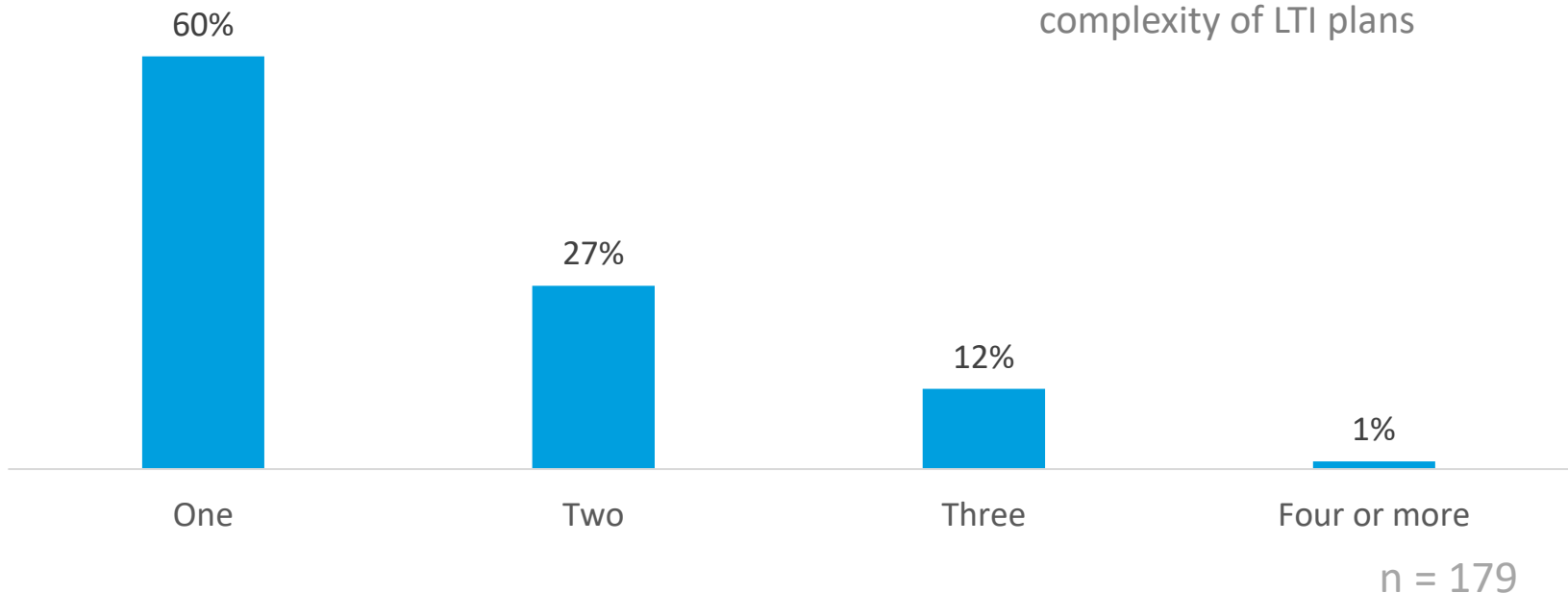


n = 364

Number of long-term incentives (LTI) vehicles

How many long-term incentive vehicles does your organization have?

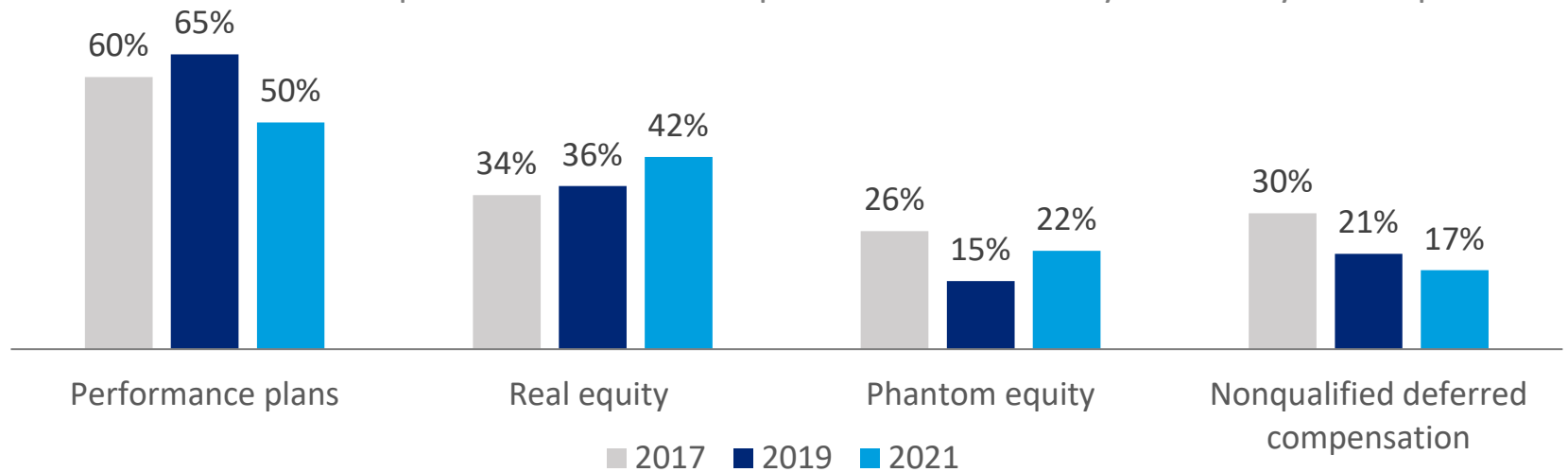
- A majority of privately held companies use only one LTI vehicle, given the complexity of LTI plans



Private company LTI vehicles vary

What type(s) of long-term incentive programs does your organization offer? Please select all that apply.

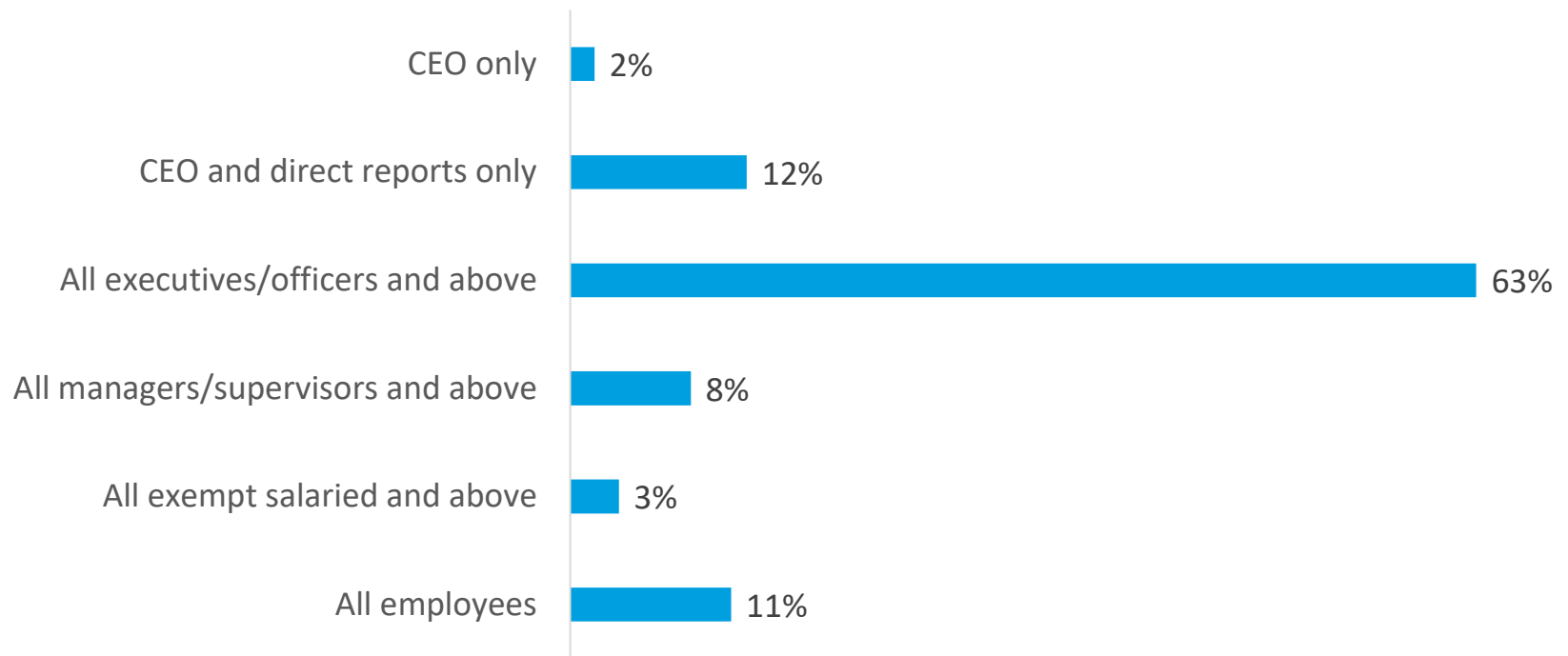
- Performance plans (long-term cash and performance shares/units) are most prevalent, followed by real equity (stock options and restricted stock/units)
- Phantom equity (phantom stock and stock appreciation rights) and nonqualified deferred compensation are used by a minority of companies



n = 184

LTIs are typically reserved for the executive / officer level and above

Please indicate which positions are eligible to receive long-term incentive awards.

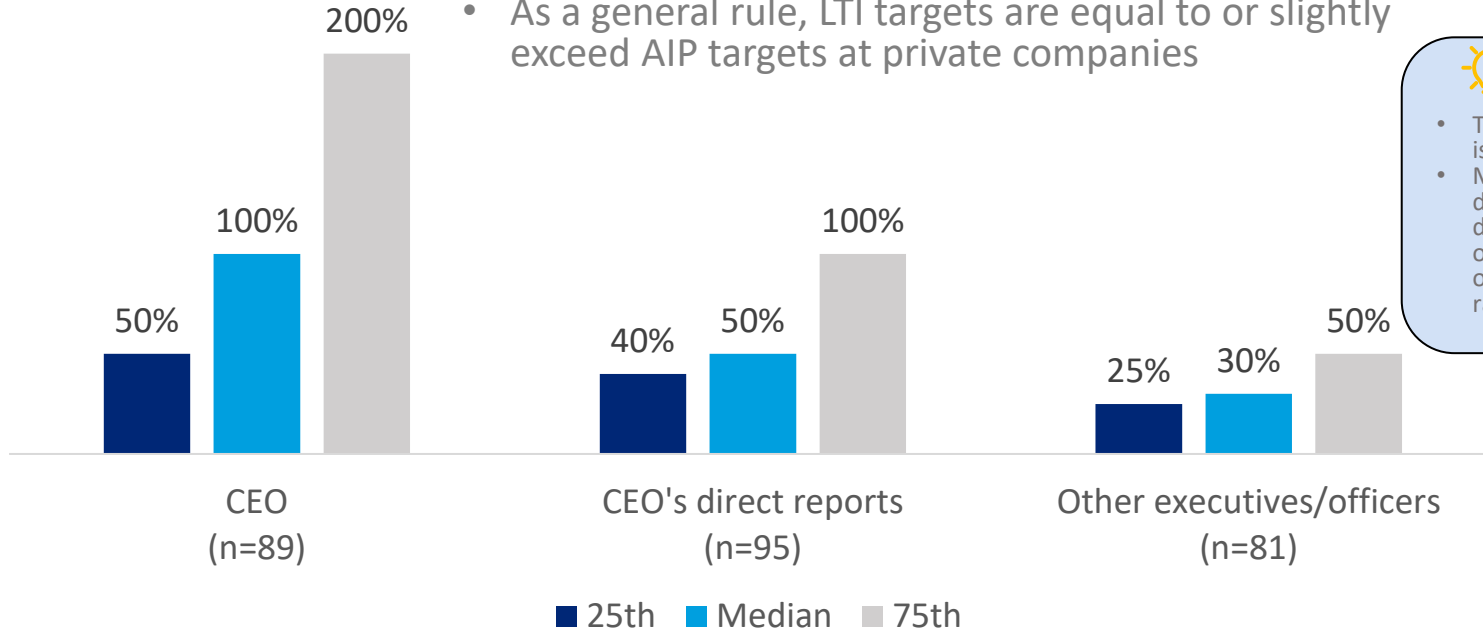


n = 179

Target LTI award opportunities

What is your target long-term incentive award opportunity, as a percentage of salary, for the following positions?

- Private company LTI award opportunities are about 50% less than those of publicly traded companies
- As a general rule, LTI targets are equal to or slightly exceed AIP targets at private companies



Insight

- The LTI range for CEOs is wider than in 2019
- Median opportunities dropped for CEO's direct reports and other executives/officers, and the ranges have tightened

Other LTI terms

- **Grant Practices:** 62% of privately held companies grant LTIs on an annual basis
- **Vesting Period:** Almost 80% of private companies vest LTI awards over three to five years. Three years is the most common vesting period (49%)
- **Economic Value Sharing and Equity Overhang:** The majority (82%) of privately held companies share 15% or less of total economic value with their employees

Family-owned companies

Short-term incentives (STIs)

- Family company STI spending is 6.3% (2020) and 8.0% (estimated 2021) at median vs. 6.0% and 7.0%, respectively, at all privately held companies
 - Profit-sharing plans are more prevalent at family businesses

Long-term incentives (LTIs)

- LTI plans are less prevalent, with 42% of family companies using them
 - Long-term cash and performance shares/units (50%) are most prevalent, followed by phantom stock and stock appreciation rights (SARs) plans (38%)
 - Family companies are less likely to use real equity in LTI plans

Private equity-owned (PE-owned) companies

Short-term incentives

- STI spending is 5.0% at median (2020 and 2021) vs. 6% and 7%, respectively, at all privately held companies
- CEO annual incentive (AIP) opportunities are 100% of salary at median at PE-owned companies, higher than at other privately held companies
- AIP eligibility typically extends as far as exempt salaried employees only

Long-term incentives

- 60% of PE-owned companies have an LTI plan, with stock options being the most prevalent vehicle

Respondent Profile

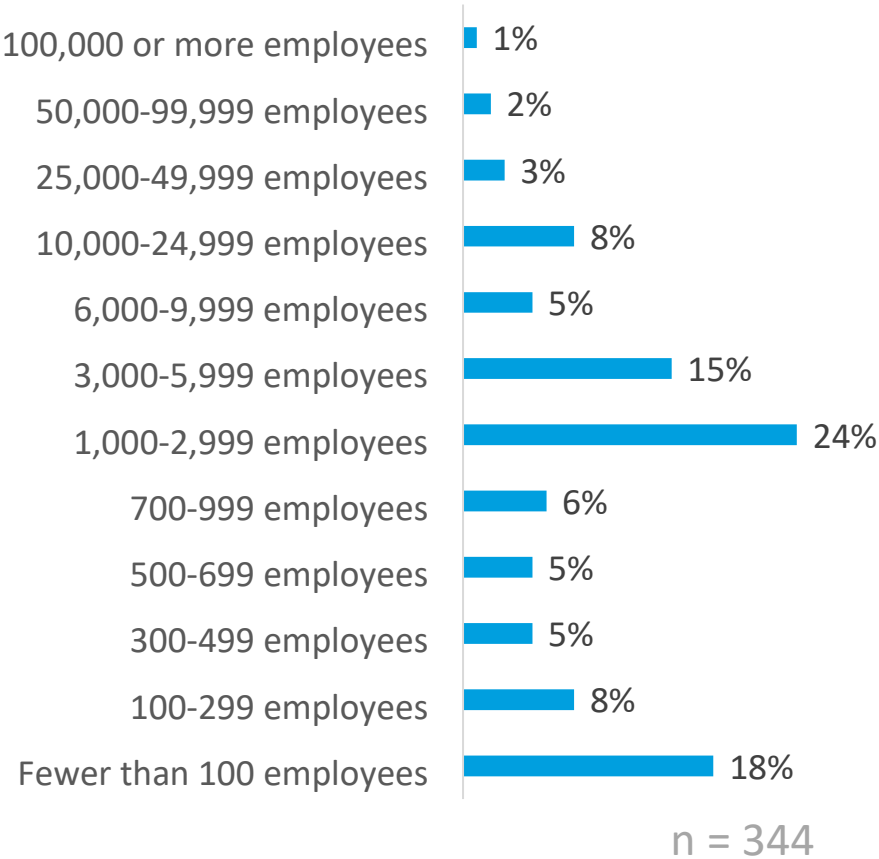
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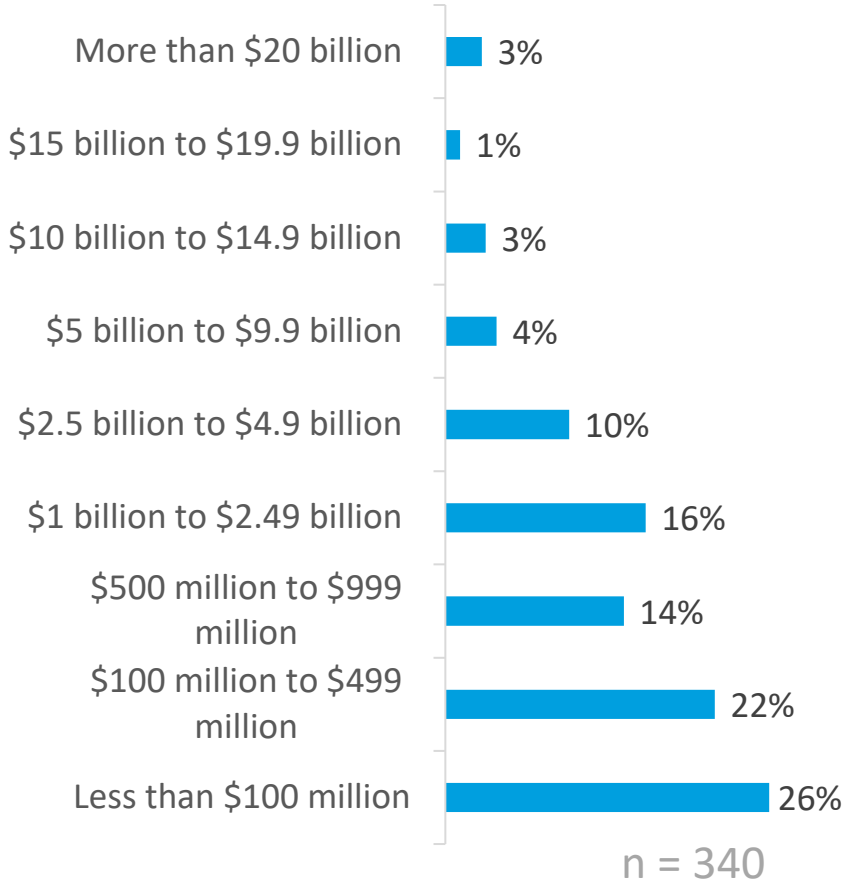
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Organization Profile

Number of Employees Worldwide



Revenue Ranges



Organization Profile (cont.)

Industry



Consulting
18%



Manufacturing
18%



Financial services /
insurance
14%



IT
9%



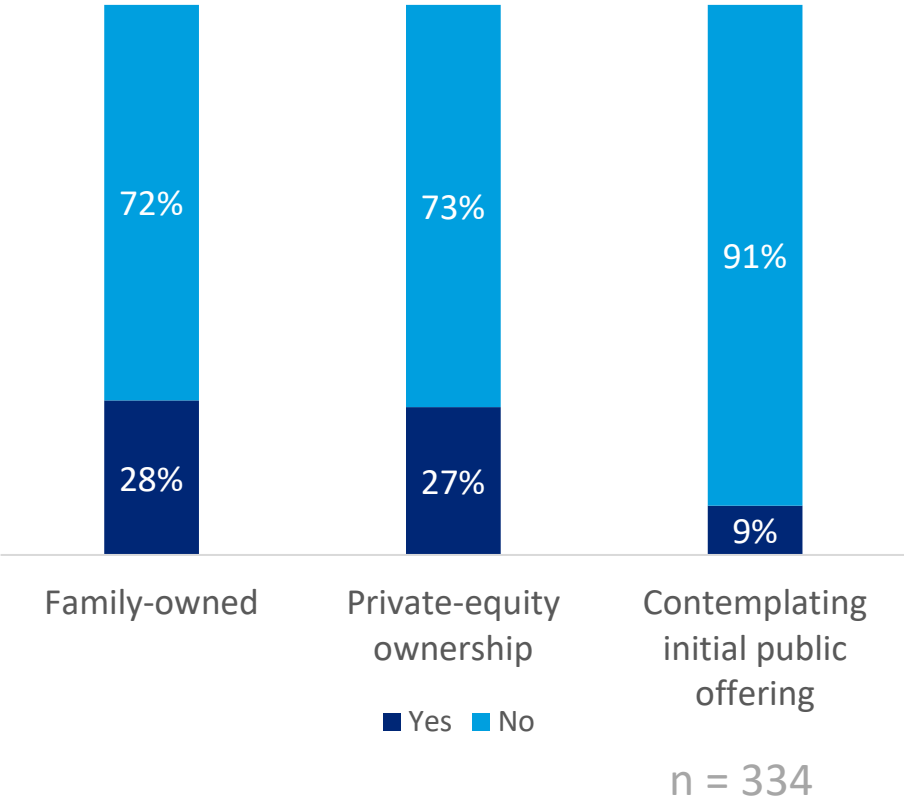
Health care/
pharma
7%



All Other
industries
Combined
34%

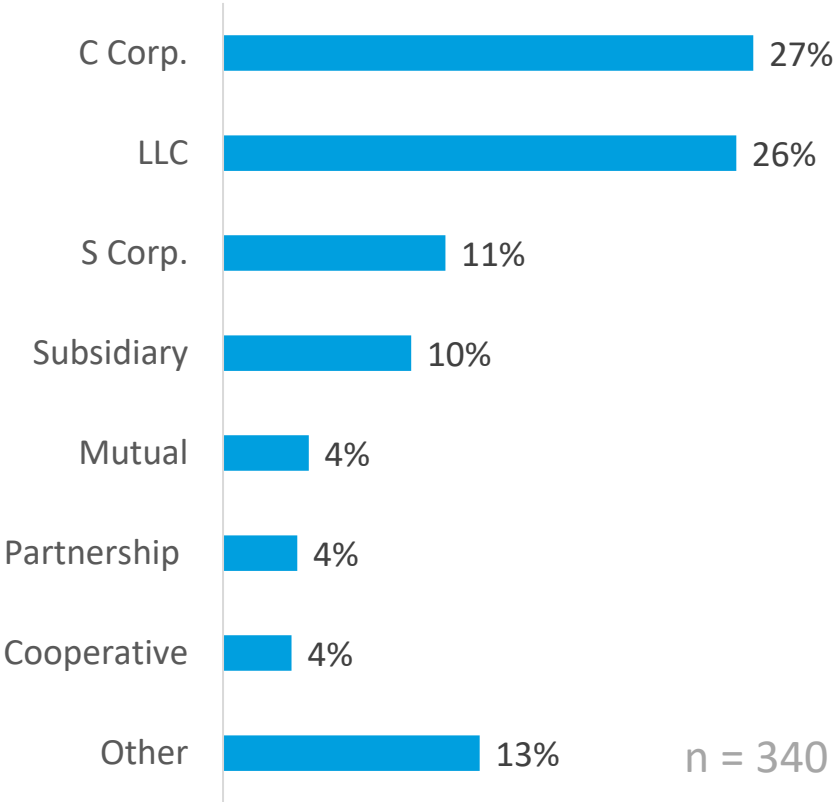
n = 344

Respondents by Ownership



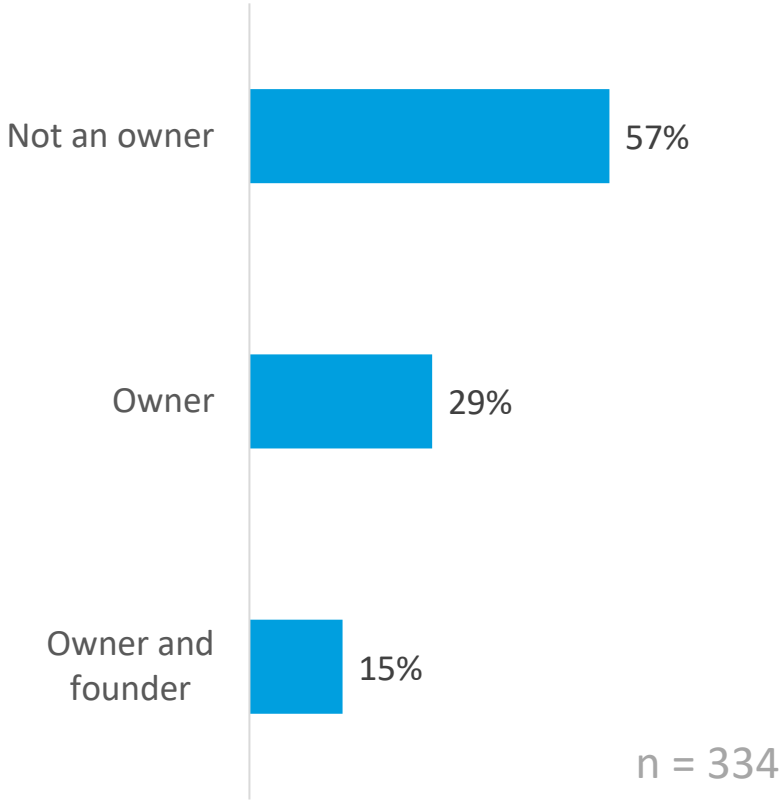
Organization Profile (cont.)

Respondents by Corporate Status



Note: Other responses include foreign corporations

CEO Ownership Status



Topline Results

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Short-Term Incentive Program Prevalence

Does your organization have a short-term incentive program?

Yes	93%
No	7%

n = 561

Number of Short-Term Incentive Programs

How many short-term incentive programs does your organization have?

1	29%
2	23%
3	18%
4	12%
5	6%
6	1%
7	1%
8	0%
9	1%
10	1%
11 or more	7%

n = 497

Types of Short-Term Incentive Plans

Which types of short-term incentive plans does your organization use? Please select all that apply.

Annual incentive plan (AIP)	76%
Spot awards	46%
Discretionary bonus	45%
Retention bonus	27%
Profit-sharing plan	20%
Team/small-group incentives	15%
Project bonus	11%
Gainsharing plan	3%
Other	7%

n = 497

Changes to Short-Term Incentive Plan for 2021

Did your organization add or modify a short-term incentive plan for 2021?

Yes	37%
No	63%

n = 494

Reason for Changes to Short-Term Incentives

If your organization has added or modified a short-term incentive, what prompted it? Please select all that apply.

Participants responding “Yes” to adding or modifying a short-term incentive plan for 2021 received this question.

Change in strategy	36%
Regular annual review and update of the plan(s)	36%
Align programs with market practices	31%
Changes due to the global pandemic/economy	29%
Change in business results	25%
Organizational growth	20%
Board of Directors	8%
New ownership/management	8%
Reorganization	8%
Increased focus on Environmental, Social and Governance (ESG) or Diversity, Equity and Inclusion (DE&I) matters	7%
Changes due to regulatory requirements	2%
Other	6%

n = 179

Changes Due to the Global Pandemic/Economy

If your organization added or modified a short-term incentive plan due to the global pandemic/economy, was the change:

Participants responding “Changes due to the global pandemic/economy” to the prompt for adding or modifying a short-term incentive plan for 2021 received this question.

Temporary due to the pandemic/economy	82%
Permanent due to the pandemic/economy	12%
Not associated with the pandemic/economy	0%
Other	6%

n = 50

Changes to Short-Term Incentive Program

If your organization added or modified a short-term incentive program, what changes were implemented? Please select all that apply.

Participants responding “Yes” to adding or modifying a short-term incentive plan for 2021 received this question.

Changing performance measures				52%
Changing target award levels				41%
Adjusting performance goals				35%
Changing threshold triggers				32%
Changing the incentive payout range				32%
Changing plan participants				21%
Adjusting the performance period				14%
Exercising/adding discretion in incentive payouts				14%
Combining plans				6%
Adding a plan				6%
Suspended or eliminated the plan				3%
Excluding one-time charges / COVID from performance				3%
Other				4%

n = 178

Short-Term Incentive Budget

What is your organization's approximate total annual budget/spending for short-term incentives, expressed as a percentage of operating income?

	2020 Actual	2021 Estimated
75th Percentile	12%	13%
Median	6%	7%
25th Percentile	2%	3%

n = 317

Annual Incentive Plan Objectives

What are the three primary objectives of your annual incentive plan?

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Align employees’ incentives with short-term goals	60%
Share the organization’s financial success with employees	58%
Reward employees	56%
Focus employees on specific goals	38%
To be competitive with other employers	33%
Retain employees	29%
Recruit qualified employees	8%
Provide special recognition	6%
Other	1%

n = 267

Annual Incentive Plan Eligibility

*Please indicate which of the following positions are eligible for annual incentives in 2021.
Please select all that apply.*

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

CEO	91%
Other executives/officers	96%
Managers/supervisors	94%
Exempt salaried	82%
Nonexempt salaried or hourly	58%

n = 265

Annual Incentive Plan Payout Frequency

If your annual incentive plan awards pay out on a schedule more frequently than once per year, what is the schedule of payout?

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Our plan only pays out annually	78%
Quarterly	8%
Every six months	5%
Monthly	2%
Other	7%

n = 265

Annual Incentive Plan Payouts

How are annual incentive plan awards typically paid to employees? Please select all that apply.

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question. Participants could select all responses that apply.

Cash	100%
Equity	4%
Voluntary deferrals	3%
Mandatory deferrals	2%
Other	1%

n = 264

Annual Incentive Plan Threshold, Target, Maximum Prevalence

Does your organization's incentive program specify threshold, target and/or maximum awards for participants?

Participants responding "Annual incentive plan (AIP)" to the type of short-term plan their organization uses received this question.

Threshold	75%
Target	91%
Maximum	78%

n = 265

Annual Incentive Plan Target Opportunity

What is your target annual incentive pay level, as a percentage of salary, for the following positions?

Participants responding “Target” to their organization’s incentive program specifying this type of award for participants received this question.

	Responses	25th	Median	75th
CEO (n=193)	193	50%	65%	100%
Other executives/officers (n=215)	215	30%	40%	50%
Managers/supervisors (n=211)	211	10%	15%	20%
Exempt salaried (n=181)	181	7%	10%	10%
Nonexempt salaried or hourly (n=129)	129	5%	5%	8%

Annual Incentive Plan Threshold Payout Level

What is your threshold payout level?

Participants responding “Threshold” to their organization’s incentive program specifying this type of award for participants received this question.

Less than 25% of target	7%
25% of target	7%
Between 26% and 49% of target	5%
50% of target	26%
Between 51% and 74% of target	6%
75% of target	9%
Greater than 75% of target	33%
No threshold in the plan	4%
Other	3%

n = 188

Annual Incentive Plan Maximum Payout Level

What is your maximum payout level?

Participants responding “Maximum” to their organization’s incentive program specifying this type of award for participants received this question.

The target is the same as the maximum	7%
Less than 125% of target	8%
125% of target	10%
Between 126% and 149% of target	5%
150% of target	26%
Between 151% and 199% of target	6%
200% of target	30%
Between 201% and 249% of target	2%
250% of target	0%
Between 251% and 299% of target	1%
300% of target	0%
Greater than 300% of target	0%
No maximum in the plan	1%
Other	6%

n = 199

Number of Annual Incentive Plan Performance Measures

How many performance measures are used in your annual incentive plan?

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Zero measures	1%
One measure	12%
Two measures	25%
Three measures	34%
Four measures	13%
Five measures	7%
Six measures	2%
Seven measures	3%
Eight measures	2%
Nine measures	0%
10 or more measures	0%

n = 250

Annual Incentive Plan Performance Measures

Financial

Which of the following performance measures are used in your annual incentive plan? Please select all that apply.

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Financial Objectives

A profitability measure (net income, EBITDA, operating income, EBIT, earnings per share (EPS))	74%
Revenue/revenue growth	44%
Cash flow/cash-flow growth	14%
A return measure (return on equity, assets or investment)	7%
Economic profit	4%
Capital efficiency	3%
Total shareholder return (stock price appreciation + dividends)	0%
Other financial objectives	9%

Note: Other financial objectives include administrative expenses, expense management, annual recurring revenue, cash burn, capacity costs, units sold, new revenue, re-signing of sponsors, compensation expense, and working capital.

n = 250

Annual Incentive Plan Performance Measures

Operational

Which of the following performance measures are used in your annual incentive plan? Please select all that apply.

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Operational Objectives

Efficiency	11%
Quality/defects	11%
Cost reduction/savings	10%
Volume/orders	8%
Other operational objectives	7%

Note: Other operational objectives include attainment of corporate and strategic goals, food safety, departmental performance, team-based goals, same store sales, research and development, market share, and risk management.

n = 250

Annual Incentive Performance Measures

Environmental, Social, Governance (ESG) and Individual

Which of the following performance measures are used in your annual incentive plan? Please select all that apply.

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Environmental, Social Governance (ESG) and Individual Performance Objectives

Customer measures (service, satisfaction, retention, new customers)	16%
Safety/occupational injury	10%
Employee measures (satisfaction/engagement/culture)	8%
Diversity, equity and inclusion	4%
Environmental	3%
Other ESG objectives	2%

Individual Performance (including performance rating, achievement of goals, other)	66%
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n = 250

Annual Incentive Plan Discretion

How much does supervisor discretion or subjectivity play a role in your incentive program?

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Significantly	14%
Somewhat	34%
To a lesser degree	24%
Not at all	27%

n = 248

Annual Incentive Plan Funding

How is your incentive plan funded?

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Corporate-level financial hurdle or formula	61%
Sum of individual targets	11%
Division- or unit-level financial hurdle or formula	11%
Sum of individual targets with funding hurdle	7%
Discretionary	7%
Other	4%

n = 248

Annual Incentive Plan Clawback Policy

Are payments made under an annual incentive plan subject to a clawback policy?

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

No	85%
Yes, for either violations of our code of conduct or financial restatements	7%
Yes, for financial restatements	4%
Yes, for violations of our code of conduct	4%

n = 248

Long-Term Incentive Prevalence

Does your organization have a long-term incentive plan?

Yes	51%
No	49%

n = 364

Types of Long-Term Incentives

What type(s) of long-term incentive programs does your organization offer? Please select all that apply.

Performance plans			50%
Long-term cash plans			38%
Performance shares/units			16%
Equity			42%
Stock option			26%
Restricted stock/restricted stock units (RSU)			26%
Phantom Equity			22%
Phantom stock			19%
Stock appreciation right (SAR)			8%
Nonqualified deferred compensation			17%
Other			4%

n = 184

Changes to Long-Term Incentive Plan for 2021

Did your organization add or modify a long-term incentive plan for 2021?

Yes	14%
No	86%

n = 184

Long-Term Incentive Objectives

What are the top three objectives of your long-term incentive programs?

Align employee rewards with long-term organization goals	73%
Reward employees	37%
To be competitive with other employers	32%
Reduce employee turnover and improve retention	31%
Focus employees on specific long-term goals	29%
Share the organization's financial success with employees	28%
Promote employee ownership	19%
Recruit qualified employees	15%
Provide participants with a wealth-accumulation opportunity	13%
Other	3%

n = 179

Number of Long-Term Incentive Vehicles

How many long-term incentive vehicles does your organization have?

One	60%
Two	27%
Three	12%
Four or more	1%

n = 179

Type of Long-Term Incentive Awards

Are your long-term incentive awards time-based or performance based?

Combination of time and performance	58%
All time based	32%
All performance based	11%

n = 179

Long-Term Incentive Eligibility

Please indicate which positions are eligible to receive long-term incentive awards.

CEO only	2%
CEO and direct reports only	12%
All executives/officers and above	63%
All managers/supervisors and above	8%
All exempt salaried and above	3%
All employees	11%

n = 179

Long-Term Incentive Target Opportunity

What is your target long-term incentive award opportunity, as a percentage of salary, for the following positions?

	Award Opportunity		
	25th	Median	75th
CEO (n=89)	50%	100%	200%
CEO's direct reports (n=95)	40%	50%	100%
Other executives/officers (n=81)	25%	30%	50%
Managers/supervisors (n=20)	<i>Insufficient Data</i>		
Exempt salaried (n=11)	<i>Insufficient Data</i>		
Nonexempt salaried or hourly (n=8)	<i>Insufficient Data</i>		

Economic Value Sharing Through Executive Long-Term Incentives

What is the percentage of total economic value that company owners share with executives and employees through long-term incentives?

0%	24%
0.01% to 4.99%	21%
5% to 9.99%	20%
10% to 14.99%	17%
15% to 19.99%	5%
20% to 24.99%	4%
More than 25%	10%

n = 173

Long-Term Incentive Grant Frequency

What is the typical grant frequency of long-term incentive awards?

Annually	62%
Every two years	2%
Every three years	12%
At hire/promotion	12%
Special one-time grants	9%
Other	4%

n = 173

Long-Term Incentive Vesting/Performance Period

What is the most common vesting and/or performance period for your organization's long-term incentive awards?

At grant/no vesting	9%
One year	5%
Two years	3%
Three years	49%
Four years	17%
Five or more years	15%
Other	4%

n = 173

Long-Term Incentive Performance Measures

What are the performance measures used to determine the number or shares or units, or the amount of cash earned? Please select all that apply.

Participants responding “Long-term cash plans” or “Performance shares/units” to the type of long-term plan their organization uses received this question.

A profitability measure (earnings per share (EPS), net income, operating income/EBIT, EBITDA, etc.)	69%
Annual sales/revenue	24%
Strategic measure (e.g. growth in channel, product line, geography)	19%
A return measure (return on equity, assets or investment)	19%
Cash flow	11%
Total shareholder return (TSR)	9%
Economic profit or similar	6%
Environmental, social or governance (ESG) measure, except for DE&I	4%
Target stock price	6%
Diversity, equity and inclusion (DE&I) measure	1%
Other	19%

Note: Other performance measures include discretionary, human resource goals, technology goals, community goals, annual appraised value of the business, customer service, selling/general/administrative expenses, product diversity, performance to peer performance, portfolio risk, employee engagement, growth in number of customers.

Prevalence of Targets, Thresholds, and Maximums in Performance Awards

Do your performance awards specify threshold, target and/or maximum awards for participants?

Participants responding “Long-term cash plans” or “Performance shares/units” to the type of long-term plan their organization uses received this question.

Threshold Specified	65%
Target Specified	84%
Maximum Specified	69%

n = 86

Performance Award Threshold Payout Level

What is your threshold payout level for performance awards?

Participants responding “Long-term cash plans” or “Performance shares/units” to the type of long-term plan their organization uses received this question.

Less than 25% of target	9%
25% of target	11%
Between 26% and 49% of target	2%
50% of target	30%
Between 51% and 74% of target	2%
75% of target	11%
Greater than 75% of target	20%
No threshold in the plan	11%
Other	5%

n = 56

Performance Award Maximum Payout Level

What is your maximum payout level for performance awards?

Participants responding “Long-term cash plans” or “Performance shares/units” to the type of long-term plan their organization uses received this question.

The target is the same as the maximum	7%
Less than 125% of target	3%
125% of target	5%
Between 126% and 149% of target	0%
150% of target	20%
Between 151% and 199% of target	9%
200% of target	44%
Between 201% and 249% of target	3%
250% of target	0%
Between 251% and 299% of target	0%
300% of target	7%
Greater than 300% of target	0%
No maximum in the plan	0%
Other	2%

n = 59

Definitions

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Definitions

- **Annual incentive plan (AIP):** Pay plan that is designed to reward the accomplishment of specific results. Rewards usually are tied to expected results identified at the beginning of the performance cycle. In contrast to discretionary bonus plans, they are not primarily discretionary, but may have a discretionary component.
- **Clawback policy:** A provision in which incentives already paid must be returned to the employer or the firm.
- **Discretionary bonus plan:** A bonus in which management determines the size of the bonus pool and the amounts to be allocated to specific individuals after a performance period. This type of plan has no predetermined formula or promises, and the bonus pool and individual bonus amounts are not guaranteed.
- **Gainsharing plan:** Any one of a number of incentive programs designed to share the results of productivity gains with employees as a group.
- **Long-term cash plans:** Cash awards where payment is contingent on performance as measured against predetermined financial or strategic objectives over multiple years. Typical incentive periods are three to five years.

Definitions (cont.)

- **Nonqualified deferred compensation plans:** An elective or non-elective plan or agreement between an employer and an employee to pay the employee compensation in the future.
- **Performance shares/units:** Grants of shares or unit value of the company's stock for which payment is contingent on performance as measured against predetermined objectives over multiple years. The value paid fluctuates with stock price changes and the number of shares or units earned based on performance against objectives. Payout may be settled in cash or stock.
- **Phantom stock:** A type of incentive grant in which the recipient is not issued actual shares of stock on the grant date, but receives an account credited with a certain number of hypothetical shares. The value of the account increases or decreases over time based on the appreciation or depreciation of the stock price and the crediting of phantom dividends. Payout may be settled in cash or stock.

Definitions (cont.)

- **Profit-sharing plan:** A plan providing for employee participation in the profits of an organization. The plan normally includes a predetermined and defined formula for allocating profit shares among participants, and for distributing funds accumulated under the plan. However, some plans are discretionary. Funds may be distributed in cash, deferred as a qualified retirement program or distributed in a cash/deferred combination.
- **Project bonus plan:** A form of additional compensation paid to an employee or department as a reward for achieving a specific project. A project bonus is compensation beyond normal wages and is typically awarded after an appraisal and analysis of the project(s) completed by the employee over a specific period of time.
- **Restricted stock and restricted stock units (RSUs):** Grants of shares or unit value of the company's stock subject to restrictions on sale and risk of forfeiture until vesting requirements are met. After vesting requirements are met, the company distributes shares or the cash equivalent of the number of shares used to value the unit.

Definitions (cont.)

- **Retention bonus plan:** A payment or reward outside of an employee's regular salary that is offered as an incentive to keep a key employee on the job during a particularly crucial business event, like a merger or acquisition, or during a crucial production period.
- **Spot awards:** Spot awards recognize special contributions as they occur for a specific project or task. Spot awards are generally for a special contribution accomplished over a relatively short time period.
- **Stock appreciation right (SAR):** A contractual right that allows an individual to receive cash or stock of a value equal to the appreciation of the stock from grant date to the date the SAR is exercised.
- **Stock options:** A contractual right granted by the company to purchase a specified number of shares of the company's stock at a specified price (the exercise price) for a specified period of time (generally five or 10 years).
- **Team/small group incentives:** Any incentive program that focuses on the performance of a small group, usually a work team. These programs are most useful when measurable output is the result of group effort and individual contributions are difficult to separate from the group effort.

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Sincerely,

The WorldatWork Research Team