

**Choosing the Right Equity  
 Compensation Tool(s)  
 in a Changing Global Landscape**

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(where stock options must compete with other stock-based compensation vehicles)

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### Definitions

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**Plan Sponsor** = Company that operates a Stock-based compensation Plan for its employees

**Participant** = Employee participating in the employer-provided Stock Plan

**Administrator** = Outsourcing service provider that provides recordkeeping and operational services (including services for participants) for the day-to-day administration of Stock-based compensation plans

**Advisor** = External consultants, accountants, and attorneys that a Plan Sponsor hires to obtain advice, and to validate stock plan design, etc.

**BSC** = Boston Scientific Corporation

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### Panelists

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**Thomas W. Bridge**  
 Vice President, Associate General Counsel  
 Fidelity Stock Plan Services

**Ralph Nelson**  
 Vice President, Total Rewards  
 Boston Scientific Corporation

**Tracy Robarge**  
 Senior Manager  
 Ernst & Young

**Jewon Wee**  
 Director, Global Product Management  
 Fidelity Stock Plan Services

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## BSC Profile

	2004
Sales:	\$5.6 billion
Profit:	\$1.1 billion
Employees:	18,000 (70% US; 30% non-US)
Employees eligible for Stock Program:	7,000
Headquarters:	Natick, MA
Products:	Medical devices



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## BSC Stock Program Goals

- Continue highly competitive/significant awards.
- Encourage stock ownership/alignment.
- Reflect roles in organization.
- Flexible/responsive to change.



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## Topic 1

Option Expensing and the Stock Options



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## Option Expensing Time Line

Move toward consistent accounting for share-based compensation globally

- IASB/FASB movement toward requiring stock option expensing and the FAS 123 standard
- IASB issued final standard in February 2004
- FASB issued an Exposure Draft, Share-Based Payment, on March 31, 2004 requiring all equity-based awards to employees to be recognized based on their fair value
- FASB issued 123 R on December 16, 2004
- Effective date extended by SEC on April 14, 2005 – required for first annual accounting period that begins after June 15, 2005 for most public companies



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## Topic 2

### Changing Equity Program Design



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## Key Issues in Stock Program Redesign – BSC

- P & L budget for program
- Upside leverage vs. downside risk
- Need to retain/deliver value
- Perceived take away
- Dollar vs. share guidelines
- Two track communications



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### Key "Tax" Issues in Stock Program Redesign

#### Implications to participant

- Timing of taxation
- Character of income/tax rates
  - Country tax statute/regulations and tax authority guidance
  - Tax qualification opportunities
  - Tax positions adopted

#### Implications to company

- Reporting requirements
- Income/social tax withholding requirements
- Tax qualification opportunities
- Re-charge/corporate tax deduction



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### Key "Legal" Issues in Stock Program Redesign

- General principles – simple-minded but often overlooked
  - Making plans understandable, clear & administrable
  - Clarity in what you deliver to the participant -- participant rights and obligations
  - Clarity on company objectives in awarding equity compensation
- Consider program from the many different perspectives of legal requirements
  - Securities laws
  - Accounting & financial statements
  - Tax laws (and compliance)
  - Exchange control (for international plans)
  - Labor & employment
  - Stock exchange listing requirements
- Carefully follow process requirements and procedural steps
  - Compensation committee
  - Shareholder approval
  - Securities law requirements (both issuer and participant)



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### Topic 3

#### Global Stock Programs & Common Features



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### Global Stock Programs (1 of 3)

#### Non-Qualified Stock Options

- Exercise price equal to FMV at date of grant
- Time based vesting
- Performance based vesting
- Option Term



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### Global Stock Programs (2 of 3)

#### Restricted Stock Award

- Shareholder rights (i.e., voting rights and dividends) at grant
- Vesting conditions
  - Time based
  - Performance based: Service condition, Performance condition, Market condition
  - Time based with performance accelerated condition

#### Restricted Stock Unit

- Promise to award shares at vesting – no shareholder rights at grant
- Vesting conditions
  - Time based
  - Performance based: Service condition, Performance condition, Market condition
  - Time based with performance accelerated condition



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### Global Stock Programs (3 of 3)

#### Stock Appreciation Rights ("SARs")

- Stock Settled vs.. Cash Settled
- Time based vesting vs.. Performance based vesting



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**Topic 4**

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Roles & Responsibilities



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**BSC Roles & Responsibilities**

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Key participants in the redesign included:

<p><u>Internal</u></p> <ul style="list-style-type: none"><li>• HR/Compensation/Operations</li><li>• Finance</li><li>• Law</li><li>• Tax</li><li>• Executive Committee</li></ul>	<p><u>External</u></p> <ul style="list-style-type: none"><li>• Advisors/Consultants</li><li>• Administrator</li><li>• Compensation Committee</li></ul>
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**Topic 5**

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Employee Communication



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### BSC Communication Campaign

Extensive communication campaign:

- CEO briefings to key mangers
- HR briefings and train-the-trainer
- Stock reviewer training
- Participant briefings
- CD-Rom presentations
- Booklet

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### Topic 6

Global Program Implementation



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### BSC Global Stock Program Implementation

- Year long process to implement (1/04 – 1/05)
  - Design/cost decisions time consuming
  - Withholding rules on DSU's TBD
- Conceptual approval of design: 6 – 12 month process
- Communication/grant: 3 – 4 month process

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**Sample Project Plan for Global Stock Program Redesign  
(1 of 3)**

- Communicate Early and Often
- Assemble a Steering Committee
  - Internal committee members - HR/Compensation/Benefits, Tax, Legal, Finance/Treasury, Stock Plan Administration
  - External committee members – Stock Plan Outsourcing Provider, Advisors (Tax, Legal, Compensation)
  - Identify roles and responsibilities
- Consider overall objectives of equity program



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**Sample Project Plan for Global Stock Program Redesign  
(2 of 3)**

- Factors to help determine type of equity vehicles to use - assign to various committee members
- Financial statement implications
- Cash flow implications
- Dilution
- Tax implications (employee and employer)
- Shareholder/Investor expectations
- Program efficiency
- International effectiveness
- Administration/Technology Solutions



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**Sample Project Plan for Global Stock Program Redesign  
(3 of 3)**

- Create Implementation Plan/Team/Timeline
- Consider additional time needed for International
- Communication Program
  - HR/management
  - Participants
- Integrated Interfaces



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**Questions?**

Thank you for your participation

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