

Google™

Google's Transferable Option Program



Panel Discussion Topics

- What are Transferable Stock Options?
- What did Google Do and Why?
- Mechanics / Operational Aspects
- HR / Compensation Philosophy Aspects
- Tax / Regulatory / Corporate Governance Aspects
- Q & A

Transferable Options

- A transferable stock option (TSO) provides employees with the ability to sell their options, after vesting, to a financial institution
- The transferability aspect transforms the payoff profile to a “smoother payoff” more similar to restricted stock
 - TSOs provide more leverage than restricted stock and more downside protection than standard options
- Transferable options provide value even if out of the money, thereby preserving their incentive power and reducing the standard gap between accounting value and perceived value
- Fewer TSOs can be issued compared to standard options because they are more valuable to employees

Compensation Mechanisms

	Restricted Stock / Units	Standard Stock Options	Transferable Stock Options
Pros	<ul style="list-style-type: none"> • Long-term incentive to increase shareholder value • Employees receive value if stock price declines 	<ul style="list-style-type: none"> • Long-term incentive to increase shareholder value • Significantly more leverage than restricted stock • Employees are only rewarded if stock price increases 	<ul style="list-style-type: none"> • Each option is more valuable than standard options • Can be sold when out of the money, providing more downside protection versus standard options • Significantly more leverage than restricted stock
Cons	<ul style="list-style-type: none"> • Viewed by some as “pay for pulse” • Less potential upside than options 	<ul style="list-style-type: none"> • No “value” if price falls • Lose incentive effect if out of the money • Most likely to encourage management to take on excessive risk 	<ul style="list-style-type: none"> • No long-term equity-based incentive if options are sold • If fewer options are granted, less potential upside than standard options