

NON-QUALIFIED DEFERRED COMPENSATION

an overview

Deferred compensation plans are contractual agreements in which an employee agrees to be paid in a future year for services rendered. These plans are commonly used to provide highly compensated individuals a method of accumulating sufficient retirement savings, while providing an employer with a powerful tool for retaining executive talent. (A recent survey reported that 90% of public companies, and many larger private companies, have such plans).

For example, under a deferred compensation plan, an executive may be able to choose to defer all or part of the upcoming year's salary and/or bonus. By so doing, the executive lowers the figure reported on the W-2 to the IRS and consequently lowers their current tax liability. Thus, the executive can invest "pre-tax" dollars.

Deferral elections can be made annually for the following year's anticipated earnings. Once the money is deferred, under our plan designs, the participant's account is credited with a rate of return that mirrors the performance of a broad array of investment options selected by the participant. As long as the funds remain in the deferred compensation plan, the participant's balance will continue to grow on a tax-deferred basis (i.e., there is no annual tax liability for the participant on gains until withdrawal).

A corporation purchases assets to informally manage its liabilities under the plan, which may be mutual funds or corporate-owned life insurance product containing a wide variety of investment subaccounts. The insurance component can defer or possibly eliminate the employer's tax liability on any

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an overview (continued)

gains in the underlying assets. The participant may change deferral allocations via telephone or the internet.

Listed below are some of the potential benefits to the participant and to the corporation:

for participants:

- *Tax deferral*
- *Deferral of pre-tax dollars*
- *Broad investment spectrum for diversification*
- *No-penalty scheduled in-service withdrawals*
- *Yearly deferral amount election*
- *Online account access and updates*
- *Option gain deferral opportunity*

for the corporation:

- *Powerful executive retention tool*
- *Highly competitive administration fees*
- *Fully outsourced plan administration*
- *No incremental headquarters staff requirement*
- *Online plan access and reporting*
- *Additional company stock ownership vehicle*
- *Opportunity for employer matching*

This is an extremely high-level description of non-qualified deferred compensation plans. We would welcome the opportunity to more fully explain the concepts and specifics of this compensation approach, as well as other programs which can help retain and reward key highvalue employees.

This is not an offer to sell nor a solicitation of an offer to buy. As stated, it is an overview document and should be reviewed in that context. This document is not intended to provide tax or legal advice.