

*Incentive
compensation*
There's a better
way to decide

Human Resource Services



We work with you to explore the issues that need to be addressed when implementing or updating incentive compensation programs.

The challenge

Achieving optimal tax and accounting results for an incentive compensation program can be perplexing and difficult.

Competing needs of interested parties must be considered and balanced.

1. Executives expect ...

compensation to be competitive with a mixture of cash and equity-based programs including stock options, restricted shares, annual share grants, share units, and share appreciation rights.

2. Shareholders want ...

executive compensation to align with shareholder value at a reasonable cost while attracting and retaining the finest talent possible.

3. Securities regulators and the board of directors require ...

compliance with rapidly changing regulations, corporate governance best practices, and increased security.

How can companies design or modify an equity compensation program so that the competing needs and objectives of all interested parties are addressed?

How we can help

The PwC Incentive Compensation team brings together a multidisciplinary group of chartered accountants, actuaries, lawyers and certified human resources professionals to provide you with a co-ordinated approach to meet your organization's incentive compensation needs.

Working with your team, we explore the issues that need to be addressed when implementing or updating incentive compensation programs. To properly identify the design possibilities that best meet your organization's objectives, including minimizing both tax and incentive compensation costs – we assist your team in understanding and reviewing each of the major design considerations set out below.

Phase One

Issues and priorities

Our methodology assists you in selecting or reviewing incentive compensation design alternatives based on how you prioritize major design factors.

Based on your priorities, we produce a Phase One report that ranks over forty different incentive design alternatives, providing a short-list for use in Phase Two.

Phase Two

Plan modeling

Plan modeling In Phase Two we produce a report that projects and compares the tax and accounting impact of the design alternatives short-listed in Phase One.

We assist you in testing your design alternatives across a broad range of market and financial assumptions.

Together, the Phase One and Phase Two reports are used to substantiate and validate your final design selection.

Major Design Factors for an Incentive Compensation Program

Tax

- amount/valuation, treatment and timing of taxable inclusions (employee)
- amount, availability and timing of deductions (employer)
- cross-border implications

Accounting

- compensation expense:
 - amount/valuation
 - treatment and timing
 - volatility
- dilution
- cash flow
- earnings impact versus net value delivered

Human Resources

- performance and reward
- flexibility between rewards and corporate objectives
- attraction and retention

Governance & Regulatory

- executive financial risk
- shareholding requirements or guidelines
- transparency of compensation and performance linkage

Phase Three

Implementation

With a new or modified incentive compensation program, PwC can assist with or perform the following tasks:

- Document preparation (for review by legal counsel)
- Communications – both written and/or oral
- Procurement of third-party services – custodial, trust, or record keeping

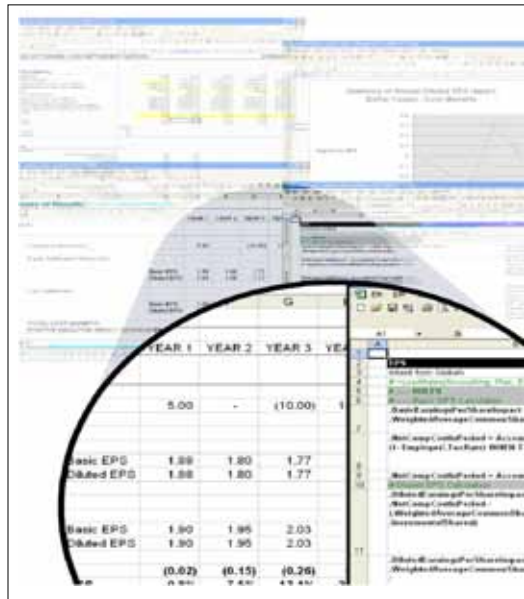
Incentive Compensation Decision Support

Our equity compensation team assists public and private clients to optimize and implement their incentive programs. In our design projects, we've worked with clients to:

- Convert option plans into restricted share plans on a global basis, increasing tax efficiency and retention value;
- Design and implement performance share units that settle in restricted shares, enhancing tax deferral and maximizing capital gains treatment for employees;
- Design and implement equity-based compensation plans that retain the full efficiency of dividend and capital gains tax rates; and
- Fix compensation expenses while maintaining corporate tax deductibility.

We often work with our clients to find an optimal tax and accounting structure to implement designs proposed by their traditional compensation consultants. We can enhance work already in progress or assist at the outset to define objectives and results.

Tax and Accounting Impact



Creating value for your business through people

An organization's workforce is considered a competitive differentiator and can be a source of sustainable competitive advantage. Businesses are strengthening their HR processes and practices, and fine-tuning how they recruit, develop, retain and reward their people. Today's Human Resource functions are helping determine strategic direction and implementing operational and tactical changes.

Our Human Resource Services professionals recognize the important role people play in creating value for business. We work closely with clients to develop creative human resource programs, and to tackle a wide variety of HR, tax, finance and regulatory issues.

Our services include:

- International Assignments
- Incentive Compensation
- Rewards
- Tax Planning Services for Senior Executives
- Retirement and Benefits
- Human Resource Transaction Services

We service clients from medium-sized family businesses to multinational organizations by aligning their business strategy with their people and processes.

PwC Incentive Compensation Team

Toronto

Jerry Alberton
416 365 2746
jerry.alberton@ca.pwc.com

Chris D'Iorio
416 365 2739
christopher.e.diorio@ca.pwc.com

Ian Macdonald
416 365 8876
ian.macdonald@ca.pwc.com

Rick Schubert
416 947 8984
richard.c.schubert@ca.pwc.com

Vancouver

Pat Blair
604 806 7063
pat.j.blair@ca.pwc.com

Calgary

Dave Peters
403 509 7481
dave.peters@ca.pwc.com

Montreal

Jean Milot
514 205 5186
jean.milot@ca.pwc.com

www.pwc.com/ca/hrs