Share-Based Compensation

[The Entity]'s [19XX / 20XX] Employee Share Option Plan (the Plan), which is shareholder-approved, permits the grant of share options and shares to its employees for up to [ ] million shares of common stock. The Plan authorizes the use of [Employee Stock Option, Employee Stock Option-Price Target, Employee Stock Purchase Plan, Stock Appreciation Rights, Restricted Stock, Total Shareholder Return, Restricted Stock-Performance Condition, Other].[1]

Service Condition Stock Options

Stock options have been granted with an exercise price [equal to / greater than / less than] the fair market value of the common stock on the date of grants and have a [ ]-year contractual term. The stock options [vest immediately / vest ratably / have graded vesting] over a [ ]- year period. Compensation cost is recognized on a [straight-line / graded] basis.[2]

The fair market value **of stock options** is estimated using the [Black-Scholes-Merton / Closed-form / Cox-Ross-Rubinstein Binomial / Lattice Exercise Behavior / Monte Carlo Simulation] valuation model and the Company uses the following methods to determine its underlying assumptions: expected volatilities are based on the [historical volatilities / implied volatilities] of the [Daily / Weekly / Monthly] closing price of the Company's common stock; the expected term of options granted is based on the [SAB 107 simplified method of using the mid-point between the vesting term and the original contractual term / average time outstanding method]; the risk-free interest rate is based on the [U.S Treasury implied yields of zero-coupon issues / U.S Treasury yield curve on the date of grant / U.S. Treasury bonds issued with similar life terms to the expected life of the grant]; and the expected dividend yield is based on [the current annual dividend amount divided by the stock price on the date of grant / dividend trend]. Forfeitures are estimated at the time of grant and adjusted, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The forfeiture rate is based on [historical experience].

The following key assumptions were used in the valuation model to value stock option grants for each respective period:

	Year ended Dec. 31st		
	20XX	**20XX**	**20XX**

[1] Example from 10-K of Asset Acceptance Capital Corp. (NASDAQ: AACC) in fiscal year 2009.

[2] Example from 10-K of Curtiss-Wright Corp. (NYSE: CW) & TECO Energy, Inc. (NYSE: TE) in fiscal year 2009.

Expected volatility	
Weighted-average volatility	
Expected dividends	
Expected term (in years)	
Risk-free interest rate	
Weighted-average interest rate	
Expected forfeiture rate	

Stock option transactions under the Company's plans for the years ended [December 31, 20XX], [20XX], and [20XX] are summarized as follows:

Options	Shares (000)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at [January 1, 20XX]				
Granted				
Exercised				
Forfeited				
Outstanding at [December 31, 20XX]				
Granted				
Exercised				
Forfeited				
Outstanding at [December 31, 20XX]				
Granted				
Exercised				
Forfeited or expired				
Outstanding at [December 31, 20XX]				
Exercisable at [December 31, 20XX]				

The weighted-average grant-date fair value of options granted during the years [20XX], [20XX] and [20XX] was $[ ], $[ ], and $[ ], respectively. The total intrinsic value of options exercised during the years ended [December 31, 20XX, 20XX and 20XX], was $[ ], $[ ], and $[ ], respectively.

A summary of the status of the Company's non-vested shares as of [December 31, 20XX], and changes during the year ended [December 31, 20XX], is presented below:

Non-vested Shares	Share (000)	Weighted-Average Grant-Date Fair Value
Non-vested at [January 1, 20XX]		
Granted		
Vested		
Forfeited		
Non-vested at [December 31, 20XX]		

Market Condition Stock Options

- **<u>Total Shareholder Return Awards</u>** [3]

Total shareholder return incentive compensation program ("TSRP") awards: Awards under the TSRP are granted at a target number of shares, and vest based on the measured return of the Company's stock price and dividend performance at the end of [ ]-year periods compared to the stock price and dividend performance of a group of industry peers.   In [20XX], the Company initiated [20XX] - [20XX] TSRP, with [ ] shares as the target award level. The actual number of shares awarded may range from a minimum of [ ] to a maximum of [ ] times target. Fair values for the TSRP awards were estimated using [Monte Carlo Simulation] of stock price correlation, projected dividend yields and other variables over [ ]-year time horizons matching the TSRP performance periods.

The estimated fair value of each TSRP award, including the projected shares to be awarded, and future compensation expense to be recognized for TSRP awards, including estimated forfeitures, was as follows:

TSP Award Performance Period	TSRP Award Fair Value	Unrecognized Compensation Expense	Minimum Shares	Target Shares	Maximum Shares
20XX – 20XX					
20XX – 20XX					
20XX – 20XX					
Total					

[3] Example from 10-K of Allegheny Technologies Inc. (NYSE: ATI) in fiscal year 2009.

- **Price Target Employee Stock Options** [4]

Stock options vest when the underlying stock price reaches $[ ] and remains there for [ ] of [ ] consecutive trading days. Stock options are granted to employees at exercise prices [equal to / less than / greater than] the fair market value of the Company's stock at the date of grant. Stock options granted to employees have a term of [ ] years.

The fair market value **of stock options** is determined using the [Black-Scholes-Merton / Closed-form /Cox-Ross-Rubinstein Binomial / Lattice Exercise Behavior / Monte Carlo Simulation] valuation model and the Company uses the following methods to determine its underlying assumption: expected volatilities are based on the [historical volatilities / implied volatilities]of the [Daily / Weekly / Monthly] closing price of the Company's common stock; the expected term of options granted is based on the [SAB 107 simplified method of averaging the vesting term and the original contractual term / Average Time Outstanding]; the risk-free interest rate is based on the [U.S Treasury implied yield zero-coupon issues / U.S Treasury yield curve on the date of grant / U.S. Treasury bonds issued with similar life terms to the expected life of the grant]; and the expected dividend yield is based on [the current annual dividend amount divided by the stock price on the date of grant]. Forfeitures are estimated at the time of grant and adjusted, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The forfeiture rate is based on [historical experience].

The following key assumptions were used in the valuation model to value stock option grants for each respective period:

	Year ended Dec. 31st		
	20XX	**20XX**	**20XX**
Expected volatility			
Weighted-average volatility			
Expected dividends			
Expected term (in years)			
Risk-free interest rate			
Weighted-average interest rate			
Expected forfeiture rate			

Stock option transactions under the Company's plans for the years ended [December 31, 20XX], [20XX], and [20XX] are summarized as follows:

[4] Example from 10-K of Smart Balance, Inc. (NASDAQ: SMBL) in fiscal year 2009.

Options	Shares (000)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at [January 1, 20XX]				
Granted				
Exercised				
Forfeited				
Outstanding at [December 31, 20XX]				
Granted				
Exercised				
Forfeited				
Outstanding at [December 31, 20XX]				
Granted				
Exercised				
Forfeited or expired				
Outstanding at [December 31, 20XX]				
Exercisable at [December 31, 20XX]				

Employee Stock Purchase Plan

The Company's Employ Stock Purchase Plan (the "**ESPP**") enables eligible employees to purchase the Company's common stock at a price per share equal to [ ]% of the lower of the fair market value of the common stock at the beginning or end of each offering period. Each offering period of the ESPP lasts [ ]. During the fiscal year ended [December 31, 20XX], [20XX] and [20XX], the Company issued [ ], [ ] and [ ] shares under the ESPP at an average price of [ ], [ ] and [ ] per share, respectively. Compensation cost is recognized on a [straight-line / graded] basis over the [ ] vesting period during which employees perform related services. [5]

Restricted Stock Awards

The fair value of restricted stock awards is estimated by [the market price of the Company's common stock at the date of grant]. Restricted stock activity during the years ended [December 31, 20XX], and [20XX], respectively, are as follows:

[5] Example from 10-K of The Advisory Board Co. (NASDAQ: ABCO) in fiscal year 2009.

	Year Ended			
	December 31, 20XX		December 31, 20XX	
	Number of Shares	Weighted-Average Grant-Date Fair Value per Share	Number of Shares	Weighted-Average Grant-Date Fair Value per Share
Non-vested, beginning of period				
Granted				
Vested				
Cancelled and forfeited				
Non-vested, at end of period				

Awards are being amortized to expense over the [ ]-year [cliff-vesting / graded-vesting] period.

- **<u>Service Condition Time-vested Restricted Stock</u>**

Time-vested restricted stock is valued [at the fair market value on the date of grant], with expense recognized over the [ ]-year vesting period. Time-vested restricted stock granted to directors vests [1/3] each year.

- **<u>Market Condition Restricted Stock</u>**

Market Condition Restricted Stock has been granted to officers and employees, with shares potentially vesting after [ ] years. The total awards for performance-based restricted stock vest based on the ***total return of the Company's common stock*** compared to the industry peer group.

- **<u>Performance Condition Restricted Stock</u>**

Performance Condition Restricted Stock contains a [ ]-year performance period and a subsequent [ ] service period. Under this program, the Company communicates "target awards" to employees at the beginning of a performance period and, as such, dividends are not paid in respect of the "target awards" during the performance period. The performance target is based on [EPS growth/EBITDA growth/net free cash flow/etc.] over the performance period with possible payouts ranging from [ ] to [ ] of the "target awards". Compensation expense is recognized on a [straight-line / graded] basis over the vesting term of [ ] based upon the probable performance target that will be met.[6]

The fair market value of market condition-based restricted stock awards is determined using the [Monte-Carlo Simulation] valuation model, and the Company uses the following methods to determine its underlying assumptions: expected volatilities are based on the [historical volatilities / implied volatilities]; the expected term of the awards is based on [performance measurement period] which is generally[ ]years; the risk-free interest rate is based on the [U.S. Treasury implied yield on zero-coupon issues / U.S Treasury yield curve on the date of grant / U.S. Treasury bonds issued with similar life terms to the expected life of the grant]; and the expected dividend yield is based on [the current annual dividend amount divided by the stock price on the date of grant, with continuous compounding].

Assumptions	20XX	20XX	20XX
Assumptions applicable to performance-based restricted stock			
Risk-free interest rate			
Expected lives (in years)			
Expected stock volatility			
Dividend yield			

[6] Example from 10-K of Automatic Data Processing, Inc. (NASDAQ: ADP) in fiscal year 2009.