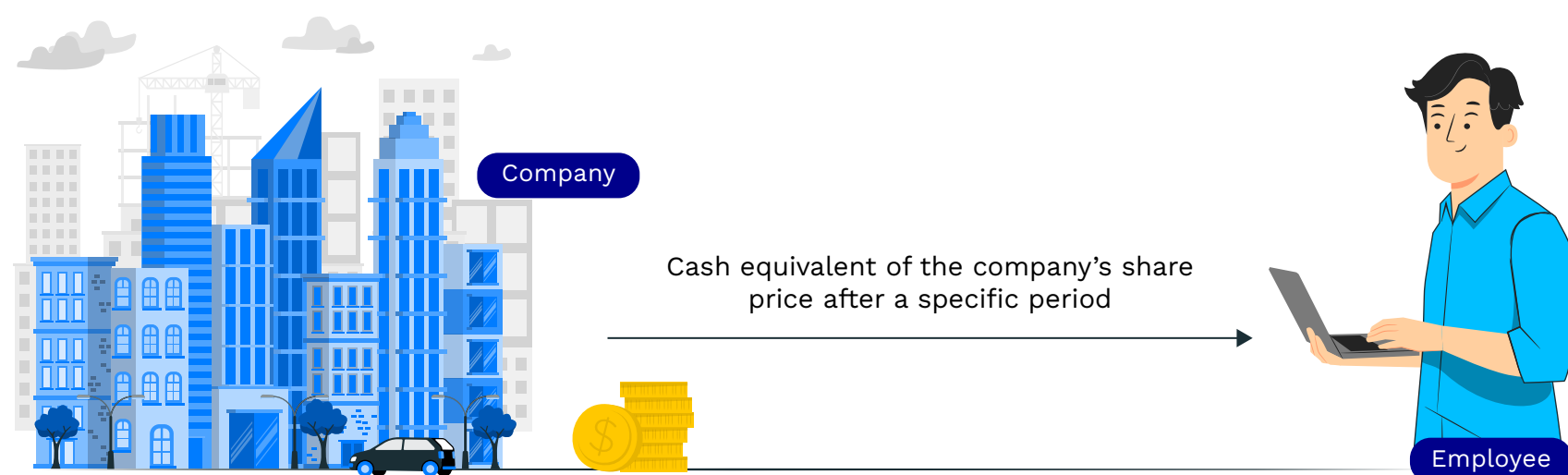


Phantom Stock Plans



A **phantom stock plan** is an employee incentive program where certain employees, particularly those in senior management, enjoy various advantages associated with stock ownership without being granted actual company stock. These plans are alternatively referred to as **phantom shares, simulated stocks, or shadow stocks**.

Instead of receiving tangible company stock, participants in this plan receive virtual or mock stocks. Despite their intangible nature, phantom stocks hold monetary value, reflecting the fluctuations typical of real stocks. Employees realize profits from a phantom stock plan upon the completion of a predefined period.

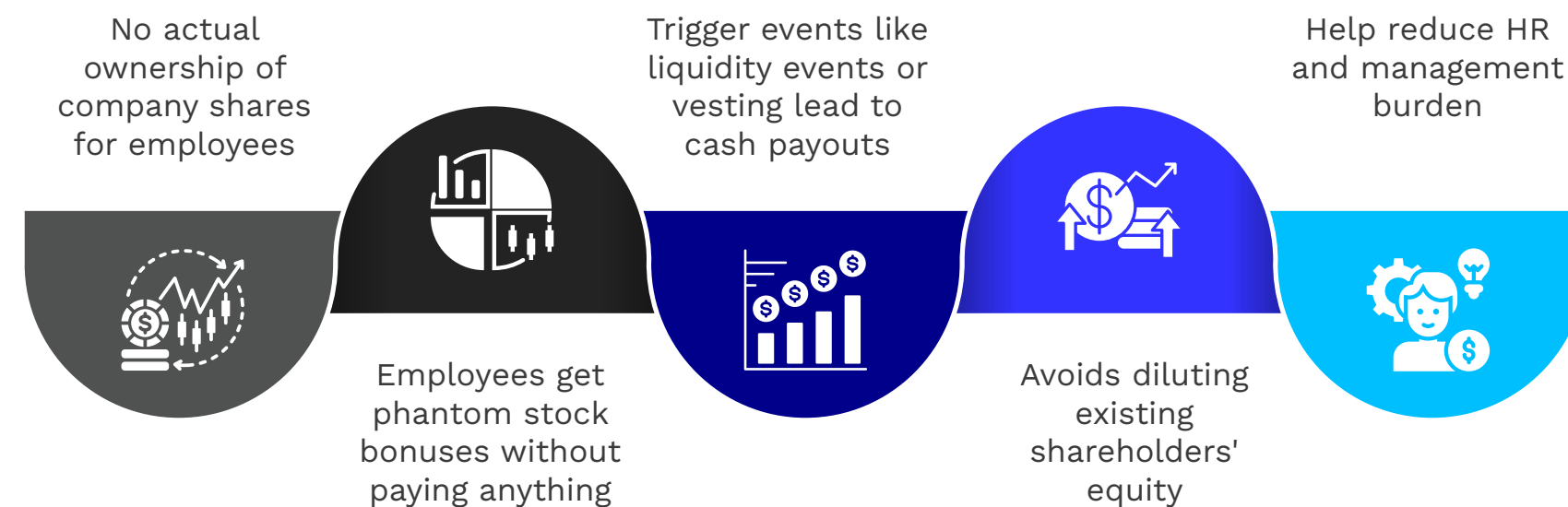
When Do Companies Use Phantom Stock?

Phantom stock is a forward-thinking motivational instrument for companies seeking to attract and retain key talent **without compromising genuine equity stakes**. Unlike conventional stock options, phantom stock does not confer actual stock ownership rights while offering the benefits of the same. This approach not only motivates employees to actively contribute to improving company performance and shareholder value but proves especially favorable in privately held enterprises where the feasibility of real stock options may be limited.

Phantom stocks are a highly effective solution in certain situations, particularly for:



Key Features of Phantom Stock Plans



How Is a Phantom Stock Plan Different From a Conventional Stock Option Plan & a Restricted Stock Unit

Feature	Phantom Stock Plan	Stock Option Plan	Restricted Stock Unit (RSU)
Ownership Rights	Phantom stocks represent notional shares; employees don't own actual shares	Employees receive actual stock options, providing direct ownership	Employees receive actual shares, providing direct ownership
Cash vs. Stock Distribution	Employees receive cash equivalent to the value of hypothetical shares	Employees exercise options to acquire actual company stock	Employees receive either actual shares/cash equivalent of the stock's value on its sale
Dividends	Typically, employees receive cash equivalent of dividends on phantom stocks	Employees holding stock options may receive dividends if specified in the plan	Employees receive dividends or dividend equivalents, depending on the plan
Exercise Price	No exercise price; employees receive the appreciation value in cash	Employees must pay the exercise price to acquire the stock	No exercise price; employees receive the stock upon vesting
Value Realization	Employees realize value upon a triggering event, like sale or IPO	Value realization depends on stock market performance and exercise decisions	Value is realized upon vesting, determined by the market value of the company's stock
Taxation	Taxed at the time of payout as ordinary income	Taxed upon exercise as ordinary income and capital gain tax at the time of sale of exercised shares	Taxed upon vesting as ordinary income

How Does a Phantom Stock Plan Work?

A phantom stock plan is an innovative compensation strategy designed to motivate and reward employees without altering the actual ownership structure of a company. It involves the **creation of virtual shares**, aptly named phantom shares, **reflecting the value of the company's actual stock**.

Two main types exist: **Appreciation and Full Value**.

Appreciation plans tie the virtual shares to the company's market value, capturing the increase in share value over a specified period. On the other hand, **Full Value plans** replicate the entire stock value, entitling employees to a cash payment equivalent to the stock's current value.

The brilliance of these plans lies in their ability to fuel employee motivation by providing them with a stake in the company's success, all without diluting actual ownership.

Coming to the inevitable question of **taxation**, the gains from phantom stock plans are **classified as ordinary income**. Therefore, employers are obligated to withhold taxes on these gains, treating them as a form of salary income.

About Vega Equity

Vega Equity is a cloud-based digital equity management solution that helps organizations manage their complex ESOPs & Cap table with ease. Offering a contemporary, user-friendly, & paperless approach to equity management, the platform streamlines operations for companies aiming for efficiency. With a host of features such as ESOP Pool, Granted Options, Vested & Unvested Options, Lapsed or Forfeiture Options, our platform acts as a single source of truth for all your ESOP-related data.