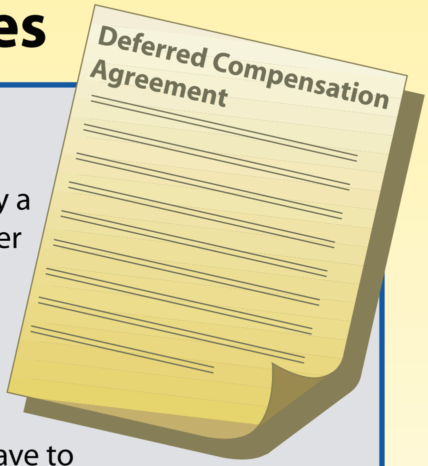
Deferred Compensation Opportunities



In order to obtain the desired tax and ERISA result most non-qualified deferred compensation plans are unfunded. The "unfunded" deferred compensation plan is an unsecured promise made by the employer to pay a benefit in the future; hence a successful plan is contingent on the employer "being there" in the future to pay the promised benefits. What follows are some examples of when deferred compensation is used.

1. **In Lieu of a Formal Pension Plan**
   Where corporate circumstances are such that the cost of a qualified plan is not justified (due to the large number of "non-executives" that would have to participate) but there is still a desire to provide certain key executives with retirement benefits. The employer has complete freedom of action in the selection of the key employees to participate (i.e., the plan can be discriminatory).

2. **To Supplement a Qualified Pension Plan**
   Qualified plan rules severely limit the amount of retirement income highly paid executives can derive from such plans. Non-qualified plans can make up the difference.

3. **To Supplement a Qualified Profit-Sharing Plan**
   When the profit-sharing contributions are projected out to retirement, it may be evident that an adequate benefit will not be provided. In other situations, the key employee may have entered the plan late in life, and the plan will not develop benefits commensurate with those projected for the firm`s younger employees.

4. **401(k) Mirror Plan**
   These are sometimes referred to as matching plans. To encourage employees to build their retirement savings the employer agrees to match voluntary deferrals. For example, the executive agrees to defer a predetermined amount of compensation and the corporation agrees to match the deferral according to a formula it selects - essentially a non-qualified version of a 401(k) plan.

5. **To Aid in Recruiting New Key People**
   Deferred compensation can give the new employee a greater fringe benefit program, in many cases, than he or she left behind.

6. **To Retain Valuable Key Personnel**
   An important senior executive, store or unit manager, sales manager, or engineer can be deterred from leaving his or her present employment if leaving means the loss of substantial deferred compensation benefits.

7. **To Retain Key Employees to Run the Business for the Family**
   Where a business owner desires to see his or her family continue to own the business, deferred compensation can hold the key people and keep the business alive, until minor or inexperienced children can take over.

8. **In Lieu of Stock or an Ownership Interest**
   In many close corporations deferred compensation for key employees is preferable to a minority stock interest, especially if little or no dividends are paid.