U.S. Equity Compensation Plans

Frequently Asked Questions

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GENERAL QUESTIONS

1. How does ISS evaluate equity-based compensation programs?

ISS has developed multiple policies for the purpose of evaluating equity-based compensation programs and related proposals that appear on proxy agendas. These evaluations generally take into account one or more of the following aspects, as applicable to the particular proposal:

- The projected cost of the plan, in dollar terms ("shareholder value transfer" or SVT), including in combination with other continuing equity plans and outstanding grants, relative to the company's market and industry peers.
- Various features of the plan.
- The company's historical grant practices, including its average annual burn rate relative to market and industry peers.

As of 2015, employee stock incentive programs are analyzed under the Equity Plan Scorecard (EPSC) policy; stand-alone equity plans for board directors and certain other types of equity-based programs continue to be evaluated under the applicable continuing policies.

2. Which equity compensation proposals are evaluated under the EPSC policy?

Proposals related to the following types of equity-based incentive program proposals will be evaluated under the EPSC policy:

- Approve Stock Option Plan
- Amend Stock Option Plan
- Approve Restricted Stock Plan
- Amend Restricted Stock Plan
- Approve Omnibus Stock Plan
- Amend Omnibus Stock Plan
- Approve Stock Appreciation Rights Plan (Stock-settled)
- Amend Stock Appreciation Rights Plan (Stock-settled)

Other types of equity-based compensation proposals will continue to be evaluated as provided under ISS' policy for Equity-Based and Other Incentive Plans.

Cost of Equity Plans

3. What is Shareholder Value Transfer (SVT)?

SVT refers to an estimate of the value that the company will transfer to its employees and directors via certain equity-based compensation programs, as measured at a given date based on a standard set of inputs. ISS' proprietary compensation model calculates an SVT benchmark for each company -- based on its market cap, industry, and relevant performance metrics relative to peers – which is used in evaluating the company's SVT.

SVT calculations use a combination of third-party data for the option pricing model as well as company-specific data (including outstanding grants and shares remaining for future grants) generally reported in the annual 10-K or proxy filing.

4. What date does ISS use for the data in the equity plan analysis?

In order to perform option valuations and generate company-specific SVT benchmarks, ISS downloads company-specific data points from an outside vendor. These inputs include the 200-day average stock price, stock price volatility, risk-free interest rate, and other market and accounting-based performance factors.

ISS downloads the option pricing model inputs for all companies four times per year. This quarterly data download (QDD) occurs on December 1, March 1, June 1, and September 1. The QDD used for a given analysis will depend on the shareholder meeting date for the company as shown below:

Shareholder Meeting Date	Data Download Date
March 1 to May 31	December 1
June 1 to August 31 March 1	March 1
September 1 to November 30	June 1
December 1 to February 29	September 1

5. A company has a May shareholder meeting and did not start trading until January of that year. ISS would normally use a December QDD for this company but there is no data for this company. What would be ISS' approach in determining the company's stock price in evaluating its equity plan proposal?

Here is the hierarchy of choices that ISS uses to determine stock price with respect to equity plan proposal evaluations:

1. 200-day avg. stock price as of the applicable QDD;
2. 50-day avg. stock price as of the applicable QDD;
3. Closing stock price as of applicable QDD;
4. If applicable QDD is not available, use most recent QDD 200-day avg. stock price;
5. If applicable QDD is not available, use most recent QDD 50-day avg. stock price;
6. If applicable QDD is not available, use closing price as of the most recent QDD;
7. Last resort, use current stock price.

6. How does ISS look at the practice of buying shares on the open market to fund employees' equity grants?

The practice of repurchasing shares on the open market in order to avoid dilution from employees' equity grants may be beneficial to shareholders if this represents a good use of the company's cash. However, there is still a cost to the company, which would be captured in ISS' SVT calculation. In an efficient market, buybacks should have a positive impact on the company's stock price, resulting in a generally neutral effect on market valuation despite the reduction in outstanding shares. In addition, when a buyback is executed, a company immediately receives higher EPS and other share denominated accounting performance metrics, which in turn may lead to higher SVT Benchmark for the company.

With respect to burn-rate calculations, ISS uses the weighted average number of outstanding common shares for the applicable year(s), which smooths out the impact of both share buybacks and share issuances during the year.

7. How is SVT calculated with respect to stock-in-lieu-of-cash plans?

ISS generally includes all stock-in-lieu-of-cash plans in evaluating the total costs of equity plans. ISS believes that cash or stock payments are considered as compensation to the employees and therefore should be considered in evaluating equity proposals. The total cost of equity-based compensation to directors is also generally considered under the compensation model. However, if a plan provides for a clear dollar-for-dollar stock exchange of the cash compensation, ISS will generally view the stock in lieu of cash as value neutral for SVT purposes. Any other non-value neutral form of exchange which may include a premium for deferring cash compensation for stock is considered by ISS to cause transfer of shareholder's equity which should still be measured.

8. How does ISS treat evergreen plan funding?

"Evergreen" funding refers to a plan provision for automatic funding additions, typically on an annual basis, over the life of the equity plan. In estimating potential plan cost in these cases, ISS includes a projection of the future share additions based on the disclosed formula – for example, "shares representing 1 percent of outstanding common stock will be added to the plan reserve each year" – since these essentially represent future new share requests that will not require additional shareholder approval when implemented. In most cases, these projections result in a very high plan cost estimate.

9. Does ISS consider limited partnership (LP) units as part of the company's common shares outstanding when determining market capitalization in the shareholder value transfer analysis and weighted common shares outstanding in the burn rate analysis?

ISS applies a case-by-case analysis to determine if a company's convertible equity should be considered as part of common stock outstanding. If the convertible vehicle carries direct voting and dividend rights and may be converted/exchanged into common stock, then ISS may include such convertible vehicle as part of common stock outstanding. The total number of outstanding convertible instruments, vested or unvested should be clearly disclosed in the company's proxy statement or 10-K. Currently, operating partnership (OP) units are included for REIT companies because each OP unit is generally equivalent to one share of common stock and is convertible into common stock. OP units also receive the same dividend payout as common stock and are used as award instruments in some cases.

10. A company would like to update the numbers of outstanding awards and shares available for future grants due to significant changes that occurred after the end of its last complete fiscal year (the disclosure that ISS relies on in

calculating potential equity plan costs). What specific information does ISS require in order to utilize updated numbers?

In order for ISS to utilize disclosures other than those that are based on the end of the company's last reported fiscal year, ALL information required for our analysis must be disclosed in the proxy statement (or another public filing cited in the proxy statement), all as of the same new date. This includes information normally provided in the 10-K report, including ALL of the following:

1. The number of shares remaining available for future awards, including any impact from fungible counting provisions, on a per plan basis;
2. The number of full value shares and stock options underlying outstanding grants and awards, disclosed separately and including the weighted average exercise price and remaining term of options; unvested shares issued in lieu of cash compensation should be disclosed separately as well as any awards that will be settled solely in cash;
3. The total number of common shares outstanding as of the same date; and
4. If there are performance-contingent awards, updated values with respect to earned/unearned portions.

11. A company intends to terminate an existing equity compensation plan (canceling any remaining shares reserved for awards under the plan) when shareholders approve a new equity plan at the upcoming annual meeting. What information should be disclosed to ensure that ISS accurately calculates the estimated SVT cost when analyzing the proposed plan?

Normally, ISS counts shares remaining available for future awards (as well as other inputs to the SVT calculation) based on company disclosure of them as of the end of the last fiscal year. If the company does not expect to grant all such shares from its prior approved plan(s) before it is terminated, it should disclose ALL of the following in the 10-K report (or other filing):

1. The number of shares remaining available for future awards, including any impact from fungible counting provisions, *that will no longer be available upon approval of the successor plan*;
2. The number of full value shares and stock options underlying outstanding grants and awards, disclosed separately and including the weighted average exercise price and remaining term of options;
3. The total number of common shares outstanding as of the same date; and
4. If there are performance-contingent awards, updated values with respect to earned/unearned portions.

In addition, the company should include a commitment that no further shares will be granted as awards under such plan(s) unless the proposed plan is not approved by shareholders.

Fungible Plans

12. How does ISS evaluate flexible share plans or fungible share pools?

Under a flexible share plan, each full-value award generally counts as more than one share and each option counts as one share deducted from the plan reserve (or, in some cases, each full-value share awarded counts as one share and each stock option counts as less than one share). ISS evaluates the total costs of the plan by analyzing a flexible share plan under two scenarios: (1) all new shares requested as full value awards (2) all new shares requested as stock options, with appropriate adjustment of the number reserved according to the ratio provided in the plan document. ISS then utilizes the more costly scenario in our evaluation of the program.

Burn Rate

13. How does ISS consider a company's burn rate in its stock plan evaluations?

ISS uses 3-year average burn rate, as a percentage of its market cap, as a measure of the company's typical annual equity-based grant rate, which is then compared to a benchmark for its industry/index (the "burn rate benchmark," formerly burn rate "cap," calculated as one standard deviation above the 3-year mean burn rate for the peer group). A company's 3-year burn rate relative to that benchmark is a factor in the Equity Plan Scorecard.

14. How does ISS calculate the burn rate and annual stock price volatility?

A company's adjusted annual burn rate is calculated as follows:

> Annual Burn rate = (# of options granted + # of full value shares awarded * Multiplier) / Weighted Average common shares outstanding)

The "Multiplier" is used to provide more equivalent valuation between stock options and full value shares, based on the company's historical volatility.

Stock Volatility is based on the 3-year (750-trading day) historical volatility as of the company's quarterly data download, then annualized:

> Stock Volatility = Standard Deviation of (ln (P_t / P_{t-1}), ln (P_{t-1} / P_{t-2}), … ln (P_{t-749} / P_{t-750}))

> Annualized stock volatility = Stock Volatility X Square Root of 250.

Note that ISS meeting reports also provide a company's unadjusted average burn rate (without the impact of a multiplier on full-value shares).

15. Are reload options included in the numerator of the three-year burn rate calculation?

Yes, reload options are included. Many companies have eliminated reload options since FASB maintained under SFAS 123R that they must be counted as separate grants.

16. Which burn rate calculation applies to a company whose GICS classification or Index membership has recently changed?

Presumably, the new classification or index membership will reflect the appropriate operational and market cape size; thus the burn rates that are reasonable for the compensation structure of similar companies under the new classification will apply.

17. If a company assumes an acquired company's stock options in connection with a merger, will ISS exclude these stock options in the three-year average burn rate calculation?

If the company discloses in the option activity table of the 10-K the number of assumed options in connection with the merger, ISS will not include assumed options for that year. However, if the company does not separate the number of assumed options and number of options granted, the assumed options will be included.

This exclusion does not apply to new (inducement, recruitment, retention) equity awards granted following an acquisition, as these have the effect of depleting the available share reserves for compensation purposes.

18. If a company reprices stock options, how will the shares be counted to avoid double counting?

If the company discloses the number of repriced options in the option activity table of the 10-K, and the repricing was approved by public shareholders, ISS will not include repriced options for that year. However, if the company does not separate the number of repriced options from number of options granted, the repriced options will be included.

19. If a company grants performance-based awards, how will the shares be counted to avoid double counting?

If the company clearly distinguishes the portion of unearned performance-vesting awards from the year's grants in its proxy statement or 10-K, ISS will not include these in the burn-rate calculation, provided that the company also clearly discloses the number of performance shares that vest each year based on attainment of performance goals. Actual performance-based shares earned, deferred shares earned, or any performance-based equity awards that deplete the share reserve will be counted as they are earned, provided that all disclosure is adequate. In general, time-based awards are counted in the year in which they are granted, and performance-based awards are counted in the year in which they are earned (subject to adequate disclosure practice). If a company does not provide consistent year-to-year disclosure, ISS may count all performance shares in the year of grant, even if adequate disclosure is provided for the year under review.

20. Since adoption of the Equity Plan Scorecard policy, ISS no longer considers future burn-rate commitments, but what are the implications for companies

that made burn-rate commitments in prior years to address excessive burn-rate under ISS' previous policy?

Companies subject to burn-rate commitments made prior to 2015 should adhere to those commitments. In the absence of adherence, ISS may hold the compensation committee accountable.

21. What multiplier is used to evaluate whether the company has fulfilled its burn rate commitment?

Most companies that made a burn rate commitment "locked in" the then-current year's multiplier to reduce uncertainty. If the multiplier is thus specified in the commitment, ISS will use that multiplier. If a company did not lock in the multiplier as part of their burn rate commitment, then ISS uses the multiplier that applies to the company in the year that it is determined whether they are fulfilling their burn rate commitment.

Liberal Share Recycling

22. How does ISS define liberal share recycling?

For purposes of ISS' Equity Plan Scorecard policy, recycled shares may include, but are not limited to, the following:

- Shares tendered as payment for an option exercise;
- Shares withheld to cover taxes;
- Shares added back that have been repurchased by the company using stock option exercise proceeds;
- Stock-settled awards where only the actual shares delivered with respect to the award are counted against the plan reserve.

23. Are stock appreciate rights (SARs) settled in cash considered "recycled"?

In cases where a plan allows SARs to be settled in either cash or stock, ISS will assume all to be stock-settled. If the plan also provides that only the net shares delivered with respect to the award will be counted against the plan reserve, the plan will be deemed to allow liberal share recycling.

24. What happens if a company provides a limit on the number of shares that it can recycle?

ISS' Equity Plan Scorecard policy includes separate factors related to liberal share recycling – one for full value awards and one for stock options. If the plan permits shares tendered to pay option exercise prices to be re-granted, or counts only the net shares issued under stock option and/or SAR awards, the Liberal Share Recycling-Options factor will be triggered. If the plan additionally, or alternatively, permits shares tendered or withheld to pay taxes up the vesting or exercise of an award, the Liberal Share Recycling-Full Value Awards factor will be triggered. Also see the Equity Plan Scorecard section below.

Accelerated Vesting

25. How does ISS view accelerated vesting of awards upon a change in control?

Investors increasingly view full acceleration of equity awards without an accompanying termination of employment to be problematic, as it may result in a windfall to the executive, i.e. the executive automatically receives the full economic value of awards that were otherwise intended to be earned over a multi-year period. Potentially lucrative payouts could provide a perverse incentive for the executive to pursue certain transactions without due consideration of shareholders' best interests. The acceleration of performance-based awards is even more problematic, since it effectively waives both time and performance requirements, further divorcing pay from actual performance.

There are alternatives to single-trigger full acceleration that can retain the original awards' retentive value and continue to serve pay for performance objectives, including the assumption or conversion to equivalent awards of the acquiror's equity. Even in an all-cash transaction, an alternative is for unvested time-based equity awards to retain their original vesting schedules, post-conversion to the cash consideration, so that the converted cash awards remain subject to the executive's continued service (and only accelerate if there is an employment termination in connection with the CIC). Best practice for unvested performance-based equity awards is pro rata vesting, adjusted for actual performance and the fractional performance period, if applicable, which would appropriately reward for performance actually achieved. The compensation committee can adjust performance goals in good faith to account for the shortened performance period. Once this adjustment is taken into account, an equivalent cash conversion can be made.

Treatment of awards upon a change in control is a factor in ISS' Equity Plan Scorecard policy, as in effect for shareholder meetings as Feb. 1, 2016. As further explained in the Equity Plan Scorecard section below, different potential outcomes related to a change in control provided in the equity program lead to specific scores, with provisions only for accelerated vesting of all awards OR for maximum payout of performance-based awards treated most negatively. Further, if the plan provides for potential accelerated vesting of any awards upon a transaction that ISS defines as a "liberal change in control," the plan may receive a negative recommendation regardless of the EPSC score.

Liberal Definition of Change in Control

26. How does ISS define a "liberal change in control" and what is the impact of a plan that contains such a definition?

A liberal change in control definition typically constitutes vesting triggers linked to: shareholder approval of a transaction, rather than its consummation; and/or an unapproved change in less than a majority of the board; and/or acquisition of a low percentage of outstanding common stock, such as less than 20 percent; and/or announcement or commencement of a tender or exchange offer; or any other trigger that could result in windfall compensation without the occurrence of an actual change in control of the company. ISS generally will recommend a vote against an equity plan if it could permit accelerated vesting of equity awards based upon a liberal change in control definition.

27. What progressive action may a company take if its equity plans contain liberal change in control definitions?

A company may qualify the problematic change in control definition to be preconditioned on determinate events that effectively constitute a change in control event, such as "consummation of a transaction" or "constructive loss of employment (double-triggered CIC)."

Sample language: *"Change in Control shall be deemed to have occurred…upon the consummation of a merger or consolidation of the Company with any other corporation."*

For an existing plan that is being amended, as opposed to a new plan, it is acceptable to specify that the non-liberal CIC definition is effective for grants made after the plan amendment date.

Examples:

http://www.sec.gov/Archives/edgar/data/729237/000072923710000012/exhibit1011.htm

http://www.sec.gov/Archives/edgar/data/1324948/000114420410046664/v195238_ex10-1.htm

162(M) Plans

28. How are plan proposals that are only seeking approval in order to qualify grants as "performance-based" for purposes of IRC Section 162(m) treated?

Under the US tax code, companies are required to get shareholder approval at least once every five years to qualify incentive awards as "performance-based compensation" that is deductible by the company under Section 162(m). As such, proposals that only seek approval to ensure tax deductibility of awards pursuant to Section 162(m), and that do not seek additional shares for grants or a plan extension, will generally receive a favorable recommendation regardless of EPSC factors ("positive override"), provided that the board's Compensation Committee or other administrating committee is 100 percent independent according to ISS standards. However, note that proposals for Section 162(m) approval that represent the first time public shareholders have an opportunity to weigh in on a plan following a company's IPO will not be eligible for this positive override.

In the case of 162(m) focused proposals that include plan amendments (other than requesting new shares or a plan extension), such amendments will be analyzed to determine whether they are, on balance, positive or negative with respect to shareholders' interests, and ISS will determine the appropriate evaluative framework and recommendation accordingly.

29. A post-IPO company submits an equity plan for approval by public shareholders for the first time, solely for 162(m) purposes. The company will

not be adding shares to the plan or in any way changing any provision in the plan. How will ISS review the plan?

ISS generally recommends support for all proposals that only seek 162(m) approval, do not increase the share reserve or extend the term of the plan, and where the Compensation Committee (or other administrating committee) is fully independent per ISS' definitions. However, all equity plans put up for shareholder approval, for any reason, for the first time following a company's IPO will receive a standard analysis, including Plan Cost, Plan Features, and Grant Practices under the Equity Plan Scorecard policy. This is to ensure that public shareholders voting on the plan for the first time are not disadvantaged due to adverse provisions that could have a more detrimental impact than a potential loss of tax deductions related to named executive officer grants. The standard analysis will include, as applicable, Equity Plan Scorecard evaluation and consideration of problematic plan provisions, such as repricing without specific shareholder approval.

Non-employee Director Equity Compensation Plans

30. How does ISS' evaluation of stand-alone non-employee director equity compensation plans differ from evaluation of employee plans?

Stand-alone director equity plans are not evaluated under the Equity Plan Scorecard model. Further, the 3-year average burn rate policy does not apply to a non-employee director equity plan, unless the number of equity awards to non-employee directors surpasses the number granted to employees. Therefore, a high three-year average burn rate generally will not result in a vote AGAINST a non-employee director equity plan.

ISS will generally recommend against a non-employee director equity plan that does not expressly prohibit repricing if the company has repriced stock options without shareholder approval in the past and non-employee directors participated in the repricing transaction.

On occasion, non-employee director equity plans that set aside a relatively small number of shares exceed ISS' SVT benchmark when combined with employee or executive equity compensation plans. In such cases, ISS supplements the analysis with a qualitative review of board compensation to determine whether the plan, in combination with total compensation for outside directors, is beneficial to shareholders' interests.

EQUITY PLAN SCORECARD (EPSC)

General Questions

31. How does ISS' Equity Plan Scorecard work?

The EPSC considers a range of positive and negative factors, rather than a series of "pass/fail" tests, to evaluate equity incentive plan proposals. Factors are grouped under three "pillars": Plan Cost, Plan Features, and Grant Practices. Each factor has a maximum potential score (i.e., weighting), with 53 out of a maximum 100 total potential points required to "pass" the EPSC model.

The policy in effect for shareholder meetings as of Feb. 1, 2016, also will continue to result in negative recommendations for plan proposals that feature certain egregious characteristics (such as authority to reprice stock options without shareholder approval). Additionally, in cases where a proposal will not increase plan cost, and positive aspects or changes being made outweigh any negative amendments, ISS may recommend that shareholders support the plan regardless of the EPSC score. In general, however, a company's total EPSC score -- considering the proposed plan and certain grant practices relative to applicable factors -- will determine whether a "For" or "Against" recommendation is warranted.

32. What changes were made to the EPSC policy for 2016?

The basic EPSC policy has not changed, but effective for meetings as of Feb. 1, 2016, the following adjustments will apply to EPSC evaluations:

- The "IPO" model is re-named "Special Cases," to analyze companies with less than three years of disclosed equity grant data (generally, IPOs and bankruptcy emergent companies).
- In addition, a new Special Cases model that includes Grant Practice factors other than Burn Rate and Duration will apply to Russell 3000/S&P 500 companies. Maximum pillar scores for this model are as follows:
    - Plan Cost: 50
    - Plan Features: 35
    - Grant Practices: 15
- The Plan Features factor "Automatic Single-Trigger Vesting" is renamed "CIC Vesting," with the following scoring levels:
    - Full points if the plan provides for: with respect to outstanding time-based awards, either no accelerated vesting or accelerated vesting only if awards are not assumed/converted; AND with respect to performance-based awards, either forfeiture or termination of outstanding awards or vesting based on actual performance as of the CIC and/or on a pro-rata basis for time elapsed in ongoing performance period(s).
    - No points if plan provides for automatic accelerated vesting of time-based awards OR payout of performance-based awards above the target level.
    - Half points if the plan provides for any other vesting terms related to a CIC.
- The period required for full points with respect to the Post-Vesting/Exercise Holding Period Plan Feature is 36 months (versus 12 months previously) or until employment termination; half

points will accrue for a holding period less than 36 months or until ownership guidelines are met.

- Additionally, certain factor scores have been adjusted, per ISS' proprietary scoring model. The maximum of 100 total points and threshold of 53 points to receive a favorable recommendation (absent egregious factors) are unchanged. See FAQ #11 for a summary of all scoring.

33. Are all covered plans subject to the same EPSC factors and weightings?

No, for meetings as of Feb. 1, 2016, EPSC factors and weightings are keyed to five models related to company size and status: S&P 500; Russell 3000 index (excluding S&P 500 companies); Non-Russell 3000; and Special Cases (recent IPOs or bankruptcy emergent companies, or any company that does not disclose at least three years of grant data) for each of two groups: Russell 3000/S&P500 and non-Russell companies. Each model uses a combination of Plan Cost, Plan Features, and Grant Practices factors that are relevant for the coverage group.

34. How do the EPSC models differ?

Effective for shareholder meetings as of Feb. 1, 2016, there are five EPSC models, based on the type and status of the company being evaluated. The chart below summarizes the pillar (and applicable scores) for each model.

Maximum Scores by EPSC Model and Pillars

<table>
<tr><th>Pillar</th><th>Model</th><th>Maximum Pillar Score</th><th>Comments</th></tr>
<tr><td rowspan="3">Plan Cost</td><td>S&P 500, Russell 3000, Non-Russell 3000</td><td>45</td><td rowspan="3">All models include the same Plan Cost factors</td></tr>
<tr><td>Special Cases-Russell 3000/S&P500*</td><td>50</td></tr>
<tr><td>Special Cases-non-Russell*</td><td>60</td></tr>
<tr><td rowspan="4">Plan Features</td><td>S&P 500, Russell 3000</td><td>20</td><td rowspan="4">All models include the same Plan Features factors</td></tr>
<tr><td>Non-Russell 3000,</td><td>30</td></tr>
<tr><td>Special Cases-Russell 3000/S&P500*</td><td>35</td></tr>
<tr><td>Special Cases-non-Russell*</td><td>40</td></tr>
<tr><td rowspan="4">Grant Practices</td><td>S&P 500, Russell 3000</td><td>35</td><td rowspan="4">The Non-Russell 3000 model includes only Burn Rate and Duration factors. The Special Cases model for Russell 3000/S&P500 firms includes all Grant Practices factors except Burn Rate and Duration. The Special Cases-non-</td></tr>
<tr><td>Non-Russell 3000</td><td>25</td></tr>
<tr><td>Special Cases-Russell 3000/S&P500*</td><td>15</td></tr>
<tr><td>Special Cases-non-Russell*</td><td>0</td></tr>
</table>

Pillar	Model	Maximum Pillar Score	Comments
			Russell model does not include any Grant Practices factors.

*generally covers companies recently IPO'd or emerged from bankruptcy that do not disclose 3 years of grant data

35. How many EPSC points are required to receive a positive recommendation?

A score of 53 or higher (out of a total 100 possible points) generally results in a positive recommendation for the proposal (absent any overriding factors).

36. How are non-employee director plans treated when another equity plan is on ballot?

The EPSC model is not used for stand-alone non-employee director plans that are on the ballot (although they will receive a standard cost evaluation for Shareholder Value Transfer (SVT). In these cases, positive or negative features of the stand-alone non-employee director plan will only impact that plan, which continues ISS' historical case-by-case approach to these plan evaluations.

When a proposal enumerated in FAQ #4 is on the ballot, the shares available for grant under a non-employee director plan will be incorporated into the Plan Cost evaluation of the EPSC policy.

37. How will equity plan proposals at recent IPO companies be evaluated?

Companies that have IPO'd or emerged from bankruptcy within the prior three fiscal years may be evaluated under an EPSC model that includes fewer factors. As under prior policy, neither the burn rate nor duration factors apply for companies that have less than three years of disclosed grant data.

Factor-Related Questions

38. What factors are considered in the EPSC, and why?

EPSC factors fall under three categories ("pillars") in each EPSC model:

***Plan Cost**:* This pillar considers the potential cost of the transfer of equity from shareholders to employees, which is a key consideration for investors who want equity to be used as efficiently as possible to motivate and reward employees. The EPSC considers the total potential cost of the company's equity plans relative to industry/market cap peers, measured by Shareholder Value Transfer (SVT).

SVT represents the estimated cost of shares issued under a company's equity incentive plans, differentiating between full value shares and stock options where applicable. ISS' proprietary SVT model determines SVT benchmarks (expressed as a percentage of the company's market capitalization) based on regression equations that take into account a company's market cap, industry, and performance indicators with the strongest correlation to long-term performance. The EPSC measures a company's SVT relative to two benchmark calculations that consider:

(1) new shares requested plus shares remaining for future grants (from all active plans), plus outstanding unvested/unexercised grants, and

(2) only new shares requested plus shares remaining for future grants (from all active plans).

The second measure reduces the impact of grant overhang on the overall cost evaluation, recognizing that high grant overhang is a sunk, expensed cost and also may reflect long-term positive stock performance, long vesting periods for grants, and/or employee confidence in future stock performance.

Plan Features: Based on investor and broader market feedback, the following factors may have a negative impact on EPSC results:

- *Equity award vesting upon a change in control,* depending on whether or not windfall compensation would be automatically provided upon a CIC, or other options (e.g., conversion or assumption of existing grants) are available;
- *Broad discretionary vesting authority* that may result in "pay for failure" or other scenarios contrary to a pay-for-performance philosophy;
- *Liberal share recycling* on various award types, which obscures transparency about share usage and total plan cost; and
- *Absence of a minimum required vesting period (at least one year)* for grants made under the plan, which may result in awards with no retention or performance incentives.

Grant Practices: Based on market feedback and analysis of long-standing (and some emerging) techniques, the following factors may have a positive impact on EPSC results, depending on the company's size and circumstances:

- *The company's 3-year average <u>burn rate</u> relative to its industry and index peers* – this measure of average grant "flow" provides an additional check on plan cost per SVT (which measures cost at one point in time). The EPSC compares a company's burn rate relative to its index and industry (GICS groupings for S&P 500, Russell 3000 (ex-S&P 500), and non-Russell 3000 companies).
- *Vesting schedule(s) under the CEO's most recent equity grants* during the prior three years – vesting periods that incentivize long-term retention are beneficial.
- *The plan's estimated duration*, based on the sum of shares remaining available and the new shares requested, divided by the 3-year annual average of burn rate shares – given that a company's circumstances may change over time, shareholders may prefer that companies limit share requests to an amount estimated to be needed over no more than five to six years.
- *The proportion of the CEO's most recent equity grants/awards subject to performance conditions* – given that stock prices may be significantly influenced by market trends, making a substantial proportion of top executives' equity awards subject to specific performance conditions is an emerging best practice, particularly for large cap, mature companies.
- *A clawback policy that includes equity grants* – clawback policies are seen as potentially mitigating excessive risk-taking that certain compensation may incentivize, including large equity grants.

› *Post-exercise/post-vesting shareholding requirements* – equity-based incentives are intended to help align the interests of management and shareholders and enhance long-term value, which may be undermined if executives may immediately dispose of all or most of the shares received.

39. Are the factors binary? Are they weighted equally?

EPSC factors are not equally weighted. Each factor is assigned a maximum number of potential points, which may vary by model. Some are binary, but others may generate partial points or, in some cases, negative points. For all models, the total maximum points that may be accrued is 100. The passing score is 53 in all cases, i.e., slightly more than half of the potential maximum factor scores. The chart below summarizes the scoring basis for each factor.

EPSC Factors & Point Allocation System

Factor	Definition	Scoring Basis
SVT – A+B+C Shares	Company's Shareholder Value Transfer (SVT) relative to peers – based on new shares requested + shares remaining available + outstanding grants and awards	Scaled depending on company SVT versus ISS' SVT benchmarks
SVT – A+B Shares	Company's Shareholder Value Transfer (SVT) relative to peers – based on new shares requested + shares remaining available	Scaled as above
CIC Equity Vesting	Vesting/Payout provisions for outstanding awards upon a change in control	Full points for: • Time-based awards: no acceleration or accelerate if not assumed/converted, AND • Performance-based awards: no acceleration, forfeited/terminated, or pro rata vesting that has been adjusted for both actual performance and the fractional performance period No points for: automatic acceleration of time-based equity or above-target vesting of performance awards Half of full points for: other provisions.
Liberal Share Recycling – FV	Certain shares not issued (or tendered to the company) related to full value share vesting may be re-granted	Yes – no points No – full points
Liberal Share Recycling – Options	Certain shares not issued (or tendered to the company) related to option or SAR exercises or tax withholding obligations may be re-granted; or, only shares ultimately issued pursuant to grants of SARs count against the plan's share reserve, rather than the SARs originally granted	Yes – no points No – full points
Minimum Vesting Requirement	Does the plan stipulate a minimum vesting period of at least one year for at least one award type	No or vesting period < 1 year – no points Vesting period =/> 1 year – full

Factor	Definition	Scoring Basis
		points
Full Discretion to Accelerate (non-CIC)	May the plan administrator accelerate vesting of an award (unrelated to a CIC, death, or disability)	Yes – no points No – full points
3-Year Average Burn-Rate	Company's 3-year average burn rate (as a percentage of common shares outstanding) relative to industry and index peers	Scaled depending on company's burn rate versus ISS benchmarks
Estimated Plan Duration	Estimated time that the proposed share reserve (new shares plus existing reserve) will last, based on company's 3-year average burn rate activity	Duration =/< 5 years – full points Duration >5 </= 6 years – ½ of full points; Duration > 6 years – no points
CEO's Grant Vesting Period	Period required for full vesting of the most recent equity awards (stock options, restricted shares, performance shares) received by the CEO within the prior 3 years	Vesting Period > 4 years – full points; Vesting Period =/> 3 years </= 4 (or no award in prior 3 years) – ½ of full points; Vesting Period < 3 years – no points
CEO's Proportion of Performance-Conditioned Awards	Proportion of the CEO's most recent fiscal year equity awards (with a 3-year look-back) that is conditioned on achievement of a disclosed goal	50% or more – full points; 33% < 50% -- ½ of full points; < 33% -- no points
Clawback Policy	Does the company have a policy that would authorize recovery of gains from all or most equity awards in the event of certain financial restatements?	Yes – full points No – no points
Holding Period	Does the company require shares received from grants under the plan to be held for a specified period following their vesting/exercise?	At least 36 months or until end of employment – full points; Less than 36 months or until share ownership guidelines met – ½ of full points; No holding period/silent – no points

40. Which factors, on a stand-alone basis, will result in a negative recommendation on an equity plan proposal, regardless of the score from all other EPSC factors?

The following egregious features will continue to result in an "Against" recommendation, regardless of other EPSC factors ("Overriding Factors"):

- A liberal change-of-control definition (including, for example, shareholder approval of a merger or other transaction rather than its consummation) that could result in vesting of awards by any trigger other than a full double trigger;
- If the plan would permit repricing or cash buyout of underwater options or SARs without shareholder approval (either by expressly permitting it – for NYSE and Nasdaq listed companies -- or by not prohibiting it when the company has a history of repricing – for non-listed companies);
- If the plan is a vehicle for problematic pay practices or a pay-for-performance disconnect; or
- If any other plan features or company practices are deemed detrimental to shareholder interests; such features may include, on a case-by-case basis, tax gross-ups related to plan awards or provision

for reload options (though not the granting of reload options under a plan previously approved by shareholders).

41. Are there additional factors that could result in a recommendation on an equity plan proposal that differs from the EPSC "score" driven recommendation, including proposals with "bundled" amendments?

Yes. Plans that seek approval solely to qualify awards as tax deductible compensation under Internal Revenue Code Section 162(m), for example, will generally receive a positive recommendation as long as all members of the plan's administrating committee are determined to be independent directors, per ISS' standards (but see FAQ #22 also). In addition, plans being amended without a request for additional shares or another modification deemed to increase potential cost (e.g., extension of the plan term) may receive a recommendation based on the overall impact of the amendments regardless of the EPSC score – i.e., whether they are deemed, on balance, to be beneficial or detrimental to shareholders' interests.

42. How do the SVT factors work in the EPSC model?

SVT is calculated the same as under prior ISS policies (see Plan cost for additional information), except that there are now two SVT measures:

1) One includes the new share request ("A shares" in ISS' internal parlance) plus all shares that remain available for issuance ("B shares") plus unexercised/unvested outstanding awards ("C shares").
2) The second includes only A shares and B shares, excluding C shares.

EPSC points allocated for each SVT factor are based on the relationship of the company's SVT measures (ABC and AB) to their respective ISS benchmarks. The ISS benchmark SVT is based on regression analysis for the company's GICS industry group, market cap size, and operational and financial metrics identified as correlated with total shareholder return performance in the industry. Maximum potential EPSC points are accrued for proposals with total costs at or less than approximately 65 percent of the ISS benchmark SVT (which is equivalent to the SVT "Allowable Cap" under prior policy). SVT in excess of the ISS benchmark may result in negative points.

43. How does ISS assess a plan's minimum vesting requirement for EPSC purposes?

In order to receive EPSC points for a minimum vesting requirement, the plan should mandate a vesting period of at least one year which applies to no less than 95 percent of the shares authorized for grant. Exceptions beyond this 5 percent will prevent a company from receiving credit on this factor.

44. How does the treatment of performance-based awards affect determination of their accelerated vesting upon a change in control?

ISS will deem performance-based awards as being subject to accelerated vesting upon a CIC, unless the amount considered payable/vested is both (a) linked to the degree of performance attainment as of the CIC date and (b) pro rated based on the time elapsed in the performance period as of the CIC date.

45. How is the CEO equity award proportion that is considered "performance based" determined?

The proportion of the CEO's equity grants deemed to be "performance conditioned" is based on the ISS valuation of awards reported in the Grants of Plan-Based Awards table (i.e., the target number of shares times the closing price of company stock on the grant date). Time-vesting stock options and SARs are not considered performance conditioned unless the vesting or value received depends on attainment of specified performance goals, or if ISS determines that the exercise price is at a substantial and meaningful premium to the grant date fair market value. Grants in the most recent of the last three completed fiscal years are considered for this purpose.

46. How does the burn rate factor work in the EPSC?

ISS calculates burn rate benchmarks for specific industry groupings in three index categories: S&P500; Russell 3000 (excluding S&P 500); and Non-Russell 3000. For each index, these benchmarks reflect each 4-digit GICS industry group's 3-year mean burn rate plus one standard deviation (with a floor for the benchmark of 2.00 percent). Scoring for the Burn Rate factor is scaled according to the company's 3-year average annual burn rate relative to its applicable index/industry benchmark; maximum EPSC points for this factor are accrued when the company's 3-year average burn-rate is at or below 50 percent of the benchmark. Burn rate in excess of the benchmark may result in negative points.

47. Is there still a 2% de minimis burn rate?

The minimum burn rate benchmark for each index/industry group will be 2 percent.

48. How is plan duration calculated under the EPSC?

Duration is calculated as the sum of all new shares requested plus shares remaining available for issuance, divided by the average annual burn rate shares over the prior three years. This calculation yields an estimate of how long the company's requested total reserve is expected to last.

If a company's proposed plan has a fungible share design (where full value awards count against the share reserve at a higher rate than appreciation awards), the proportion of the burn rate shares that are full-value awards will be multiplied by that fungible ratio in order to estimate the plan's duration. Under the EPSC, maximum points are accrued for plan duration of five years or less.

Other Methodology-Related Questions

49. Will ISS continue to potentially "carve out" a company's option overhang in certain circumstances?

No. The dual SVT measurement approach in the EPSC (which considers SVT that excludes the impact of grant overhang) eliminates the need for a carve-out of long-term outstanding option overhang.

50. How does the EPSC operate if multiple equity plans are on the ballot?

When approval is sought for multiple equity plans, the Scorecard will evaluate the plans as follows:

- The Plan Cost pillar will consider the cost of all plans on the ballot in aggregate. The Plan Features and Grant Practices pillars will evaluate the factors based on the "worst" scenarios among the plans. If an acceptable score is generated on the aggregate basis, all plans will be considered passed (absent overriding factors).

- If the score on an aggregate basis is lower than the passing threshold, then the following logic will apply, subject to the overriding factors:
  - If each plan's individual EPSC score is below the EPSC threshold, then each plan fails.
  - If only one plan's individual EPSC score is equal to or exceeds the threshold, then that plan will pass and the other plan(s) fail.
  - If all plans' individual EPSC scores are equal to or exceed the threshold, then the plan with the highest SVT cost (on an A/B/C basis) will pass and the other plan(s) fail.

51. A company went public two and a half years ago. However, the 10-K discloses three years of historical grant information. Does ISS calculate a burn rate under its Equity Plan Scorecard policy?

The burn rate factor generally applies to companies that have been publicly traded for three complete fiscal years. However, ISS will closely scrutinize cases where there is any unusually high equity grant made just before the three-year burn rate factor becomes applicable to such companies. Such scrutiny may result in application of the burn rate factor, if appropriate.

52. What action may a company take if its three-year average burn rate exceeds ISS' burn rate benchmark under the Equity Plan Scorecard policy?

Under the EPSC policy, three-year burn rate is considered along with other factors in evaluating a company's equity plan proposal. If a company's three-year average burn-rate exceeds 50 percent of its burn rate benchmark (former burn rate "cap") fewer than the maximum possible points for that factor (including, potentially, negative points) will accrue in the EPSC model; the company may adopt relevant positive plan features and/or other grant practices that may compensate for the burn-rate short-fall.

