



# UNITED STATES

## Equity Compensation Plans Frequently Asked Questions

Updated December 21, 2020

New and materially updated questions are highlighted in yellow

*This FAQ is intended to provide general guidance regarding the way in which ISS' Global Research Department will analyze certain issues in the context of preparing proxy analyses and determining vote recommendations for U.S. companies. However, these responses should not be construed as a guarantee as to how ISS' Global Research Department will apply its benchmark policy in any particular situation.*



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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. 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; and/or
- The company's historical grant practices, including its average annual burn rate relative to market and industry peers.

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

In addition, certain plan amendment proposals may be evaluated under the EPSC policy, depending on the type of amendments:

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

## 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. ISS expresses SVT as both a dollar value and as a percentage of market value (i.e., average share price times common shares outstanding).

#### 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 company's index membership (which generally determines the applicable EPSC model) is also locked in as of the QDD. 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
September 1 to November 30	June 1
December 1 to February 28	September 1

#### 5. If there is no stock price data available as of the company's applicable QDD, how does ISS determine the company's stock price for 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?

ISS views the granting of shares and the repurchase of shares as separate and distinct decisions. For the purpose of calculating burn rate, ISS will not offset grants with repurchased shares.

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. Share repurchases typically have a positive impact on the company's stock price, resulting in a generally offsetting 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?

If the plan provides for a dollar-for-dollar stock exchange of cash compensation (for base salary or cash incentive compensation earned), ISS will generally view the stock in lieu of cash as value neutral for SVT purposes. Such stock in lieu of cash is also carved out from burn rate calculations. Any non-value neutral form of exchange, such as a premium for deferring cash compensation for stock, is considered to cause a transfer of shareholder's equity that will be measured for SVT and burn rate calculations.

## 8. How does ISS evaluate cost for plans with an evergreen funding feature?

"Evergreen" funding features provide for automatic share reserve replenishments, 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% 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 evaluating plan cost, ISS assumes that the full allowable share replenishment will be granted and replaced in each year the evergreen feature is allowed by the plan. Evergreen features are viewed negatively, and in most cases, these projections result in a very high plan cost estimate. Evergreen features are considered a negative overriding factor that, on a stand-alone basis, may result in a negative recommendation for the equity plan proposal (see FAQ #44).

## 9. How does ISS consider limited partnership units and other convertible instruments when determining market capitalization for SVT and weighted common shares outstanding (CSO) for burn rate?

Limited partnership interests, such as OP units issued by REITs, are included in CSO for SVT and burn rate calculations if they are equivalent to common stock on a 1:1 basis and can be exchanged into common stock at any time at no cost to the holder. However, equity awards denominated in partnership interests, such as LTIP units denominated in OP units issued by REITs, are not included in CSO for SVT and burn rate calculations. Common shares issuable upon conversion or exercise of debt securities, convertible preferred stock, and warrants are generally not included in CSO for SVT and burn rate calculations.

## 10. A company would like to update the numbers of outstanding awards and shares available for future grants after the end of its last complete fiscal year (the disclosure that ISS relies on in calculating SVT). 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 together in the proxy statement (or together in 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 plan (canceling any remaining shares reserved for awards under the plan) when shareholders approve a proposed new equity plan. What information should be disclosed in order for the remaining shares reserved under the prior plan to be excluded from the SVT analysis?**

ISS generally captures shares remaining available for future awards under existing plans based on disclosure as of the end of the most recent fiscal year. As there is typically a period of time between the date of such disclosure (or a more recent disclosure in the proxy) and the date the existing plan will be terminated (usually the date of the upcoming meeting), ISS will include shares available under the existing plan in the SVT analysis.

If the company does not expect to grant any shares available under its existing plan(s) before it is terminated, it should disclose all of the following in the 10-K or proxy as of the same date (or other filing cited in the proxy) in order for ISS not to include them in the SVT analysis:

1. The total 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 total number of full value awards (i.e. restricted shares and RSUs) and appreciation awards (i.e. options and SARs) outstanding, disclosed separately and including the weighted average exercise price and remaining term of appreciation awards (and for performance-contingent awards, the updated number of shares with respect to earned/unearned portions); and
3. A commitment that no further shares will be granted as awards under the existing plan(s) unless the successor plan is not approved by shareholders. This commitment should be as of the same date as the disclosure of 1 and 2 above.

## 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 weighted average common shares outstanding, as a measure of the company's typical annual equity-based grant rate. This rate is compared to a benchmark for the company's industry/index (the "burn rate benchmark," calculated as one standard deviation above the 3-year mean burn rate for the industry/index comparator group). A company's 3-year burn rate relative to that benchmark is a factor in the Equity Plan Scorecard. The burn rate benchmarks applicable for meetings on or after Feb. 1, 2021 are provided in the Appendix section of this document.

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

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



$$\text{Annual Burn Rate} = (\# \text{ of appreciation awards granted} + \# \text{ of full value awards granted} * \text{Multiplier}) / \text{Weighted average common shares outstanding}$$

This is the "adjusted" burn rate as it gives effect to a Multiplier that is used to provide more equivalent valuation between stock options and full value shares, based on the company's historical stock price volatility. The various Multipliers and corresponding stock price volatilities are provided in the Appendix section of this document. Note that the ISS research report also provides a company's "unadjusted" burn rate (without the impact of a Multiplier) for informational purposes.

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

$$\text{Stock Volatility} = \text{Standard Deviation of } (\ln(P_t / P_{t-1}), \ln(P_{t-1} / P_{t-2}), \dots)$$

$$\text{Annualized stock volatility} = \text{Stock Volatility} * \text{Square Root of 250.}$$

#### **15. How will the 3-year burn rate calculation account for reload options and repriced options?**

Reload options are included in the numerator of the calculation. Many companies have eliminated reload options since the FASB maintained under FAS 123R that they must be counted as separate grants.

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 in the burn rate calculation. If the company does not separate the number of repriced options from number of options granted, the repriced options will be included.

#### **16. If a company's Index membership or GICS classification has changed within the last three years, which burn rate benchmark will be used?**

Presumably, the newest classification or index membership appropriately reflects the company's current circumstances; therefore, the burn rate benchmarks applicable to similar companies under the newer classification will apply. However, recent changes occurring after the company's most recent QDD will generally not change the subject company's applicable EPSC model.

#### **17. If a company assumes an acquired company's equity awards in connection with a merger, will ISS exclude these awards in the 3-year average burn rate calculation?**

If the company discloses in the 10-K the number of assumed equity awards in connection with the merger, ISS will not include the assumed awards for that year. However, if the company does not separate the number of assumed awards and number of awards granted, the assumed awards 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 grants performance-based awards, how will the shares be counted for calculating burn rate?**

ISS will count both time- and performance-based awards in the year in which they are granted, unless the company provides tabular disclosure detailing performance-based awards granted and earned in each year for the

past three fiscal years (as indicated below). Only when there is adequate disclosure of earned awards will ISS count performance-based awards when they are earned.

Adequate disclosure consists of separate tabular disclosure of performance awards, with grants and earned amounts per fiscal year covering the past three fiscal years, in either the company’s 10-K or proxy statement. Disclosure of aggregate share totals for all equity awards granted from all plans to all plan participants is required. If a company discloses only the shares earned by the NEOs in the CD&A, ISS will not assume that such figures represent the aggregate.

For performance awards that include a time-vesting period following the performance period, the shares will generally be counted at the end of the time-vesting period. If, however, a company only discloses the shares earned as of the completion of the performance period and not at the end of the time-vesting period, the shares will be counted when earned.

The table below is an example of adequate disclosure:

Performance-Based Awards	# of Shares/Units
<b>Non-vested at Dec. 31, 20XX</b>	200,000
Granted	800,000
Vested [or Earned]	150,000
Forfeited	25,000
<b>Non-vested at Dec. 31, 20XX</b>	800,000
Granted	700,000
Vested [or Earned]	400,000
Forfeited	400,000
<b>Non-vested at Dec. 31, 20XX</b>	700,000
Granted	1,000,000
Vested [or Earned]	350,000
Forfeited	350,000
<b>Non-vested at Dec. 31, 20XX</b>	1,000,000

Companies should continue to make the additional disclosure each year after initially providing it, even if there is no equity plan on ballot, in order for ISS to capture performance awards in a similar fashion in subsequent years. Even if performance awards were not granted in any given year or no performance awards vested (either because none were scheduled to vest or because goals were not met), tabular disclosure is required in order to provide a clear view of the year-to-year status of the performance award program. ISS will generally not engage in calculations to determine earned amounts, even if such calculations may be possible based on the company’s disclosure.

**19. If a company grants time-based restricted shares as consideration for an acquisition, will ISS factor those shares into the burn rate calculation?**

Generally, ISS will factor all disclosed equity compensation in the burn rate calculation. However, some companies use time-based restricted equity as partial consideration for an acquisition (rather than cash, unrestricted stock, or other instruments), therefore motivating the principals of the acquired company to continue contributing to the success of all shareholders. Such shares are usually required to be disclosed as compensation. These shares are typically a small percentage of overall granted shares for a company in a particular year.

In order for restricted shares granted in consideration for an acquisition to be excluded from the ISS burn rate calculation, companies must provide tabular disclosure indicating the shares used for this purpose in each of the most recent three years. Note that only time-based vesting restricted stock may be excluded; equity with performance vesting criteria will continue to be included in the burn rate calculation.

Time-based Restricted Stock Granted as Consideration for Acquisitions	# of Shares/Units
Year ending Dec. 31, 20XX	0
Year ending Dec. 31, 20XX	20,000
Year ending Dec. 31, 20XX	50,000

Companies should continue to make the additional disclosure each year after initially providing it, even if there is no equity plan on ballot, in order for ISS to identify the awards in a similar fashion in subsequent years. When there have been no restricted shares issued as consideration for an acquisition for three consecutive years, companies may discontinue the disclosure.

## Liberal Share Recycling

### 20. How does ISS define liberal share recycling?

Liberal share recycling occurs when shares vested and/or exercised can, under certain circumstances, be added back to the plan reserve for future grants. This typically involves recycled shares in the following circumstances: shares tendered as payment for an option exercise; shares withheld to cover taxes; shares repurchased by the company using stock option exercise proceeds; or stock-settled awards where only the actual shares delivered are counted against the plan reserve.

In cases where a plan allows awards to be settled in either cash or stock, ISS will assume all awards are stock-settled for the purposes of assessing liberal share recycling. Note that a specified limit on the number of shares that can be recycled does not affect the scoring for the liberal share recycling factors – the presence of this feature will result in no points for the factors.

## Liberal Change in Control Definition

### 21. How does ISS define a "liberal change in control" and what is the impact of a liberal definition combined with non-double trigger vesting?

A change in control (CIC) definition is considered liberal when it falls below reasonable standards of what investors may consider to be an actual CIC of the company. A liberal CIC definition typically includes the following: shareholder approval of a transaction, rather than its consummation; a change in less than a half of the board; an acquisition of a low percentage of outstanding common stock (15% or less); an 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 CIC of the company. If a CIC is defined broadly so as to be triggered by ordinary course events (such as death, disability or retirement situations), this may be considered a liberal CIC definition.

A plan that contains a liberal CIC definition that could result in vesting of awards by any trigger other than a full double trigger is considered a negative overriding factor.

### 22. What curative action may a company take if its equity plans contain liberal change in control definitions?

A company may qualify the problematic CIC definition to be preconditioned on determinate events that effectively constitute a non-liberal CIC definition, such as "consummation of a transaction" or "constructive loss of employment (double-triggered CIC)." Alternatively, for an existing plan that is being amended, as opposed to a new plan, it is acceptable to specify that a non-liberal CIC definition will be effective for grants made after the plan amendment date.

## Plan Amendment Proposals; 162(m) Proposals

### 23. How does ISS evaluate an equity plan proposal seeking approval of one or more plan amendments?

Equity plan amendment proposals are evaluated on a case-by-case basis.

ISS' recommendation will generally\* be based on the EPSC evaluation/score if any of the following apply:

- The proposal includes a material request for additional shares;
- The proposal represents the first time shareholders have had an opportunity to opine on the plan;
- The amendments include:
  - an extension of the plan's term;
  - the addition of full value awards as an award type when the current plan authorizes only option/SAR awards;
  - the elimination or increase of a full value award aggregate (plan) limit; or
  - the elimination of a fungible ratio.

\*In exceptional cases, ISS may recommend against the proposal despite a passing EPSC score, if the proposed amendments as a whole represent a substantial diminishment to shareholders' interests. Conversely, ISS may support the proposal despite a non-passing EPSC score, if the proposed amendments as a whole represent a substantial enhancement to shareholders' interests.

If none of the amendment scenarios specified above apply, the plan amendment proposal will receive a recommendation based on a qualitative analysis of the overall impact of the amendments – i.e., whether they are deemed to be overall beneficial or contrary to shareholders' interests. In these cases, the EPSC score typically will not determine ISS' recommendation, although the EPSC summary and scoring will be displayed for informational purposes.

Proposals seeking only approval to ensure tax deductibility of awards pursuant to Section 162(m) for grandfathered plans will generally receive a favorable recommendation, subject to certain other requirements (see next question below). This will not apply, however, if the 162(m)-related proposal is bundled with plan amendments in the same proposal.

### 24. How will ISS treat plan proposals that are only seeking approval in order to qualify grants as "performance-based" under IRC Section 162(m)?

The Tax Cuts and Jobs Act of 2017 introduced significant changes to Section 162(m) of the Internal Revenue Code, including the elimination of the 162(m) "performance-based compensation" tax deduction exception. However, the Act includes a "grandfather rule" to allow for compensation to continue to be subject to the prior code's performance-based pay exception in limited circumstances. Accordingly, equity plan proposals on the ballot for 162(m) qualification may continue to appear, although less often compared to before the code changes. ISS' evaluation of 162(m)-related proposals remains consistent with prior years.

Under the prior 162(m) rules, companies were required to get shareholder approval at least once every five years to qualify incentive awards as "performance-based compensation" that is tax deductible. Proposals that only seek approval to ensure tax deductibility of awards pursuant to Section 162(m) – now under the "grandfather rule" – and that do not seek additional shares for grants or approval of any plan amendments, will generally receive a favorable recommendation regardless of EPSC factors ("positive override"), provided that the plan's administrating board committee is 100% independent according to ISS standards. The 162(m)-related FAQs herein assume that such proposals are on the ballot under the revised code's grandfather rule.

## **25. How will ISS consider plan revisions relating to the 162(m) tax code changes?**

Plan amendments that involve removal of general references to 162(m) qualification will be viewed as administrative/neutral. This includes references to approved metrics for use in performance plan-based awards.

Section 162(m)'s requirements for qualifying performance-based compensation included items that are recognized by investors as good or best practices. If a plan contains provisions representing good governance practices, even if no longer required under the revised 162(m) code, their removal may be viewed as a negative change in a plan amendment evaluation. For example, the removal of individual award limits would be viewed as a negative change. Therefore, ISS encourages companies to maintain plan provisions that represent good governance practices, even if they are no longer required under 162(m).

## **26. An equity plan is submitted for approval by public shareholders for the first time, solely for 162(m) purposes. The company will not be adding shares or bundling any other amendments. 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 include bundled amendments, and where the plan administrating committee is fully independent per ISS' definitions. However, if the equity plan is put up for shareholder approval, for any reason, for the first time (including following a company's IPO), then the vote recommendation will be based on the full EPSC evaluation and score. This would also be applicable for a spun off company that is seeking approval of an existing plan that has not yet been submitted for approval to the new shareholder base of the post-spinoff company. This ensures 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.

## **27. How does ISS evaluate amendments by companies listed in France that are made in response to that market's adoption of the *Loi Macron* (Macron Law)?**

The Macron Law adopted in August 2015 introduced changes to the legal requirements and tax treatment for French-qualified restricted stock units (RSUs). Equity plans that are approved by shareholders under this legal framework benefit from a tax advantage and lower employer contribution rates compared to plans under the previous framework. The law also reduces the requirements for minimum vesting and holding periods for RSUs. With respect to U.S. Domestic Issuers (covered by ISS' U.S. policy guidelines) that have stock plans covering French employees affected by the Macron Law, ISS will evaluate proposals seeking qualification under the Macron Law from a U.S. policy perspective on a case-by-case basis, taking into consideration the benefits of the favorable tax treatment as well as the impact of any proposed amendments (i.e. to minimum vesting requirements) on shareholders' interests.

## **28. How does ISS view a plan amendment to increase the tax withholding rate applicable upon award settlement?**

ISS generally views a plan amendment to increase the tax withholding rate as an administrative change neutral to shareholders' interests. However, if the plan in question contains a liberal share recycling feature, then the amendment would be viewed negatively since it would exacerbate concerns regarding diminished transparency of share usage inherent to liberal share recycling. However, this concern would be mitigated if the plan stipulates that only the number of shares withheld at the minimum statutory rate may be recycled, even if the tax withholding is at a higher rate.

## Non-Employee Director Equity Compensation Plans

### 29. 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. ISS evaluates the plan's cost (against a plan cost (SVT) benchmark and, in rare cases, a burn rate benchmark). The burn rate benchmark applies only when the number of shares underlying non-employee director equity awards surpasses the number awarded to employees.

Occasionally, non-employee director equity plans will exceed the SVT or burn rate benchmark when combined with employee equity compensation plans. In such cases, ISS supplements the non-employee director plan 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. This qualitative review is case-by-case and will determine the vote recommendation for the director equity plan proposal (see next question below).

If the stand-alone non-employee director equity plan proposal contains only plan amendments (and not a request for additional shares or term extension), ISS' recommendation will be based on a qualitative analysis of the overall impact of the plan amendments – i.e., whether they are deemed to be overall beneficial or contrary to shareholders' interests. In any event, ISS may recommend against a stand-alone non-employee director equity plan that contains egregious features; for example, if the plan permits non-shareholder approved option repricing.

### 30. What factors are considered in ISS' qualitative review of director pay for the purpose of director equity plan approval?

When the stand-alone director equity plan exceeds the plan cost or burn rate benchmark, ISS' subsequent qualitative review will determine the vote recommendation. The qualitative review examines the following factors:

- The relative magnitude of director compensation as compared to companies of a similar profile;
- The presence of problematic pay practices relating to director compensation;
- Director stock ownership guidelines and holding requirements;
- Equity award vesting schedules;
- The mix of cash and equity-based compensation;
- Meaningful limits on director compensation;
- The availability of retirement benefits or perquisites; and
- The quality of disclosure surrounding director compensation.

## 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) and taken together a plan can score up to a maximum of 100 total potential points.

ISS will continue to issue negative recommendations for plan proposals that feature certain egregious characteristics (such as authority to reprice stock options without shareholder approval). 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 framework for 2021?

Effective for meetings as of Feb. 1, 2021, the following updates apply to EPSC evaluations:

- The threshold passing scores will increase for the S&P 500 model (from 55 points to 57 points) and the Russell 3000 model (from 53 points to 55 points). The threshold passing scores are unchanged for other models. There are no new factors or factor score adjustments.

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

No. 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, spinoffs, and bankruptcy emergent companies that do not disclose at least three years of grant data) for each of two groups: Russell 3000 / S&P 500, and non–Russell 3000 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?

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			
Pillar	Model	Maximum Pillar Score	Comments
Plan Cost	S&P 500, Russell 3000, Non–Russell 3000	45	All models include the same Plan Cost factors
	Special Cases – Russell 3000 / S&P 500*	50	
	Special Cases – Non–Russell 3000*	60	
Plan Features	S&P 500, Russell 3000	17	All models include the same Plan Features factors
	Non–Russell 3000	27	
	Special Cases – Russell 3000 / S&P 500*	33	
	Special Cases – Non–Russell 3000*	40	
Grant Practices	S&P 500, Russell 3000	38	The Non–Russell 3000 model includes only Burn Rate and Duration factors. The

	Non-Russell 3000	28	Special Cases model for Russell 3000 / S&P 500 companies includes all Grant Practices factors except Burn Rate and Duration. The Special Cases model for Non-Russell 3000 companies does not include any Grant Practices factors.
	Special Cases – Russell 3000 / S&P 500*	17	
	Special Cases – Non-Russell 3000*	0	

\*Generally covers companies that recently had their IPO, were spun off, or emerged from bankruptcy that do not disclose 3 years of grant data (see FAQ #37).

### 35. What are the threshold passing scores for the EPSC models?

For the S&P 500 model, a score of 57 (out of a total 100 possible points) is the threshold passing score. For the Russell 3000 model, a score of 55 is the threshold passing score. For all other models, the threshold passing score is 53.

### 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 plan cost evaluation for SVT and burn rate). In these cases, positive or negative features of the stand-alone non-employee director plan will only impact that plan's evaluation, which continues ISS' historical case-by-case approach to stand-alone non-employee director plan evaluations. However, when a proposal enumerated in FAQ #2 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 for that proposal.

### 37. How will equity plan proposals at newly public companies be evaluated?

Recent IPOs, spinoffs, and bankruptcy-emergent companies may be evaluated under an EPSC model that includes fewer factors. The burn rate and duration factors do not apply for companies that have less than three years of disclosed grant data. Generally, the Special Cases models will be used in the following two cases: 1) the subject company has less than or equal to 32 months of trading history as of the applicable QDD date; or 2) the subject company has between 33 and 36 months of trading history as of the applicable QDD and less than three years of burn rate data is available.

## 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:



- New shares requested plus shares remaining for future grants (from all active plans), plus outstanding unvested/unexercised grants; and
- 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:

- *Quality of disclosure of award vesting upon a change in control*, if the plan does not provide the specific disclosure of the CIC vesting treatment for both time- and performance-based awards (or if the plan merely provides for discretionary vesting of either award type);
- *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;
- *Absence of a minimum required vesting period (at least one year)* for all equity award types issuable under the plan, which may result in awards with no retention or performance incentives; and
- *The ability to pay dividends prior to the vesting of the underlying award.*

**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 burn rate 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 schedules and performance measurement periods for the CEO's most recent equity grants* during the prior three years – multi-year vesting periods or performance measurement 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 a best practice.
- *A clawback policy that includes equity grants* – clawback policies potentially mitigate 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. Most factors are binary, but certain ones may generate partial points or negative points. For all models, the total maximum points that may be accrued is 100. The chart below summarizes the scoring basis for each factor.

EPSC Factors & Point Allocation System		
Factor	Definition	Scoring Basis
<b>SVT – A+B+C Shares</b>	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
<b>SVT – A+B Shares</b>	Company's Shareholder Value Transfer (SVT) relative to peers – based on new shares requested + shares remaining available	Scaled as above
<b>CIC Equity Vesting</b>	Disclosure of the specific vesting treatment for outstanding time- and performance-based awards upon a CIC.	<p>Disclosure of the specific CIC vesting treatment for both time- and performance-based awards – full points.</p> <p>Plan is silent on the CIC vesting treatment for either type of award, or the plan provides for merely discretionary vesting for either type of award – no points.</p> <p>Plan is silent on the CIC vesting treatment for either type of award, or the plan provides for merely discretionary vesting for either type of award – no points.</p>
<b>Liberal Share Recycling – FV</b>	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
<b>Liberal Share Recycling – Options</b>	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
<b>Minimum Vesting Requirement</b>	Does the plan stipulate a minimum vesting period of at least one year for all equity award types?	<p>No or vesting period &lt; 1 year – no points</p> <p>Vesting period ≥ 1 year – full points</p> <p>No points if the plan allows for individual award agreements or other mechanisms to reduce or eliminate the minimum vesting requirement. No points for plans that allow shares to vest over the course of the 1-year period (e.g., monthly ratable vesting).</p>
<b>Full Discretion to Accelerate</b>	May the plan administrator accelerate vesting of an award (unrelated to a death or disability)	Yes – no points No – full points

Factor	Definition	Scoring Basis
<b>Dividends Paid on Unvested Awards</b>	Does the plan expressly prohibit the payment of dividends on unvested awards for all equity award types?	Yes—full points No—no points
<b>3-Year Average Burn Rate</b>	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
<b>Estimated Plan Duration</b>	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 and ≤ 6 years – ½ of full points; Duration > 6 years – no points
<b>CEO's Grant Vesting Period</b>	Examines the most recent equity awards received by the CEO within the prior 3 years. Time-based awards and performance-based awards are considered separately. For time-based awards, the factor examines the period required for full vesting. For performance-based awards, the factor examines the full performance measurement period.	Vesting Period (or Performance Measurement Period) ≥ 3 years – full points;  Vesting Period (or Performance Measurement Period) < 3 years – no points;  No points for: no performance equity awards granted in the prior 3 years;  Full points for: no time-based options and restricted shares granted in the prior 3 years
<b>CEO's Proportion of Performance-Conditioned Awards</b>	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
<b>Clawback Policy</b>	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
<b>Holding Period</b>	Does the company require shares received from grants under the plan to be held for a specified period following their vesting/exercise?	At least 12 months or until end of employment/retirement – full points; Less than 12 months, until share ownership guidelines met, or no holding period/silent – no points

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

The following egregious features may result in an “Against” recommendation, regardless of other EPSC factors (“Overriding Factors”):

- A liberal change-of-control definition 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;
- If the plan is a vehicle for problematic pay practices or a pay-for-performance misalignment;
- If the plan is estimated to be excessively dilutive to shareholders' holdings;
- If the plan contains an evergreen (automatic share replenishment) feature; or
- If any other plan features or company practices are deemed detrimental to shareholder interests – examples may include (but are not limited to), on a case-by-case basis, tax gross-ups related to plan awards or change-in-control excise taxes, provision for reload options (whether or not included in a prior approved plan), or provision for transferability of stock options to third-party financial institutions without shareholder approval.

#### **41. When will repricing or cash buyout provisions constitute an overriding factor?**

If the plan would permit repricing of options/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) – this will constitute an overriding factor. The following non-exhaustive list shows typical repricing provisions that would be considered an overriding factor:

- The direct exercise price reduction of outstanding stock options;
- The cancellation of an outstanding stock options in exchange for the grant of a new stock options with a lower exercise price;
- The cancellation of underwater options in exchange for stock awards; or
- Cash buyouts of underwater options.

#### **42. When may a pay-for-performance misalignment have an adverse recommendation implication for the equity plan proposal?**

ISS may recommend a vote against the equity plan proposal if the plan is determined to be a vehicle for pay-for-performance misalignment. This determination is case-by-case and considerations include, but are not limited to:

- Severity of the pay-for-performance misalignment;
- Whether problematic equity grant practices are driving the misalignment; and/or
- Whether equity plan awards have been heavily concentrated to the CEO and/or the other NEOs (as opposed to the plan being considered broad-based).

In determining whether the equity plan is broad-based, ISS examines the 3-year average concentration ratio for equity awards made to the CEO and other NEOs. ISS may not consider a plan to be broad-based if the 3-year average concentration ratio of grants exceeds 30% for the CEO or 60% for all NEOs, including the CEO. Note that problems identified in any of the three above factors may have an adverse recommendation implication for the equity plan proposal, depending on the severity of the issues.

#### **43. When will excessive dilution have an adverse recommendation implication for the equity plan proposal?**

ISS may recommend a vote against the equity plan proposal if the program is potentially highly dilutive to shareholders' holdings. This overriding factor will be triggered when the company's equity compensation program is estimated to dilute shareholders' holdings by more than 20 percent (for the S&P 500 model) or 25 percent (for the Russell 3000 model). This overriding factor does not apply to the Non-Russell 3000 or Special Cases models.

This overriding factor examines share capital dilution (as opposed to voting power dilution) calculated as:  $(A + B + C) \div \text{CSO}$ , where: A = # new shares requested; B = # shares that remain available for issuance; C = # unexercised/unvested outstanding awards; and CSO = common shares outstanding.

#### **44. When will an evergreen feature have an adverse recommendation implication for the equity plan proposal?**

ISS may recommend a vote against the equity plan proposal if the plan contains an evergreen feature that provides for automatic share replenishment without the need for shareholder reapproval for each increase in authorized shares. Sunset provisions applicable to such features will not be considered a mitigator. Evergreen features bypass shareholders' ability to approve authorized share increases and may perpetuate plans with shareholder-unfriendly features. Note that most equity plans with evergreen features result in a non-passing EPSC score, in light of the high cost projections associated with such plans (see FAQ #8).

#### **45. How do the SVT factors work in the EPSC model?**

There are two SVT measures:

1. One includes the new share request ("A shares" in ISS' parlance) plus all shares that remain available for issuance ("B shares") plus unexercised/unvested outstanding awards ("C shares").
4. 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% of the ISS benchmark SVT. SVT in excess of the ISS benchmark may result in negative points.

#### **46. 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 for all equity award types issuable under the plan, which applies to no less than 95% of the shares authorized for grant. Exceptions beyond this 5% will prevent a company from receiving credit on this factor. No points are awarded if the minimum vesting requirement does not apply to all equity award types, or if the plan allows for individual award agreements or other mechanisms to reduce or eliminate the requirement.

Note that ratable vesting that allows for partial vesting prior to one year, or a general statement of ratable vesting over a period of time (i.e. "awards will vest over two years"), will not suffice for this factor, since ratable vesting could be daily, monthly, etc. The plan's language should preclude the possibility of equity awards vesting prior to one year from the grant date.

#### **47. How does ISS determine the vesting period for the CEO's most recent equity grants?**

In order to receive full points for this factor, the period for full vesting (or the performance measurement period) must be no shorter than three years. For time-based awards, full vesting must not occur until three years from the date of grant. For performance-based awards, ISS will give credit for a performance measurement period of slightly less than three years from the grant date if the reason is due to the grant date being within the performance measurement period. For example, if a company with a January 1 – December 31 fiscal year grants performance equity on Feb. 1, 2017 and the awards vest on Dec. 31, 2019 based on a three-year performance measurement period that aligns with the company's fiscal year, ISS will consider this as a 3-year measurement period.

For performance-based awards that are subject to subsequent time-based vesting, only the performance-contingent portion of the vesting period is counted. For example, if a performance award is earned after a 1-year performance period but is subject to a subsequent 2-year time-vesting requirement, this will be counted as 1 year.

#### **48. How does ISS determine the proportion of CEO equity awards that is considered performance-conditioned?**

The proportion of the CEO's equity grants deemed to be "performance conditioned" is based on ISS' classification and 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 premium to the stock price at grant date. Grants made to the CEO in the last three completed fiscal years are considered for this purpose.

#### **49. 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%). 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% of the benchmark. Burn rate in excess of the benchmark may result in negative points.

The burn rate benchmarks applicable for meetings on or after Feb. 1, 2021 are provided in the Appendix section of this document. As noted, the minimum burn rate benchmark for each index/industry group is 2.00%.

#### **50. How is plan duration calculated in 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. The duration factor uses unadjusted burn rate, without any effect to a volatility multiplier. 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 Questions**

#### **51. Will ISS 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.

#### **52. How does the EPSC operate if multiple equity plans are on the ballot?**

When approval is sought for multiple equity plans, the EPSC 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 passing score, then each plan fails.
  - If only one plan's individual EPSC score is equal to or exceeds the passing score, then that plan will pass and the other plan(s) fail.
  - If all plans' individual EPSC scores are equal to or exceed the passing score, then the plan with the highest SVT cost (on an A/B/C basis) will pass and the other plan(s) fail.

### 53. How will ISS assess an equity plan amendment proposal when the company does not disclose the updated plan document?

In rare instances, a company presenting a plan amendment proposal discloses in the proxy a summary of the amended provisions/plan but does not disclose the full text of the revised plan. A summary of the plan alone is generally not sufficient to enable investors to make an informed evaluation of the full equity plan. It also may impede ISS' ability to assess plan features under the EPSC evaluation. In cases where the company does not disclose the revised equity plan document in the proxy and also does not indicate in the proxy where the revised plan document is filed, ISS may recommend "against" the plan amendment proposal, as the company has not provided sufficient information to enable shareholders to fully evaluate the revised plan.

## Appendix: 2021 Burn Rate Benchmarks

S&P500				
GICS	Description	Mean	Standard Deviation	Burn Rate Benchmark*
10	Energy	0.85%	0.54%	2.00%
15	Materials	0.86%	0.46%	2.00%
20	Industrials	0.99%	0.56%	2.00%
25	Consumer Discretionary	1.35%	1.07%	2.41%
30	Consumer Staples	0.91%	0.51%	2.00%
35	Health Care	1.47%	0.74%	2.22%
40	Financials	1.35%	0.86%	2.21%
45	Information Technology	2.33%	1.54%	3.87%
50	Communication Services	2.20%	1.22%	3.42%
55	Utilities	0.49%	0.27%	2.00%
60	Real Estate	0.61%	0.51%	2.00%

Russell 3000 (excluding the S&P500)				
GICS	Description	Mean	Standard Deviation	Burn Rate Benchmark*
1010	Energy	1.93%	1.31%	3.24%
1510	Materials	1.58%	1.30%	2.87%

<b>2010</b>	Capital Goods	1.71%	1.12%	2.83%	
<b>2020</b>	Commercial & Professional Services	2.21%	1.36%	3.57%	
<b>2030</b>	Transportation	1.54%	1.09%	2.63%	
<b>2510</b>	Automobiles & Components	1.84%	1.00%	2.84%	
<b>2520</b>	Consumer Durables & Apparel	1.98%	1.39%	3.36%	
<b>2530</b>	Consumer Services	2.09%	1.55%	3.64%	
<b>2550</b>	Retailing	3.14%	2.86%	6.00%	
<b>3010</b>	Food & Retailing Staples	2.07%	1.70%	3.78%	
<b>3020</b>	Food, Beverage & Tobacco	1.72%	1.53%	3.25%	
<b>3030</b>	Household & Personal Goods	2.93%	2.12%	5.05%	
<b>3510</b>	Health Care Equipment & Services	3.40%	2.28%	5.69%	
<b>3520</b>	Pharmaceuticals & Biotechnology	5.33%	2.58%	7.91%	
<b>4010</b>	Banks	1.06%	0.87%	2.00%	*
<b>4020</b>	Diversified Financials	3.39%	3.66%	7.05%	
<b>4030</b>	Insurance	1.54%	1.32%	2.86%	
<b>4510</b>	Software & Services	5.48%	3.76%	9.24%	
<b>4520</b>	Technology Hardware & Equipment	3.75%	2.83%	6.57%	
<b>4530</b>	Semiconductor Equipment	4.02%	2.21%	6.23%	
<b>5010</b>	Telecommunication Services	3.06%	2.78%	5.84%	
<b>5020</b>	Media & Entertainment	3.61%	3.01%	6.62%	
<b>5510</b>	Utilities	0.80%	1.16%	2.00%	*
<b>6010</b>	Real Estate	1.03%	1.12%	2.15%	

Non-Russell 3000					
GICS	Description	Mean	Standard Deviation	Burn Rate Benchmark*	
<b>1010</b>	Energy	2.89%	2.78%	5.67%	
<b>1510</b>	Materials	2.92%	2.76%	5.68%	
<b>2010</b>	Capital Goods	4.19%	3.63%	7.82%	
<b>2020</b>	Commercial & Professional Services	4.27%	3.16%	7.42%	
<b>2030</b>	Transportation	3.23%	3.08%	6.31%	
<b>2510</b>	Automobiles & Components	2.83%	2.09%	4.91%	
<b>2520</b>	Consumer Durables & Apparel	3.78%	2.56%	6.34%	
<b>2530</b>	Consumer Services	3.11%	3.16%	6.27%	
<b>2550</b>	Retailing	5.15%	3.31%	8.45%	
<b>3010, 3020, 3030</b>	Consumer Staples	4.98%	3.93%	8.91%	+
<b>3510</b>	Health Care Equipment & Services	6.15%	3.77%	9.91%	
<b>3520</b>	Pharmaceuticals & Biotechnology	6.02%	3.44%	9.46%	
<b>4010, 4020, 4030</b>	Financials	2.42%	2.69%	5.11%	+
<b>4510</b>	Software & Services	5.90%	4.55%	10.45%	
<b>4520</b>	Technology Hardware & Equipment	3.75%	2.66%	6.41%	



<b>4530</b>	Semiconductor Equipment	3.92%	2.39%	6.30%	
<b>5010, 5020</b>	Telecom & Media	3.54%	2.72%	6.27%	+
<b>5510</b>	Utilities	1.20%	0.83%	2.03%	
<b>6010</b>	Real Estate	1.28%	1.01%	3.07%	*

*\*The benchmark is generally the Mean + Standard Deviation, subject to minimum benchmark of 2.00%. In addition, year-over-year burn-rate benchmark changes are limited to a maximum of two (2) percentage points plus or minus the prior year's burn-rate benchmark. This industry group is subject to this limit.*

*+ Benchmark based on all companies in the 2-digit GICS due to insufficient number of companies to analyze within the 4-digit GICS industry.*

A premium (multiplier) is applied on full-value awards for the past three fiscal years. The guideline for applying the premium is as follows:

Stock Price Volatility	Multiplier
54.6% and higher	1 full-value award will count as 1.5 option shares
36.1% or higher and less than 54.6%	1 full-value award will count as 2.0 option shares
24.9% or higher and less than 36.1%	1 full-value award will count as 2.5 option shares
16.5% or higher and less than 24.9%	1 full-value award will count as 3.0 option shares
7.9% or higher and less than 16.5%	1 full-value award will count as 3.5 option shares
Less than 7.9%	1 full-value award will count as 4.0 option shares

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