

Equity Incentive Planning & Design Trends

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Managing Director in Frederic W. Cook's Los Angeles Office

- Shareholder with 20 years of executive compensation consulting experience; with FWC since 2000.
- Specific experience in designing total compensation strategies, including short- and long-term incentive plans, as well guidelines for initial public offerings and M&A activities for both public and private companies.
- Experience in most industries including, Technology, Healthcare, Life Sciences, REITs, Financial Services, Professional Services, Hospitality, Business Development Corporations, Airlines, Equipment and Aircraft Leasing, and Natural Resources
- Technology and IT clients include: Intuit, Qualcomm, Quality Systems, RealNetworks, MeetMe, ixia, Autobyte, United Online, International Rectifier, and Heartland Payment Systems
- Life Sciences clients include: Acadia Pharmaceuticals, Arena Pharmaceuticals, CTI Pharmaceuticals, Innoviva, Nektar Pharmaceuticals, Ophotech, Orexigen, Organovo, PTC Pharmaceuticals, Regeneron, ResMed, and Theravance BioPharma
- Other representative clients: Hercules Technology Capital, Nature's Sunshine Products, Nu Skin, Public Storage, Sabra Healthcare REIT, SkyWest Airlines, The Honest Co., Virgin America Airlines
- BA in Economics and Classics from Brown University. Private pilot, and aircraft owner.

Disclaimers

- Topics are framed with a life sciences and technology company focus
- Other F.W. Cook & Co. partners generally share my views, but not always.
- Slides available from Michael Reznick at mpreznick@fwcook.com **or 310-734-0136**

Topics Covered

- 1. Company-Wide Equity Compensation Budget and Mix**
 - Equity Run Rates in Drug Development and Technology
 - Operationalize Equity Usage Data
 - Equity Mix Trends
- 2. Trends in Performance Equity Design (Market Data)**
- 3. Options vs. RSUs (and “A Case for Options,” an opinion)**
- 4. Performance Equity Design Examples**
 - Operating Goals vs TSR Goals
- 5. Proxy Advisors and Say on Pay**
 - Avoiding ISS Say on Pay Footfalls
 - An Idea: End of Year Grant Cycle

1. COMPANY-WIDE EQUITY COMP BUDGET & MIX

Equity Run Rate Data in Biotech and Tech

Burn rate data over time tells the story of labor market trends and pay model differences for Drug Development and Technology companies....

- Technology burn rate has increased in option-equivalents, but almost all is due to the switch from options to RSUs, with “simple burn” rate about the same. Meanwhile, the Drug Development pay model remains consistent over time, with options dominant and similar ongoing burn rates (though higher drug development burn rates coming due to falling stock prices that started in late 2015 and 2016).

		3-Yr. Avg. Median Burn Rate (% Shares Outstanding)			
		Gross Shares Granted			
		Options	RSUs & PSUs	Total	Option Equiv.
Tech	Technology 2011	0.88%	0.76%	1.57%	3.36%
		↓	↓	↓	↓
	Technology Now	0.14%	1.44%	1.72%	5.50%
Drug	Drug Development 2011	3.37%	0.28%	3.61%	3.86%
		↓	↓	↓	↓
	Drug Development Now	3.33%	0.35%	3.75%	4.02%

Disclaimer: Data from FWC client work in Technology and Drug Development Centered in Silicon Valley (sample is not perfectly consistent for both time periods)

Officer Equity Mix

Technology and Drug Development equity grant model differences are shown in the award types, which follow differences in business model...

Technology has more guaranteed RSUs and measures performance with PSUs. Meanwhile, Drug Development remains mostly options to combine performance measurement and upside leverage with tax deferral and no goal-setting, despite proxy advisor opinions that options are not as performance based as PSUs...

		Long-Term Incentive Grant Value Mix					
		CEO			Avg. 2nd - 5th Highest Paid		
		Stock Options	RS/RSUs	Perf. Shares	Stock Options	RS/RSUs	Perf. Shares
Tech	Technology 2011	12%	22%	42%	29%	36%	35%
	Technology Now	↓ 19%	↓ 34%	↓ 47%	↓ 17%	↓ 50%	↓ 33%
Drug	Drug Development 2011	79%	18%	2%	78%	19%	2%
	Drug Development Now	↓ 71%	↓ 18%	↓ 11%	↓ 67%	↓ 22%	↓ 11%

Disclaimer: Data from FWC client work in Technology and Drug Development Centered in Silicon Valley (sample is not perfectly consistent for both time periods)

Operationalize Burn Rate Data

Best practice is to use burn rate data, or P&L cost as % Market Cap, to measure a “top-down equity compensation budget.” This can be taken a step further to benchmark all equity awards without the use of Black Scholes or dependence on potentially volatile stock prices (Dilution-Based Benchmark Data)...

- Example below is for a drug development company using new industry data...

1. Determine Median Option Pool (Top-Down)

Drug Development Company A Common Shares Outstanding		<u>Median</u>
		50,000,000
Competitive Gross Option-Equivalent Run Rate	x	<u>4.02%</u>
Gross Annual Company-Wide Option Pool		2,000,000

2. Determine Median Allocation of Pool

Company	Average Allocation of Option-Equivalent Grants to Top-5 Officers					
	CEO	Next Highest Paid Officers				3HP-5HP Average
		2nd	3rd	4th	5th	
75th Percentile	20.5%	13.1%	6.6%	6.2%	4.9%	5.8%
Median	17.6%	7.2%	4.0%	3.2%	2.6%	3.6%
25th Percentile	10.2%	4.9%	3.4%	2.3%	2.0%	2.4%

3. Median Award = Median Allocation of Median Option Pool

Position	Equity Benchmark	Allocation of Annual Pool x	Median Annual Company Pool (# Opt.-Equiv.)	=	Median Option-Equivalents
President & CEO	CEO	17.6%	2,000,000		350,000
CFO	2nd Highest Paid	7.2%	" "		140,000
EVP, R&D & CTO	Avg. of 3rd-5th Highest Paid	3.6%	" "		70,000

P&L Cost from Equity Compensation

Burn rate is necessarily not the entire story any longer....

Securities analysts and shareholders are increasingly looking at the P&L cost of company-wide equity compensation not just relative to market cap, but also to revenue and earnings....

- Trend is emerging the most in larger cap technology or mature life sciences companies, since most drug development companies are still either pre-commercial or have revenue/earnings that lag and market value based on future potential and this taints an analysis like the one below.
- The kind of supplementary equity compensation cost data now being considered is shown for 30 larger cap technology companies.

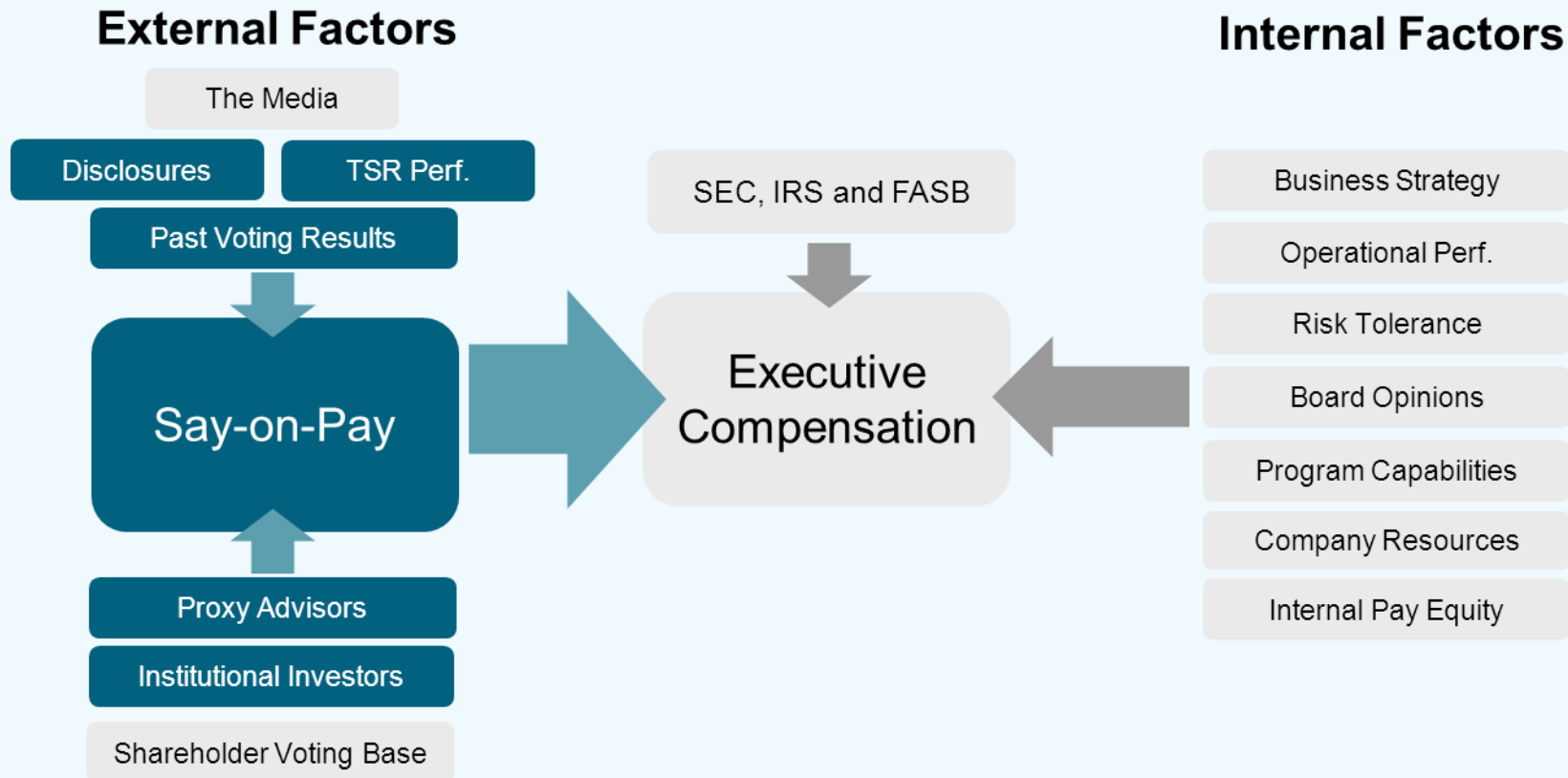
ASC 718 Equity Expense from New Awards in Last Fiscal Year

<i>Expense (\$ Millions)</i>	<i>Per Employee</i>	<i>As a % of Revenue</i>	<i>As a % of Op Income</i>	
75P	\$1,033	\$51,335	11.0%	35.8%
Median	\$711	\$25,662	4.3%	21.5%

2. TRENDS IN PERFORMANCE EQUITY DESIGN (Data)

Performance Equity Governance Background

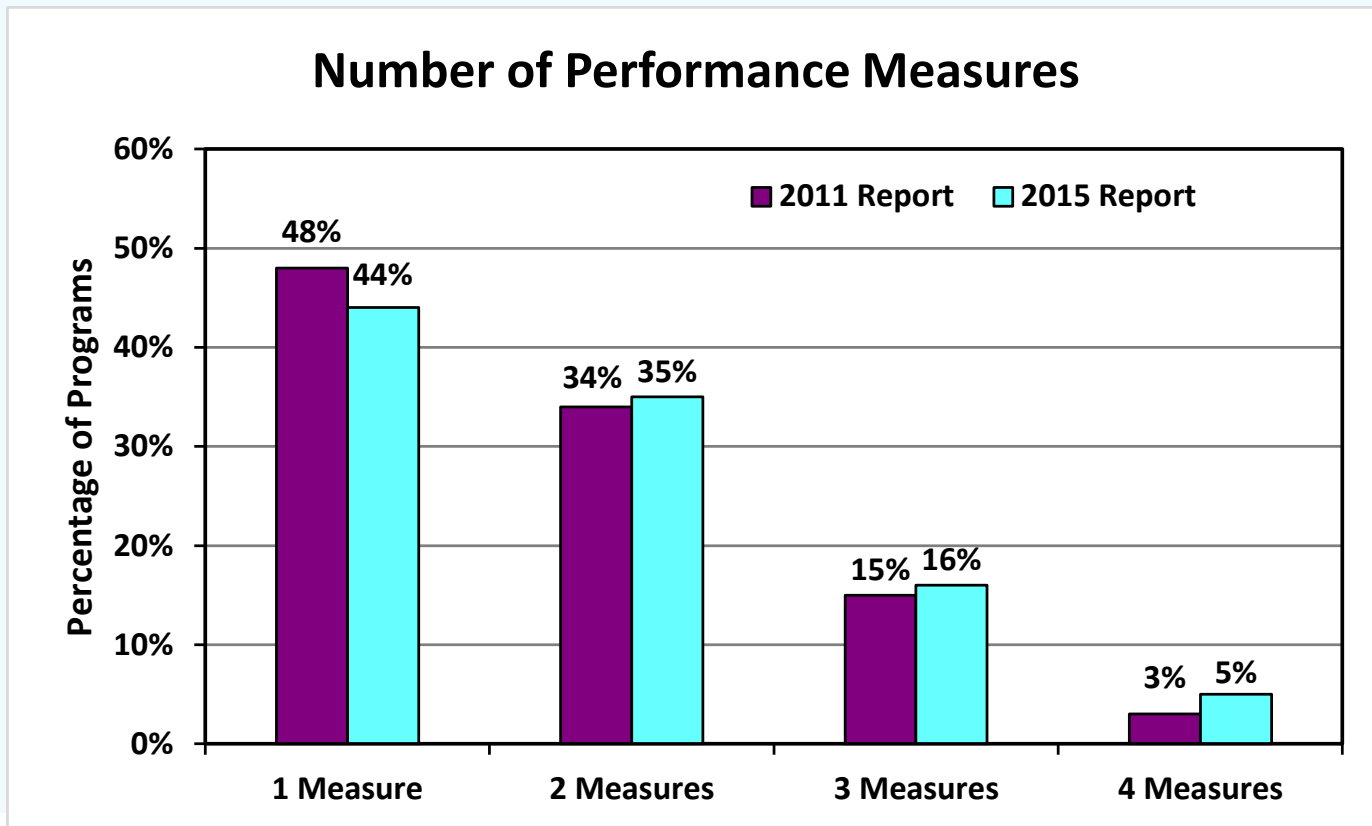
Say-on-Pay is driving the compensation governance and changing the way companies design executive programs and communicate with shareholders



Performance Equity Design Trends

Large companies increasingly use more than one measure in performance equity designs, but the difference from four years ago is not too great...

- Decision is strategic, with no one right answer based on ability to set goals and other strategic factors, like simplicity. (Data from FWC survey of 250 largest US companies)



Performance Equity Design Trends (continued)

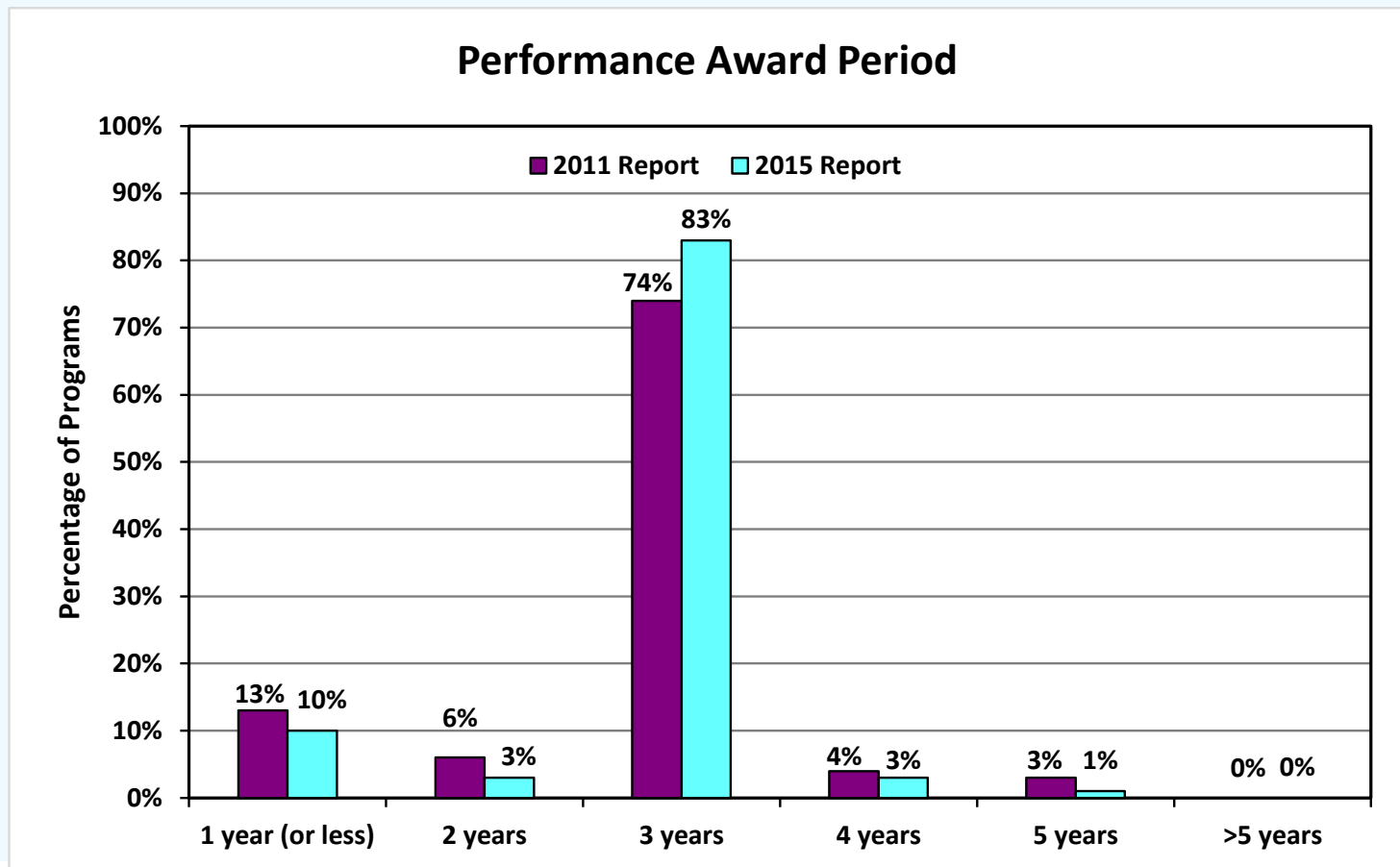
Almost exactly 50% of the 250 largest market cap companies with performance-contingent equity include a TSR measure, which tends to be relative to other companies.

Meanwhile, a little over 50% use operating measures, with profit the most common, followed next by ROIC/ROE/ROA (but, “return measures” tend to be used at large, mature companies where efficient capital allocation is a bigger topic than strictly innovation).

Category	Performance Measures	% of Top 250 Using	Top 250 Performance Measurement Approach		
			Absolute	Relative	Both
TSR	Stock price appreciation plus dividends	50%	4%	88%	8%
Profit	EPS, net income, EBIT/EBITDA, operating income, pretax profit	49%	89%	11%	0%
Capital Efficiency	Return on Equity, return on assets, return on capital	39%	83%	10%	7%
Revenue	Revenue, revenue growth	18%	80%	18%	2%
Cash Flow	Cash flow, cash flow growth	11%	100%	0%	0%
Other	Safety, quality assurance, new business, discretionary, individual performance	16%	NA	NA	NA

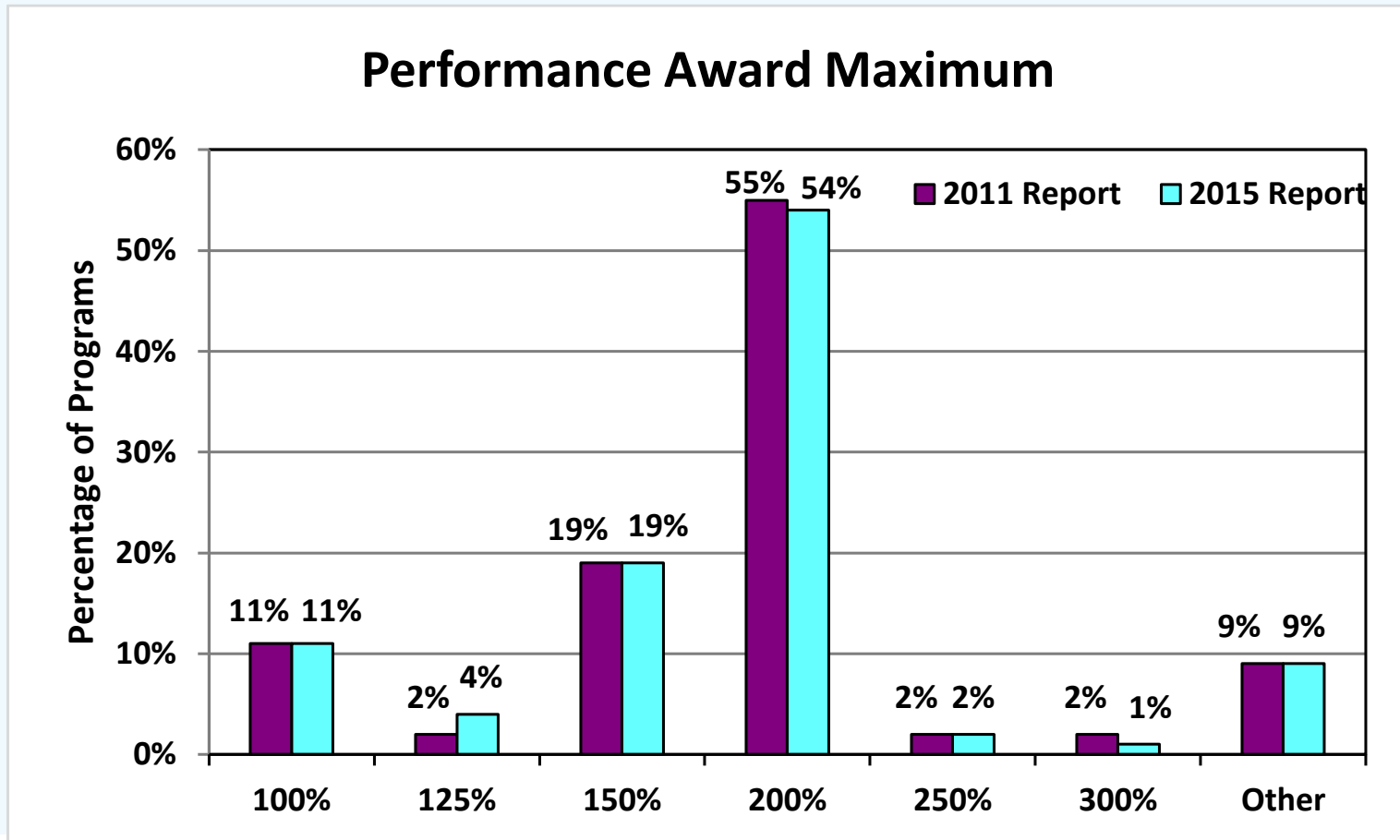
Performance Equity Design Trends (continued)

A three year performance measurement period is clearly the norm at large companies, and has become more prevalent over the last four years; however, there are examples of one-year periods, two-year periods, and other hybrids...



Performance Equity Design Trends (continued)

The most common is allowing maximum performance equity upside earnout up to 200% of target, although there are variations and 150% upside is the second most common maximum.



3. TIME VESTED EQUITY: OPTIONS vs. RSUs

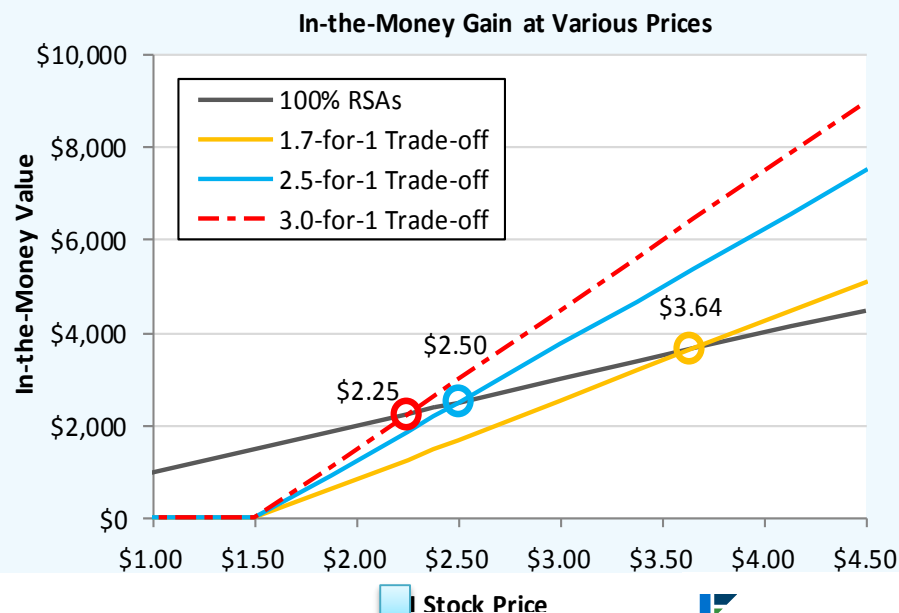
Time-Vested: Trading Options for RSUs

Opinion: Pay-for-performance requires consideration of option and RSU differences...

- Option Black Scholes value may be higher than the perceived value in volatile companies with no dividend. Many companies consider a discount when converting option \$'s to RSUs.
 - Relevant when option Black Scholes is above ~40%, which makes RSUs too enticing relative to options if there is a literal trade-off.
- Illustration below is of value “cross-over” if trade-off from options to RSUs using 60% Black Scholes (1.7-to-1 trade-off), or a discounted black Scholes of 40% (2.5-for-1) or 33% (3-for-1).

Comparison of Option vs. RSU Pay Delivery

TSR	Price	RSAs	Options		
			1.7-for-1	2.5-for-1	3.0-for-1
No. of Shares		1,000	1,700	2,500	3,000
-50%	\$0.75	\$750	\$0	\$0	\$0
-25%	\$1.13	\$1,125	\$0	\$0	\$0
Grant Price	+0%	\$1.50	\$0	\$0	\$0
+25%	\$1.88	\$1,875	\$638	\$938	\$1,125
+50%	\$2.25	\$2,250	\$1,275	\$1,875	\$2,250
+67%	\$2.50	\$2,500	\$1,700	\$2,500	\$3,000
+100%	\$3.00	\$3,000	\$2,550	\$3,750	\$4,500
+125%	\$3.38	\$3,375	\$3,188	\$4,688	\$5,625
+143%	\$3.65	\$3,651	\$3,657	\$5,378	\$6,453
+175%	\$4.13	\$4,125	\$4,463	\$6,563	\$7,875
+200%	\$4.50	\$4,500	\$5,100	\$7,500	\$9,000
P&L Cost Reported		\$1,500	\$1,499	\$2,205	\$2,646



The Case for Options (vs. RSUs)

- Opinion: Do not give up on options for three reasons...
 - 1) Highly-leveraged, simple, tax-deferred opportunity to share in stock price upside and deliver higher after-tax value to participants with reasonable price appreciation required to beat RSUs when Black Scholes is low enough (next page);
 - 2) Options require price improvement without setting goals or trying to determine expected timing. This simple pay-for-performance design aligns with innovation, which cannot always be timed.
 - Proxy advisor view of options as not performance-based has flaws.
 - 3) Options are still commonly accepted. Further, there is a nascent trend by high performing companies to re-introduce options after years of decline.

The Case for Options (continued)

\$1M in options has the same after-tax value as \$1M in RSUs with only 4.5% annual growth when Black Scholes is fairly low, like in mature and stable life sciences and technology companies.

Options provide 2x the after-tax value at a 10% annual price growth rate because (1) five options are granted for each RSU based on Black-Scholes of about 20%, and (2) RSU taxes reduce the size of holdings when they vest.

		After-Tax Value of a \$1M Grant Grant After Five Years (\$000)			
		5%	10%	15%	20%
Annual Change in Share Price					
Share Price at End of Five Years		\$76.58	\$96.63	\$120.68	\$149.30
100% RSUs	Shares Granted at \$60.00 (000) ¹	17.0	17.0	17.0	17.0
	Shares to Cover Taxes at Vesting (000) ²	-8.5	-8.5	-8.5	-8.5
	After-Tax Shares	8.5	8.5	8.5	8.5
	Value if Sold after Five Years	\$649.8	\$820.0	\$1,024.1	\$1,266.9
	Capital Gains Taxes ³	-\$29.7	-\$68.1	-\$116.7	-\$177.2
	Total After-Tax Value	\$620.1	\$751.9	\$907.3	\$1,089.8
100% Options	Options Granted at \$60.00 (000) ⁴	82.0	82.0	82.0	82.0
	Value if Exercised after Five Years	\$1,359.3	\$3,003.7	\$4,975.9	\$7,322.5
	Ordinary Income Taxes Due ¹	-\$680.8	-\$1,504.4	-\$2,492.1	-\$3,667.4
	Total After Tax Value	\$678.5	\$1,499.4	\$2,483.8	\$3,655.2
After Tax Value: Options vs. RSUs					
	- Value	\$58.4	\$747.5	\$1,576.5	\$2,565.4
	- Percent	+9.4%	+99.4%	+173.7%	+235.4%

¹ Assumes RSU grant date fair value of 96.3% (since no dividends are paid).

² Based on a combined Federal (39.6%), State (13.3%) and Medicare (2.45%) tax rate totaling 50.08%.

³ Based on a combined Federal (20.0%), State (13.3%) and Medicare (3.8%) tax rate totaling 31.83%, that is applicable to the gains on shares between the time of vesting and the time of sales.

⁴ YTD Black-Scholes of 20.3%.

4. PERFORMANCE EQUITY DESIGN EXAMPLES

Performance Award Design Factors

- Culture and compensation philosophy
- Strategic objectives, and visibility/ability to plan long-term
- Business life cycle and industry (start-up, growth, maturity, decline)
- Accounting, tax and cash flow implications
- Stock plan share availability
- Participation and complexity
- Goals of a typical long-term incentive program
 - Achieve performance objectives
 - Align interests of management with shareholders
 - Retain and reward employees
- Views of investors and proxy advisors (e.g., ISS)
 - Preference is for $\geq 50\%$ of annual executive equity to be performance-based

Performance Equity Overview

Performance equity designs can essentially be broken into two categories...

1. Financial or Operating Goals

- Relative is rare due to measurement challenges
- P&L cost varies based on shares earned

2. Total Shareholder Return or Stock Price

- Most common is relative measurement
- P&L cost is fixed at grant using a valuation model like the Monte Carlo and is recognized regardless of the shares earned.

Performance Equity Design: Financial Goal

Financial Goals (as opposed to TSR or Market Goals)

Description: *grant of stock (units) earned for achieving financial metrics over a designated period of time (most common is three years)*

Goal Achievement	Annual EBITDA Growth	Payout
Stretch	20%	200% of target
Target	10%	100% of target
Threshold	2.5%	25% of target

Design Decisions: *(1) financial versus non-financial metrics, (2) number/weighting/interplay of metrics, (3) performance period/ability to establish and maintain long-term goals, and (4) payout curve (thresholds, upside caps)*

Advantages

- Emphasizes critical achievement directly impacted by executives than stock price, which may be influenced by external market forces

Drawbacks

- Long-term goal setting can be difficult
- Cannot change once set w/o cost and disclosure
- M&A and other extraordinary events can impact measurement

Financial/Operating Goal (continued)

Operating metric performance plan

- Awards are earned based on achievement of a financial operating metric(s) vs. goals
- Example is EBITDA growth over three years.
 - Upside is 2x shares, but price leverage can make greater reward.
 - Proxy reporting is target at grant.
 - P&L cost is number of shares earned at original grant price.

	2016-2018 EBITDA Growth (CAGR %)	% of Target Achieved	Funding as a % of Target	No. Shares Earned	Value Earned (\$000) if Ending Share Price is:			P&L Cost
					\$10.00 (-50%)	\$20.00 (no change)	\$30.00 (+50%)	
Max	20%	200%	200%	100,000	\$1,000	\$2,000	\$3,000	\$2,000
	15%	150%	150%	75,000	\$750	\$1,500	\$2,250	\$1,500
Target	10%	100%	100%	50,000	\$500	\$1,000	\$1,500	\$1,000
	5%	50%	50%	25,000	\$250	\$500	\$750	\$500
	2.5%	50%	25%	12,500	\$130	\$250	\$380	\$250
Thresh.	0%	0%	0%	0	\$0	\$0	\$0	\$0

Note: Assumes \$1M award and \$20 beginning share price; interpolation for funding and performance between points shown.

Performance Equity Design: Relative TSR

Description: Grant of stock units such that the number of shares earned is based on stock price performance vs. a peer group or index

Goal	Peer Ranking	Payout
Maximum	100 th Percentile	200%
Above Target	+1 Percentile from Target	+2%
Target	50th Percentile	100%
Below Target	-1 Percentile from Target	-2%
Threshold*	25 th Percentile	50%

Design Decisions: comparator group selection (named peer list or broad index), performance period, stock price averaging period, “component rank” vs. “outperformance” approach, payout curve

Advantages

- Avoids long-term goal-setting challenges
- Obvious pay-performance linkage
- Entirely transparent metric (stock price) and payout formula that can be verified easily by participants and shareholders

Drawbacks

- Defining peer group
- May reward executives without positive TSR (addressable with payout limits for negative TSR)
- High TSR unrecognized if relatively the same can be demoralizing

Relative TSR (continued)

- Awards are earned based on comparison of TSR over period, usually three years, to other companies or to an index
 - Upside is 2x shares in example, but price leverage can make greater reward.
 - Proxy reporting is Monte Carlo value at grant.
 - P&L cost is Monte Carlo value at grant, regardless of final outcome.

	<i>Three-Year Relative TSR vs Peer Group</i>	<i>% Target Award Earned</i>	<i>No. Shares Earned</i>	<i>Value Earned (\$000) if Ending Share Price is:</i>		
				<i>\$10.00</i>	<i>\$20.00</i>	<i>\$30.00</i>
				<i>(-50%)</i>	<i>(no change)</i>	<i>(+50%)</i>
Max	100th Percentile	200%	90,900	\$909	\$1,818	\$2,727
	75th Percentile	150%	68,175	\$682	\$1,364	\$2,045
Target	50th Percentile	100%	45,450	\$455	\$909	\$1,364
	37.5th Percentile	75%	34,088	\$341	\$682	\$1,023
Thresh.	25th Percentile	50%	22,725	\$227	\$455	\$682
	<25th Percentile	0%	0	\$0	\$0	\$0

Note: Assumes \$1M award, \$20 beginning share price, and Monte Carlo value of 110% interpolation for funding and performance between points shown.

Performance Equity Design: Absolute TSR

TSR measurement need not be relative to other companies....

Example below sort of “reverse engineers” a stock option, but with fixed payout/exercise date, and with performance based optics. It does not provide a gain for minimal performance, though.

Example includes a three-year and a four-year measurement period to long-term success to overcome shorter term outcomes.

\$1,000,000 Grant Value	<u>Cumulative TSR Growth</u>		<u>Payout as % of Target</u> ¹	<u>Equivalent Annual TSR</u>	<u># of PSU Shrs Earned</u> ²	<u>Value Earned at Year 3</u>	<u>Total P&L Cost</u>	<u>For Ref:</u>
	<u>3-Year</u>	<u>4-Year</u>						<u>Equivalent CAGR TSR</u>
	Maximum	+40.5%	+57.4%	150%	+12.0%	75,000	\$2,107,392	\$1,000,000
	+33.1%	+46.4%	125%	+10.0%	62,500	\$1,663,750	\$1,000,000	10.0%
Target	+26.0%	+36.0%	100%	+8.0%	50,000	\$1,259,712	\$1,000,000	8.0%
	+15.8%	+21.6%	75%	+5.0%	37,500	\$868,219	\$1,000,000	5.0%
Threshold	+6.1%	+8.2%	50%	+2.0%	25,000	\$530,604	\$1,000,000	2.0%
	<+6.1%	<+8.2%	0%	<2.0%	0	\$0	\$1,000,000	<2.0%

¹ Linear interpolation between points shown.

² Assumes a \$20.00 share price and an estimated 100% Monte Carlo value.

Performance Equity Design: Combined Operating Goal & TSR

The hypothetical EBITDA growth example can be combined with a relative TSR modifier....

Increasingly common approach, although more complex.

Has significant upside potential when earnings growth is high and it drives TSR.

	(a)				x	(b)		(a x b) Final PSUs Earned ¹	Value Earned (\$000) if Ending Share Price is:			P&L Cost
	PSUs Funded for EBITDA Growth		PSUs Funded			3-Year	Bonus		\$10.00	\$20.00	\$30.00	
	FY16-18 EBITDA Growth CAGR	% Goal	(% Target)	No. @ \$20		Relative TSR ¹	Modifier		(-50%)	(no change)	(+50%)	
Max	12.0%	150%	150%	83,340	≥ 75th Percentile	1.50x	125,010	\$1,250	\$2,500	\$3,750	\$1,500,120	
	10.0%	125%	125%	69,450	62.5th Percentile	1.25x	86,810	\$868	\$1,736	\$2,604	\$1,250,100	
Goal	8.0%	100%	100%	55,560	50th Percentile	1.00x	55,560	\$556	\$1,111	\$1,667	\$1,000,080	
	6.0%	75%	75%	41,670	40th Percentile	0.75x	31,250	\$313	\$625	\$938	\$750,060	
Threshold	4.0%	50%	50%	27,780	≤ 30th Percentile	0.50x	13,890	\$139	\$278	\$417	\$500,040	

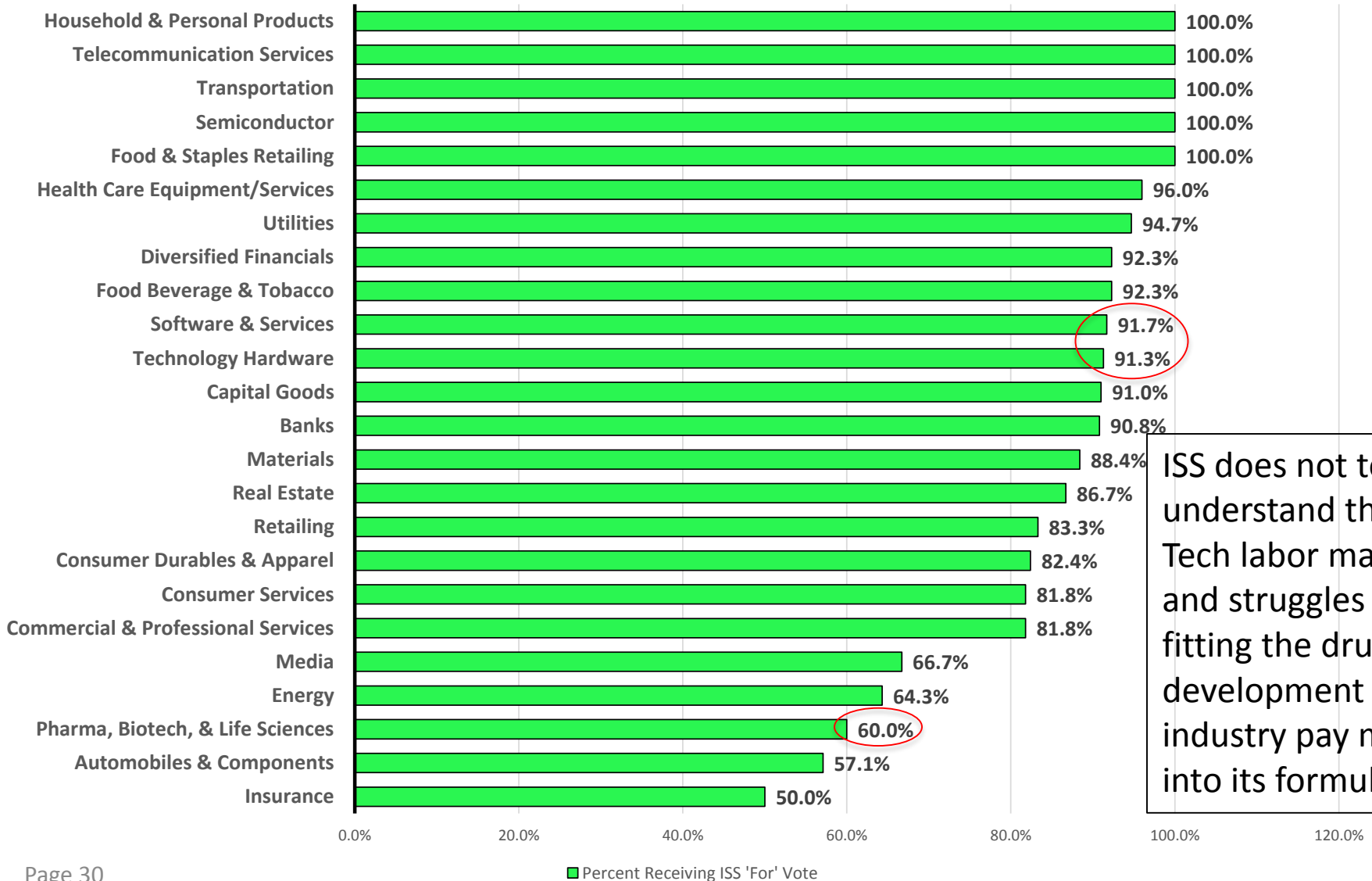
Note: Assumes \$1M award, Monte Carlo value of 100% and \$20 beginning share price; interpolation for funding and performance between points shown.

¹ Assumes target number of shares is earned for EPS performance (step A).

5. Proxy Advisors and Institutional Shareholder Services (ISS)

ISS Vote Recommendations by Industry

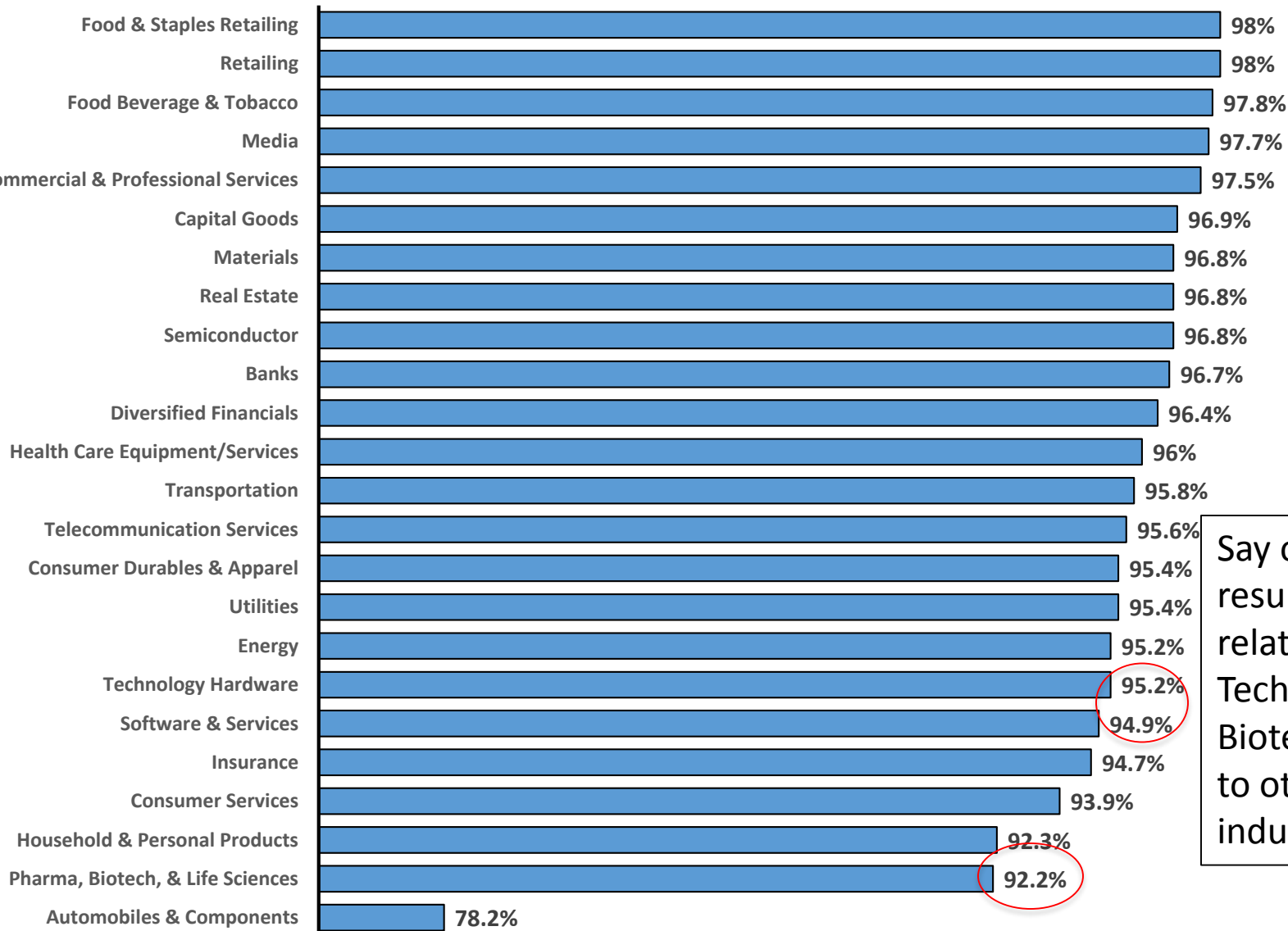
Disparity in ISS vote support across industries



ISS does not totally understand the Tech labor market and struggles with fitting the drug development industry pay model into its formulae...

Say on Pay Shareholder Support by Industry

Median Say-on-Pay Support by Industry for 2016 (YTD)



Say on Pay voting results are relatively low for Technology and Biotech compared to other industries...

Potential Proxy Advisor/ISS Footfalls

- CEO pay is the gateway with few exceptions now that most problematic pay practices are gone:
Low concern = safety as long as it lasts
- 75P program requires at least 35P TSR – eventually all companies catch a low price if targeting pay above the median...at least half of equity needs to be performance based (see “end of year grants”)
- Prioritize criticisms from past reports
- Attraction and retention are viewed as platitudes in the CD&A
- Programmatic issues that may lead to negative vote recommendation
 - PSUs at target for median performance with above-median philosophy
 - Long-term and short-term metric overlap
 - Lower goals compared to previous year
 - Program design “trend” is negative
 - Too much discretion, particularly if no explanation or with TSR performance issues
 - Two bites at apple in performance equity design (can be framed as “performance acceleration”)
 - Severance too high when paid, with particular emphasis on last minute modifications

Design Ideas to Avoid Some Optics Issues

Not all ideas are relevant in all cases ...

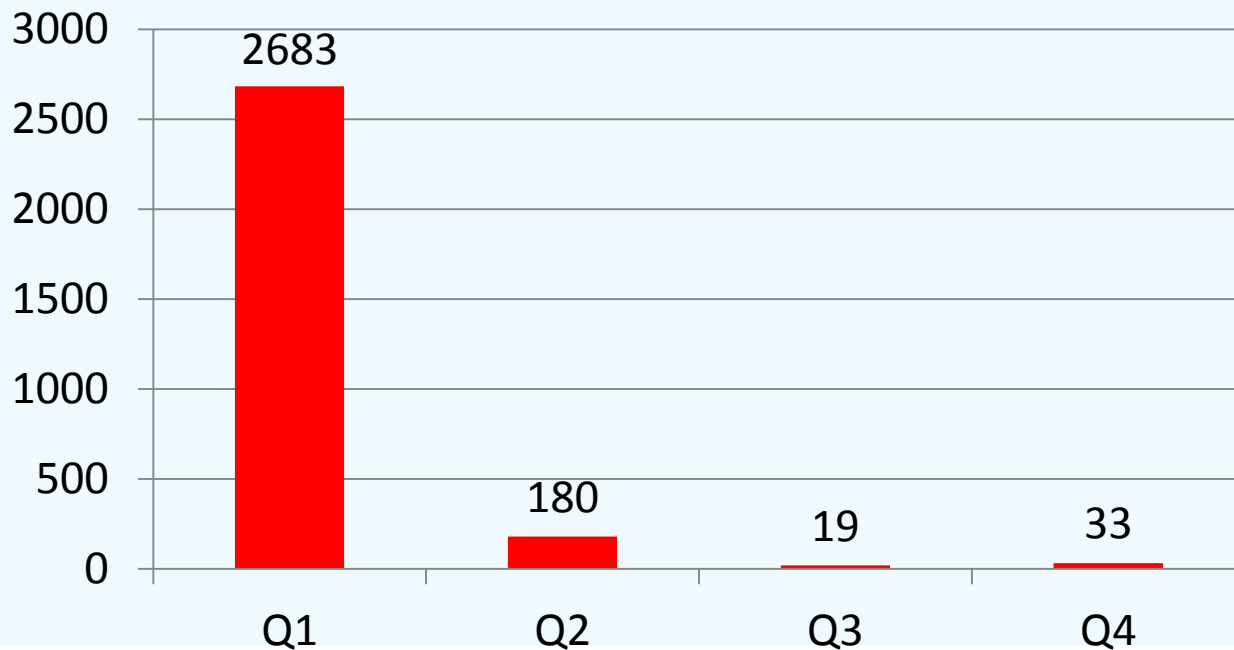
- Avoid literally targeting a pay percentile and avoid disclosure of a target percentile
- Frame dilution-based equity awards as “at or below the median” fair value
- Peers with similar revenue, but higher market cap may allow market ownership sharing with below-median grant value
- Reduced CEO pay (even if still relatively high for TSR or vs. ISS median)
- Holding periods after vesting
- Performance metrics or periods re-defined if LTI/STI overlap or goals are lower year-over-year
- Cash long-term incentive plans to disclose compensation when paid rather than at grant
- Multi-year plan of action = front-load negative news
- End-of-year equity grant cycle (see next page)

End of Year Grant Cycle

Most companies grant at the start of the year (Russell 3000 data from 2014)....

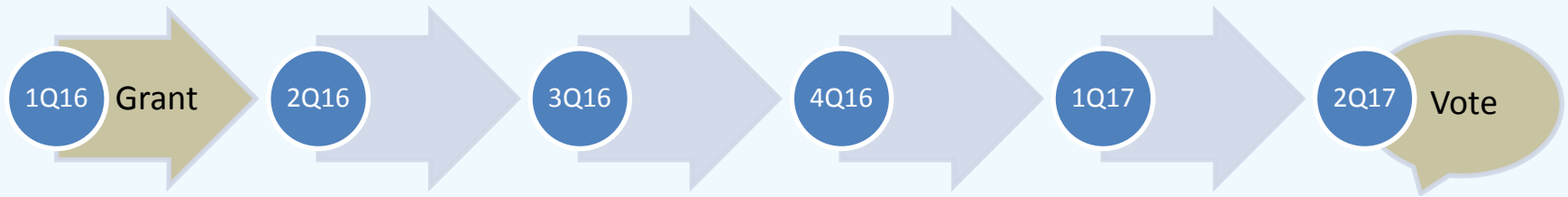
Equity is the largest component of CEO compensation, so this means CEO pay disclosure is “set” before the year ends.

When did R3K companies make their first equity grant of the year to their CEOs?



End of Year Grant Cycle (continued)

The Say on Pay vote occurs over one year after the grant in many cases....



End of Year Grant Cycle (continued)

Example of a common optics problem with a 1Q grant, particularly for companies with an above-median strategy...

1. High Performance and Stock Price Up in Previous Year:

- | | |
|-------------------------|-----------------|
| • Grant Decision in 1Q: | 100,000 options |
| • High Stock Price: | \$20.00 |
| • Fair Value (50% B-S): | \$1,000,000 |



Grant made with high stock price = high “fair value,” but not high \$’s delivered

2. End of Year (11 Months Later), w/ Bonus Earned:

- | | |
|----------|---------|
| • Price: | \$12.00 |
| • TSR: | -40% |

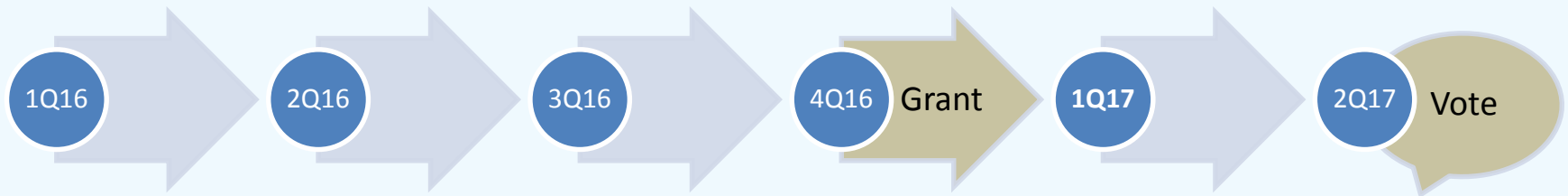


End of year TSR is Low = Appearance of “high pay for low performance” (but pay delivery is not high)

End of Year Grant Cycle (continued)

Granting at the end of the year helps align disclosed equity compensation value with the TSR used by proxy advisors to judge the program...

Allows more robust information before making equity awards and avoids appearance of high pay for low TSR (even if high pay is in underwater options that “adjusted” reward for TSR)...



- Downsides: (1) may be giving too much power to proxy advisors, (2) could break up equity grants from performance management cycle if normally in Q1, (3) requires solid end-of-year performance operating performance estimates, and (4) transition can create appearance of high pay in one year.

End of Year Grant Cycle (continued)

The transition strategies are opportunistic and there may be explanation of double disclosure of equity compensation in a year...

1. Opportunistic:

- Already grant at or near end of year or start (or new IPO)
- Accidental delay in grant schedule
- No previous grant schedule
- Ending of front-load or other outside-the-box prior grant timing
- Ownership concentration

2. High Performance:

- Double grant; or
- Two semi-annual grants

3. Low/Middle Performance:

- Most difficult transition
- Double grant (all news in year)
- Front-load