Determining the EJPS Compensation Rating

Egan-Jones Compensation Rating Summary

The Egan-Jones Compensation Rating (the "Rating") is one of the primary tools Egan-Jones Proxy Services ("EJPS") analysts use in evaluating companies and issuing proxy vote recommendations. The Rating is based on a proprietary Rating compensation score (the "Score") which directly impacts nearly every pay-related proposal including say-on-pay, stock option and bonus plans.

A poor Score almost always results in a vote recommendation which is not aligned with management on these critical issues.

After procuring publically-available information and values from the company's proxy statement, including the summary compensation table and other public sources, EJPS analysts, using a spreadsheet-based model, determine the company's overall Score which follows the methodology outlined below.

Egan-Jones Compensation Rating Quantitative Raw Score

The initial or "raw score" for any issuers' Rating is derived from a combination of the issuer's performance or total shareholder return ("TSR") and market capitalization as compared to the issuer's total CEO compensation. The TSR used is a one-year period, generally ending one or two quarters prior to the issuer's annual meeting. The market capitalization used is that of the rated firm at the end of the TSR period. Total CEO compensation is collected from the company's proxy statement as filed with the U.S. Securities and Exchange Commission ("SEC").

The resulting ratio of pay versus performance, or "wealth creation," is then benchmarked against a group of well-known and widely-held issuers, using positive values of wealth creation only, with the resultant quintile equaling one of the five EJPS Ratings: "Needs Attention," "Some Concerns," Neutral," "Good," or "Superior."

Egan-Jones Compensation Rating Qualitative Adjustment Factors

The qualitative factors listed below are used to calculate an "adjusted score" in conjunction with the preliminary quantitative-only "raw score" from above. If issuers have any comments, complaints, or suggested improvements, we ask them to let EJPS know now since we are now putting in place the procedures to be used for the Proxy Season 2019.

To ensure that the adjusted score includes appropriate qualitative adjustment factors (items that are not based on quantitative factors), issuers should include a statement that the item is true and relevant for consideration, and include a link to any supporting documents in their proxy statement in a section titled (or sub-titled) "Summary of Important Governance Details." This section can be anywhere in the proxy statement, including an appendix. Alternatively they can fill out an EJPS questionnaire; the questionnaire is very in-depth and can be submitted to issuer@ejproxy.com for consideration. Issuers can request the current questionnaire by sending an email to the same address.

Qualitative Adjustments	Description
+	ALL Named Executive Officers ("NEOs") prohibited from receiving restricted stock or stock grants
+	CEO prohibited from receiving restricted stock or stock grants
+	30 percent or more of CEO non-cash income must be held until retirement, or for a minimum of five years (note that the following are cumulative)
+	50 percent or more of CEO non-cash income must be held until retirement, or for a minimum of five years
+	90 percent or more of CEO non-cash income must be held until retirement, or for a minimum of five years
+	CEO salary $1,000,000 or less
+	Board certifies in writing in SEC filing that CEO total compensation will not exceed the highest amount that generates a "Superior" score this year, or in later years should that value become greater.
+	Board certifies in writing that NEOs will not be eligible for any pension plan and none will be created, and any existing plan will be "frozen"
+	Board certifies in writing that NEOs and board members will not be eligible or accept any "golden parachute"-style payments in excess of 2x the past three years average total compensation
+	Market-based approach for determining NEOs target pay - with full documentation of process and board certification (in writing)
-	"Pay-for-failure" severance provision
-	Excessive change-in-control provisions
-	Single-trigger or no-trigger change-in-control provisions
-	Excessive perquisites (not otherwise accounted for in total compensation)
-	Repricing, goal or other unjustified performance change without shareholder approval
-	No documented claw-back provision
-	At the rate of -XX for every $1,000,000 total CEO compensation exceeds upper threshold
+	At the rate of +XX for every $100,000 total CEO compensation is below lower threshold

Egan-Jones Openness and Transparency

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If you wish to comment on the EJPS compensation model, or suggest improvements, please send an email to research@ejproxy.com.

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