

Taking Ownership
of
Share Ownership Guidelines

Jennifer Namazi, CEP, NASPP

Kristi Oberson, Prologis

Marianne Snook, CEP, Stock & Option Solutions

Disclaimer

- The following discussion and examples do not necessarily represent the official views of Stock & Option Solutions, Inc., the NASPP or Prologis, with respect to any of the issues addressed. Moreover, this presentation and the views expressed by the individual presenters should not be relied on as legal, accounting, auditing, or tax advice. The outcome of any individual situation depends on the specific facts and circumstances in which the issue arises and on the interpretation of the relevant literature in effect at the time.
- Anyone viewing this presentation should not act upon this information without seeking professional counsel and/or input from their advisors.

Materials Slides

http://www.sos-team.com/pdfs/share_ownership.pdf

Agenda

- Share Ownership Guidelines: An Overview
- Common Program Features
- Survey Results
- Communications
- Monitoring
- Questions?
- Appendix: Ownership Analysis – Checklist
- Appendix: Share Ownership vs. Share Retention

Share Ownership Guidelines: An Overview

Share Ownership Guidelines

- Require executives or directors to attain minimum stock ownership levels within a specified period of time

Share Retention Requirements

- Require executives or directors to retain a specified percentage of “net” shares underlying options, restricted stock and other equity compensation awards
- “Net shares” are the shares remaining after payment of the exercise price (if applicable) and taxes upon exercise, vesting or settlement

Can be adopted independently or in tandem

Share Ownership Guidelines: An Overview

Why do companies adopt a share ownership policy?

- Alignment with shareholder interests
 - Promotes focus on long-term shareholder value creation
 - Minimizes short-term profit taking
- Mitigates excessive risk-taking
 - Minimizes incentives to achieve short-term gains at the expense of long-term value creation
- Ensures that employees and directors have “skin in the game”
- Creates a culture of stock ownership among employees
- Generally deemed in line with “good corporate governance”
 - Supported by proxy advisers (ISS) and institutional shareholders

Common Program Features

Who is Covered?

- Varies by issuer
 - Directors
 - CEO only
 - All Named Executive Officers (NEOs)
 - Executive officers
 - Other senior employees (EVP, SVP, VP)
- May be more appropriate for stock retention requirements (particularly hold into or hold until retirement) to be limited to senior executives

Survey Results

NASPP/Deloitte 2011 Plan Administration Survey

- 603 participating companies in a broad range of industries and regions
- Dramatic changes in the number of companies with Stock Ownership Guidelines
 - 78% of companies report having stock ownership guidelines in 2011, up from 54% in 2007
 - Emerging practice; appears to be here to stay

Survey Results

Stock ownership guidelines apply to:

Employee Type	Percentage of Employees
CEO	98%
CFO	98%
Other named executive officers	95%
Other senior executives	71%
Other management	12%
Other exempt employees	2%
Non-exempt employees	1%

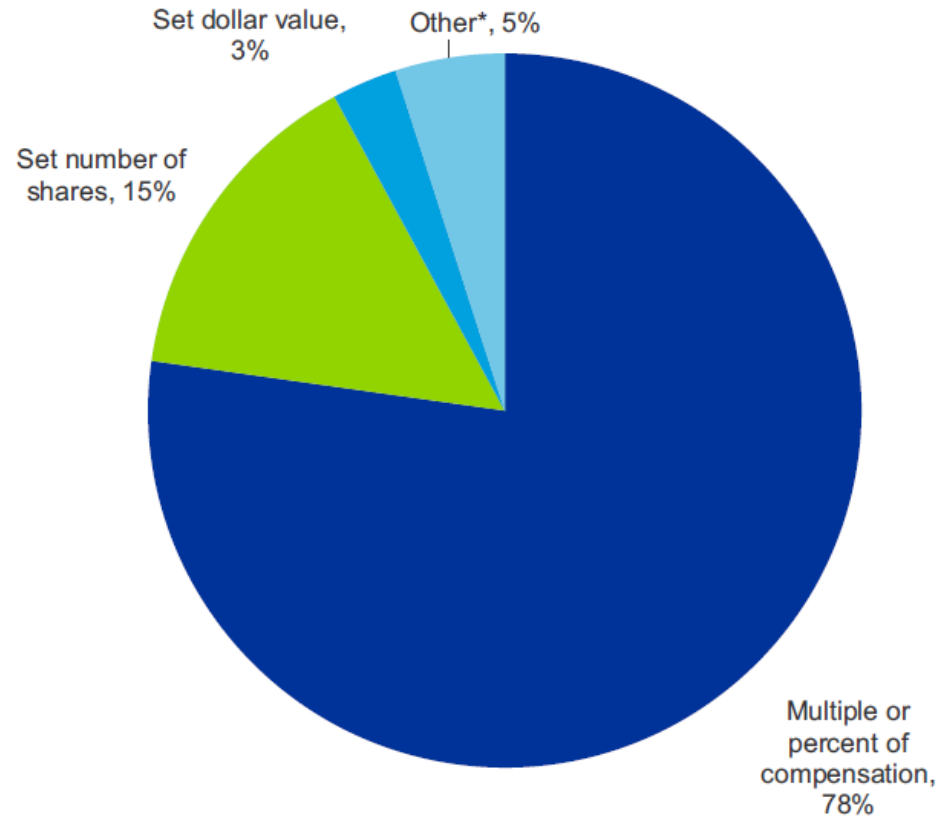
Common Program Features

What is share ownership based on?

- **Varies by issuer**
 - Multiple of base salary or annual retainer
 - Fixed number of shares
 - Lesser of multiple and fixed number of shares
 - Fixed dollar value
 - Percent of average shares from prior grants
- **Combinations of the above**
- **Targets generally vary by position**

Survey Results

Stock ownership guidelines are based upon:



*Three companies stated that guidelines are based on the lesser of a set dollar amount or fixed number of shares and eleven companies stated that guidelines are based on a combination of a multiple salary and a fixed number of shares (usually the lesser amount).

Common Program Features

What do companies count towards the guidelines?

- Shares owned outright
 - Acquired in the market
 - Acquired through grants and awards
 - Restricted/deferred stock and units
 - 401(k), ESOP and ESPP shares
 - Options
 - Performance shares and units
 - Vested v. unvested awards
 - Shares held by immediate family members and family trusts
 - Best practices
- **Can be a combination of any of the above**

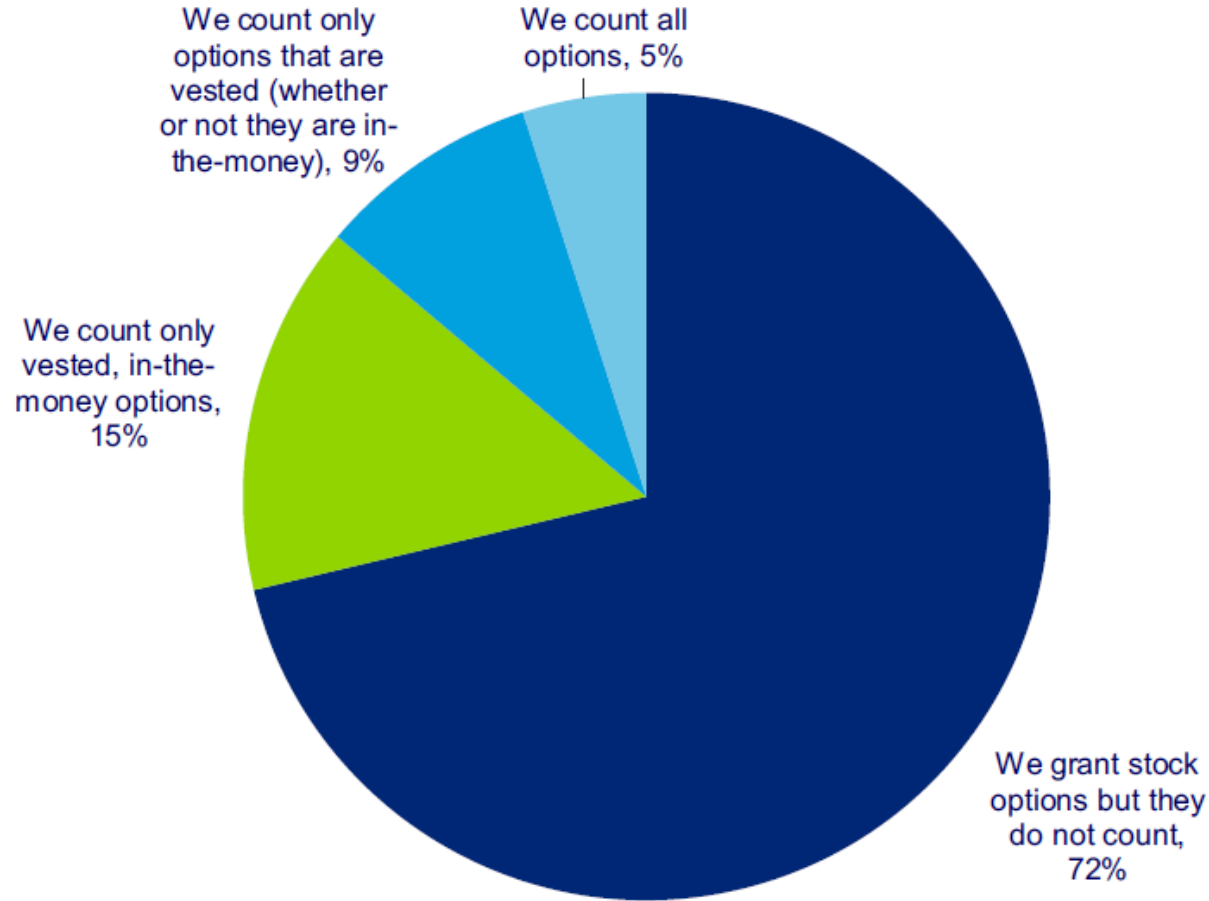
Survey Results

The following count towards satisfying guidelines:

Share Type	Not Offered	Offered but do not count toward guidelines	Offered and count toward guidelines
Shares owned outright (including shares purchased on the open market, vested restricted stock, or shares acquired from the exercise of stock options)	N/A	0%	100%
Unvested restricted stock	42%	17%	40%
Unvested phantom stock/restricted stock units	32%	27%	41%
Vested phantom stock/deferred stock units	53%	3%	43%
Unvested performance shares	26%	51%	23%
Vested shares in 401(k) plan	29%	5%	66%
Unvested Shares in 401(k) plan	55%	18%	27%
Other*	NA	4%	96%

Survey Results

Treatment of stock options in terms of satisfying stock ownership guidelines:



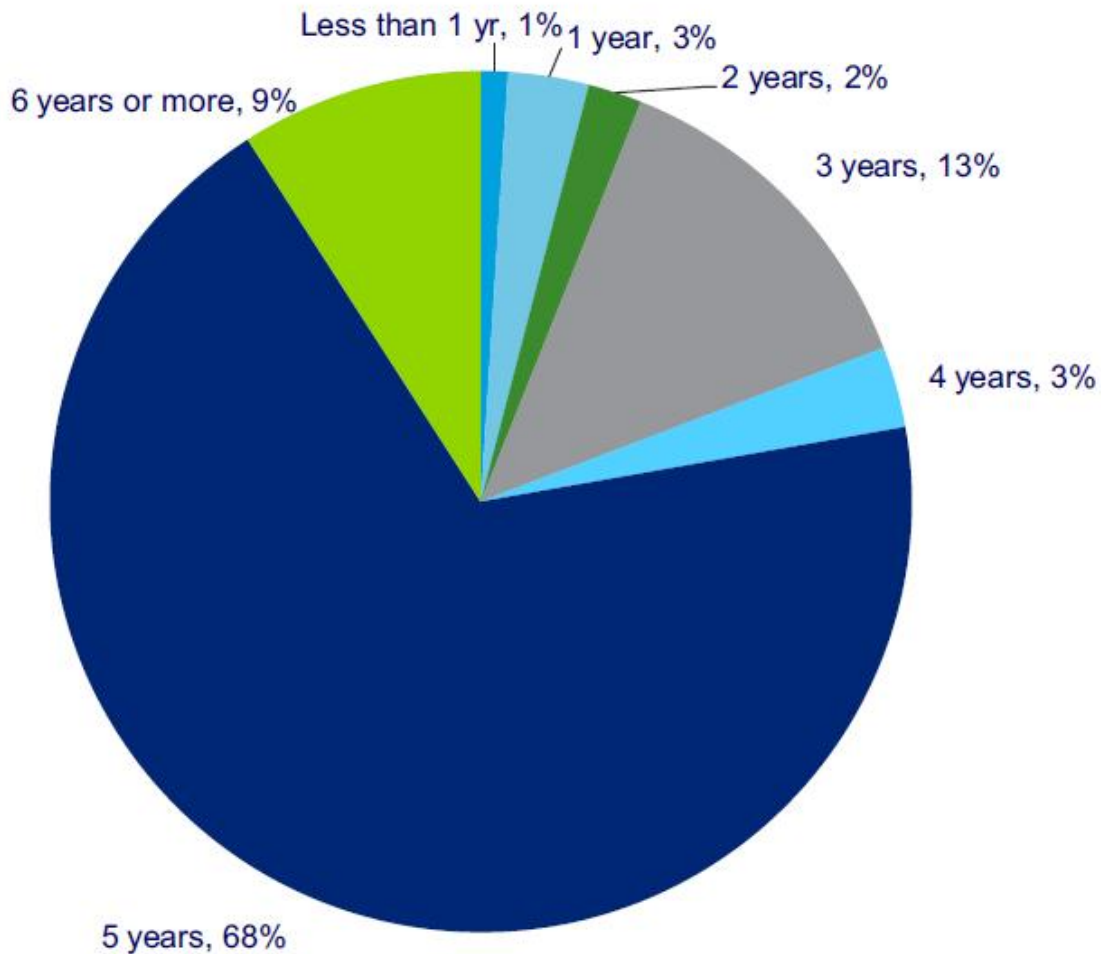
Common Program Features

What is the time period to satisfy guidelines?

- Generally range from 1-8 years
 - 5 years is most common
- Annual progress requirements or gradual application of guidelines
 - For example, 20% increase each year with 100% of guidelines required to be satisfied by year 5
- Typically no specific time frame if combined with a retention requirement

Survey Results

Timeframe to meet the stated stock ownership guidelines:



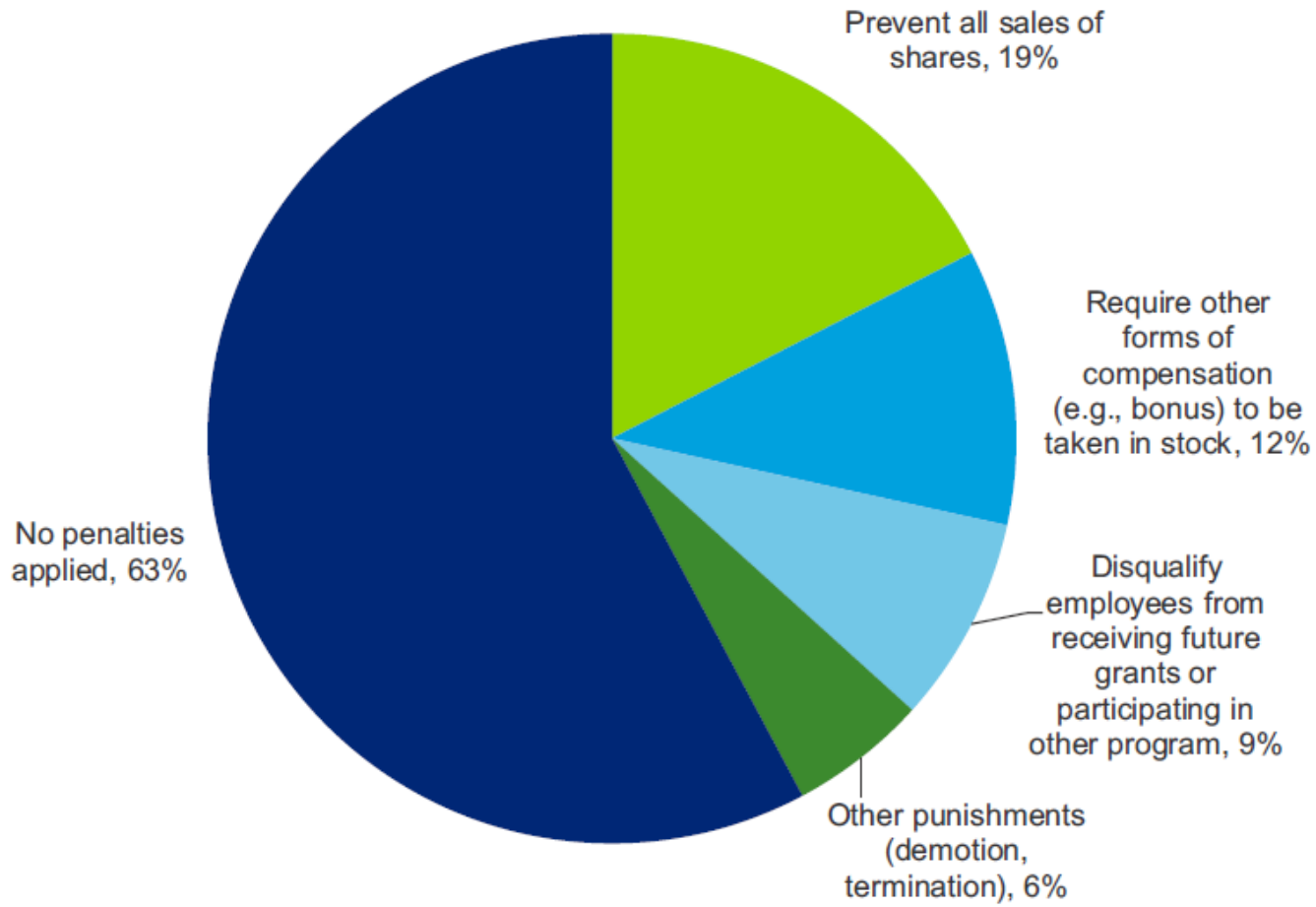
Common Program Features

What penalties are companies imposing for non-compliance?

- Required retention of all or a specified portion of net shares following exercise or settlement
- Performance or annual bonus paid in stock
- Reduction in aggregate compensation
- Potential adverse disclosure for NEOs
- Internal peer pressure or “embarrassment factor”
- Reduction or elimination of future equity or incentive awards

Survey Results: Trends

Penalties imposed by companies for failing to achieve guidelines:



Common Program Features

What forms do stock retention requirements take?

- Hold until stock ownership guidelines are satisfied
- Hold for a specified period following exercise or settlement
 - 1 year from exercise/settlement is most prevalent
- Hold until retirement
- Hold into retirement
 - 1 year post-retirement is most prevalent
- Hold until the earlier of a fixed date or retirement
 - For example, upon attaining a specified age or years of service
- NASPP Quick Survey (May 2012): 52.5% of respondents impose retention guideline until guidelines are met

Common Program Features

Which shares must be retained?

- Percentage of net shares
 - Retaining 50% or 75% of net shares are common formulations
- All equity awards and underlying shares
- In rare instances, applies to all equity held at the time the individual becomes subject to the retention requirements
- Terms may vary among the CEO and other executives
- Holding requirements are not vesting conditions, so executives and directors are not in danger of losing shares

Common Program Features

Exceptions to Ownership Policies

- In certain limited instances, the company may relieve the executives and directors from obligations under the policy:
 - Financial hardship
 - Estate planning; charitable gift
 - Divorce
 - Tuition or other educational needs
 - Extreme market conditions
- Who has the discretion to waive the requirements:
 - Compensation Committee
 - Nominating and Corporate Governance Committee

Common Program Features

Anti-Hedging Provisions

- Prohibit executives and directors from engaging in hedging and similar transactions
 - Application to pledges and margin accounts
- If hedging is permitted, the purpose of the stock ownership policy (particularly the retention requirements) is undermined
- 63 Top 100 Companies in the Shearman & Sterling 2011 Survey of Director and Executive Compensation Practices disclosed that they maintain anti-hedging policies
- We typically see this language in Insider Trading Policies

Communications

- Multiple audiences
- Internal
 - Executives, Directors subject to guidelines
 - General employee messaging
- External
 - Shareholders
 - Corporate governance and investor community

Communications

- Internal Messaging to Executives/Directors
- Significance of stock ownership policy
- Define share ownership for purposes of policy
 - What counts?
- How will ownership be measured/monitored?
 - Explain minimum requirements
- Include timeframe for compliance
- Explain retention aspects
 - Will shares need to be retained for a period of time?

Communications

- What happens if guidelines not met?
- Internal messaging to employees
 - Communicate with employee population to highlight executive stock ownership policy
 - Message promotes share ownership culture
 - May aid in employee perception issues during volatile stock periods

Communications

- External
 - CD&A disclosure in annual proxy statement
 - Explain whether stock ownership policy exists
 - Assess shareholder and corporate governance watchdog perception
 - Anticipate and address
 - Press release
 - SEC filings and exhibits

Prologis, Inc.

1. Part of Governance Guidelines, which are published on company website

[www.Prologis.com/investorrelations/corporategovernance/governance guidelines](http://www.Prologis.com/investorrelations/corporategovernance/governanceguidelines)

2. Discussed in detail in Proxy

[www.Prologis.com/investorrelations/financialinformation/annual reports](http://www.Prologis.com/investorrelations/financialinformation/annualreports)

Monitoring

- Who is responsible for monitoring
- Who is responsible for communicating

- Know the stock ownership policy
- Know who is subject to the policy
 - Usually board and NEOs, may extend to other levels
 - NASPP Survey says 71% extend to “Other Senior Executives”
 - 12% extend to “Other Management”
- Know when reviews happen - schedule them
 - When does review occur for those newly subject to the guidelines?
- Know who does and doesn't meet the guidelines
 - Who needs to know and who will communicate it
 - Know where participants stand so you can enforce when there's a vesting or an exercise or sale.

Monitoring

- Let management know of administrative issues
 - Are definitions clear?
 - How do those that are newly subject to the guidelines find out?
- See sample spreadsheet and task list for tools

Sample Calculator

ABC Company
Share Ownership Guidelines Compliance
Interim Review as of Month day year

Guideline Share Price **\$25.00**

Jane Doe **Qualifying Shares**

Common shares owned (include ESPP)	100,000
Unvested RSUs or RSAs	50,000
Unvested but Earned Performance Shares	20,000
Vested Company Stock in 401(k)	5,000
Non-Qualified Deferred Compensation Plan (Executive)	10,000
Partnership Units	1,000
Total shares owned toward guidelines	186,000

Average Guideline Share Price **\$25.00**

Total Market Value as of Review Date **\$4,650,000**

<u>Review</u>	<u>Input</u>	<u>Multiple</u>	
Base salary	\$500,000	2	\$1,000,000
Total shares owned toward guidelines		Input ^	186,000
Executive Required Share Count			<u>40,000</u>
Share Amount over (under) guidelines			<u>146,000</u>

Questions?

Contact Information



Jennifer Namazi, CEP
Editorial Director
Bus: (301) 685-3415
E-mail: jnamazi@naspp.com



Kristi Oberson
Stock Plan Administrator
4545 Airport Way
Denver, CO 80239
Bus: (303-567-5277
Email: koberson@Prologis.com



Marianne Snook, CEP
Chief Executive Officer
910 Campisi Way, Suite 2G
Campbell, CA 95008 USA
Bus: (408) 979-8700
E-mail: msnook@sos-team.com

Appendix: Ownership Analysis – Checklist

A. Preparation Due Date Complete

- Review administrative issues regarding the Guidelines and discuss with Legal
- Confirm annual review schedule with Secretary
- Confirm Board review schedule with Secretary (date of next board meeting)
- Confirm current list of all those subject to the Guidelines/Requirements
- Ensure that you are on the list to be notified when members change, e.g. "Executive Committee"

B. Perform Analysis

- Obtain Base Salary Information from Payroll
- Obtain Market Values (e.g. average closing price for 20 business days prior to review date)
- Send email out to those subject to guidelines request for shares owned in brokerage accounts
(For Equity Edge users -- replace other reports if you use other software)
- Run personnel summaries or options and awards summaries -
 - Director = Yes
 - Officer = Yes
- Executive Committee Indicator, if applicable
- Obtain balances of sellable shares in ETRADE stock plan accounts
- Obtain balances in company stock fund in 401k plans from Benefits Manager
- Open Spreadsheet
- Update Dates
- Change Market Value
- Update all balances
- Arrange for proofreader to review
- Review with compliance director and/or deputy general counsel
- Submit to Secretary
- Format for board meeting materials

Appendix: Share Ownership vs. Share Retention

	Share Ownership Guidelines	Share Retention Requirements
Attaining Ownership Threshold	Fixed guidelines, once satisfied no further obligations	Not fixed but directly related to level of equity compensation; retention obligation increases proportionately to increases in equity compensation
Effects of Market Fluctuations	Guidelines based upon a multiple of base salary/annual retainer vary with fluctuations in stock price	Fluctuations in stock price do not affect holding requirements
Equity Subject to Policy	Must determine which equity interests will count towards ownership guidelines	Not necessary, but company may attach different retention requirements to different equity types
Enforcement of Clawbacks	No benefits	Aids enforcement as shares are subject to transfer restrictions

Appendix: Share Ownership vs. Share Retention

	Share Ownership Guidelines	Share Retention Requirements
Individuals Subject to Policy	Appropriate for greater percentage of senior management; greater guidelines higher up the ladder	May be less appropriate for lower-level employees with lower compensation; no applicability to employees who do not receive equity compensation
Effects of Equity Awards	Substantial equity awards make guidelines easy to satisfy	Facilitates alignment of large employee shareholders (with sizable equity awards) with shareholder interests (particularly if there are longer retention periods)
Enforcement	Requires mechanism for enforcement; determine penalties for non-compliance	Generally not necessary as award shares are not transferable and holding commitment is usually set forth in award documentation