

Share Ownership Guidelines - How to Handle this Governance Golden Child

March 24, 2014

Seattle NASPP Chapter

Overview

❖ **Your Presenters: At a Glance**

❖ **Share Ownership Guidelines**

- The Basics
- Structure and Design

❖ **A Tale of Two Guidelines**

- An Overview
- Outerwall
 - Tracking
 - Communications
- Lincoln Financial Group
 - Tracking
 - Communications

Outerwall: At a Glance



Outerwall is on a mission to create a better everyday. As the company behind Redbox® entertainment and Coinstar® money services, we're pushing the walls of retail way out, into a new dimension — building businesses that make life simpler and better for consumers and retailers.

Stock Ticker: Nasdaq: OUTR

Market Cap: \$1.64 billion

2013 Revenue: \$2.31 billion

Index Membership: Russell 2000

Founded: 1989 (Coinstar)

Headquarters: Bellevue, WA

Employees: ~2,900 worldwide

Global Presence: ~5 countries

Acquired Redbox: In 2009, from McDonald's

Name Change: In 2013, from Coinstar, Inc. to Outerwall Inc. to better reflect our vision

ISP Advisors: At a Glance

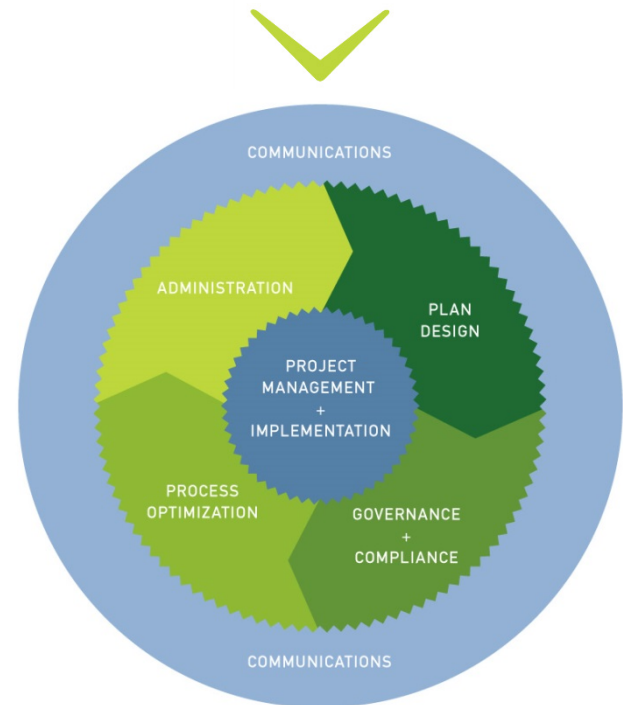
Hire potential. Higher performance.

At Independent Stock Plan Advisors, we deliver executive compensation solutions that inspire your workforce. By delivering just-in-time resources, we bridge global equity and incentive compensation knowledge and resource gaps at every level of your organization. Dynamic, flexible and focused, we're the people who keep your people happy.



Our advisors count more than the numbers.

Some firms specialize in executive compensation strategy, governance and technical matters. Others concentrate on plan operations and administration. We do both. We understand the rules governing global equity and incentive compensation plans, as well as the functionality of the vendor platforms that support them. As a result, we're able to offer an inherently holistic approach to executive compensation planning.



**What are
they?**

**A company imposed
“requirement” that an
employee or director must
acquire a set amount of
shares, usually within a
specified period of time**

Share Ownership Guidelines

THE BASICS

An Example



STOCK OWNERSHIP GUIDELINES FOR DIRECTORS AND EXECUTIVE OFFICERS

The Board of Directors (the "Board") of Outerwall Inc. (the "Company") believes that significant stock ownership by its non-employee directors and executive officers further aligns their interests with the interests of the Company's stockholders. Accordingly, the Board has established these Stock Ownership Guidelines for Directors and Executive Officers.

Stock Ownership Guidelines for Directors

Non-employee directors are required to acquire shares of the Company's common stock equal in value to at least five times his or her annual base retainer (currently \$50,000) as of the measurement date.

Stock Ownership Guidelines for Executive Officers

Executive officers are required to acquire shares of the Company's common stock equal in value to a multiple of his or her annual base salary as of the measurement date, as follows:

Position	Multiple of Annual Base Salary
Chief Executive Officer	3x
All other executive officers	2x

For purposes of these guidelines, "executive officer" shall have the meaning set forth in Rule 3b-7 of the Securities Exchange Act of 1934, as amended.

Share Ownership Guidelines

THE BASICS

**What
aren't
they?**

❖ **Share retention policies**

- AKA “holding requirements”
- Require retention of a set amount of shares following the exercise of options or vesting of other stock-based awards
- 3 Varieties
 - Pre-Guideline
 - Post-Guideline
 - General Holding Requirements
- Often used in tandem with share ownership guidelines



Share Ownership Guidelines

THE BASICS

Why do
they
exist?

Good corporate governance

Share ownership guidelines
ensure that individuals
entrusted by shareholders to
run a company have adequate
skin in the game



Share Ownership Guidelines

THE BASICS

Why do they exist (cont.)?

❖ Shareholder Advisory Firms are Big Fans

- ISS
 - QuickScore 2.0 considers CEO ownership requirements as part of its “Equity Risk Mitigation” analysis
- Glass Lewis
 - Ownership guidelines deemed “market best practice”
 - If missing / inadequate, could jeopardize qualitative assessment underlying Say-On-Pay recommendation

145. What proportion of the salary is subject to stock ownership requirements/guidelines for the CEO?

Best practice dictates that executives attain substantive share ownership by a certain time after appointment to better align their interests with those of shareholders.

QuickScore will consider the percentage/multiple of salary subject to stock ownership requirements, or if no information is disclosed. CEO stock ownership guidelines require or encourage executives to own a certain amount of stock within a period of time. These guidelines are generally disclosed as a multiple of base salary, number of shares, or a dollar value. This factor relates to the multiple of the CEO's cash fixed remuneration or base salary as a basis for the stock ownership guidelines.

For the Australian and New Zealand Markets, this may also be disclosed a multiple of cash fixed remuneration.

For the U.S., multiples of less than three times salary raise the level of governance risk concern. For other markets, multiples of less than one time salary or nondisclosure would raise governance risk concern.

Market Applicability: U.S., W. Europe, Anglo, S. Europe

Share Ownership Guidelines

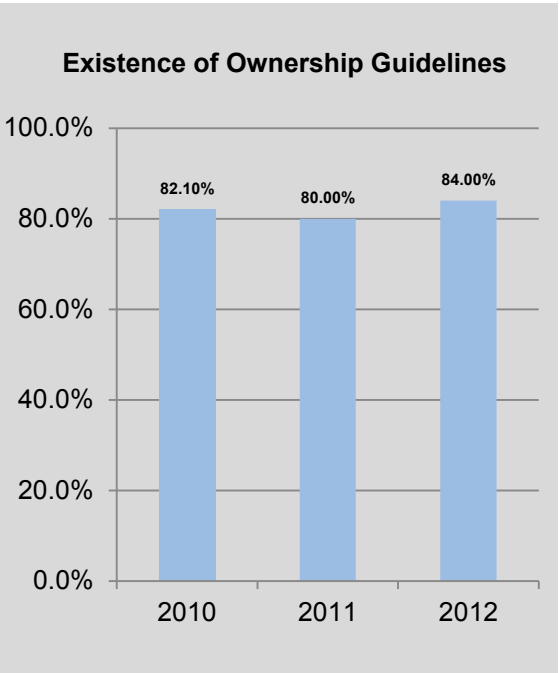
THE BASICS

Who has
them?

Maybe a better question is - Who doesn't?

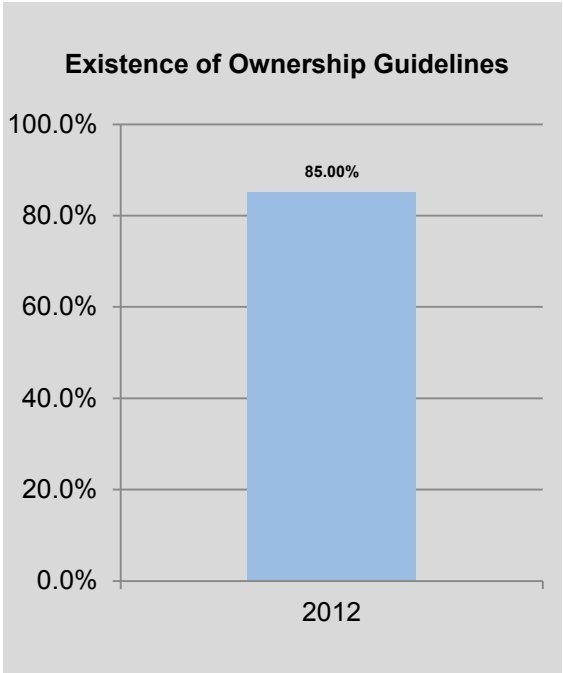
2013 Equilar Survey

- Limited to Fortune 100
- Based on FY 2012 Proxy Disclosures



2012 Ayco Survey

- 440 mostly large, U.S. public companies
- Based on CY 2012 Proxy Disclosures

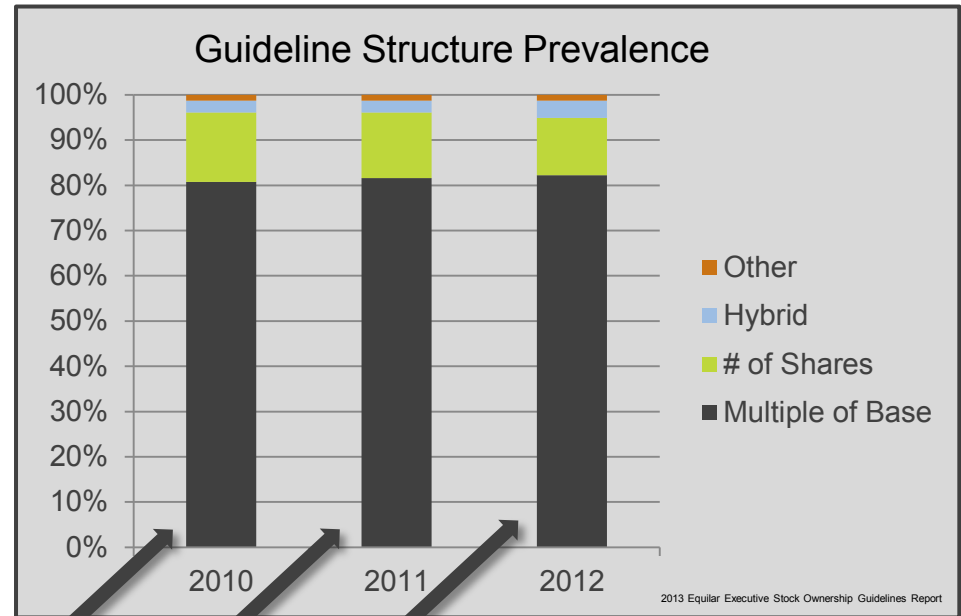


Share Ownership Guidelines

STRUCTURE AND DESIGN

❖ Guideline Structures

- Multiple of Base Salary
- # of Shares
- Hybrid
- Other (e.g., share value, bonus multiple, base + bonus multiple, etc.)



Multiple of Base Salary

By far the most popular structure

PRO

Easy to Communicate

CON

More difficult to maintain
(Due to stock price volatility)

Share Ownership Guidelines

STRUCTURE AND DESIGN

❖ Coverage

- Typically limited to officers and key executives
- That said, more than 68% of companies with guidelines extend them beyond the CEO and his/her direct reports

	CEO	2 nd Tier	3 rd Tier	4 th Tier
Total # of Companies	440	440	303	119
Multiple of Base				
12-25X Salary	1%	--	--	--
10X Salary	3%	--	--	--
8X Salary	2%	1%	*	--
7-7.5X Salary	3%	*	--	--
6X Salary	16%	1%	1%	*
5X Salary	42%	7%	1%	2%
4X Salary	5%	16%	4%	3%
3-3.5X Salary	7%	40%	18%	3%
2-2.5X Salary	2%	11%	32%	24%
1.5X Salary	--	2%	5%	8%
1X Salary	--	2%	19%	39%
.5-.75X Salary	--	1%	1%	6%
Additional Approaches				
# of Shares	12%	12%	13%	8%
Hybrid	4%	4%	5%	7%
Other	2%	2%	1%	*

* Less than 0.5%

Tier designation denotes reporting distance from CEO

Boeing's DEF14A filed on March 14, 2014 offers a glimpse into the titles associated with certain tiers

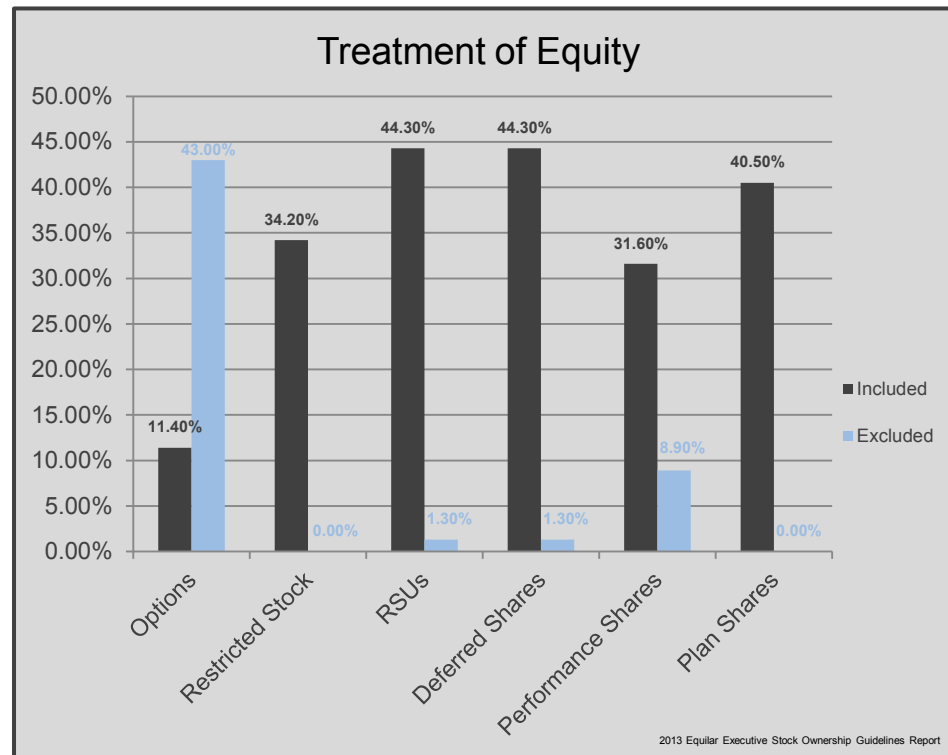
Position	Multiple of Base Salary
CEO	6x
Vice Chairman & EVP	4x
SVP	3x
VP	1x or 2x based on grade

Share Ownership Guidelines

STRUCTURE AND DESIGN

❖ What shares count?

- Typically included:
 - Outright stock ownership, including shares held in trusts
 - 401(k)
 - NQDC
 - RS / RSUs
- Typically excluded:
 - Stock options
 - Performance shares

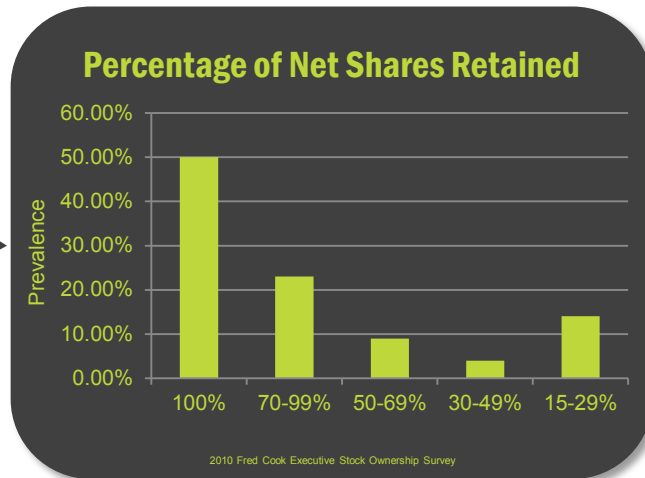
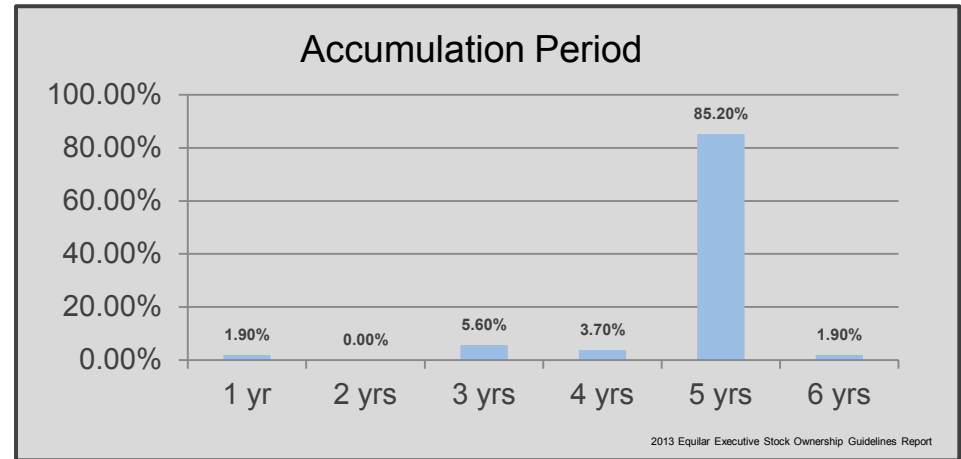


Share Ownership Guidelines

STRUCTURE AND DESIGN

❖ Accumulation Period

- Ranges from 1 to 6 years
- 5 years most common
- Retention ratios serve as an alternate approach

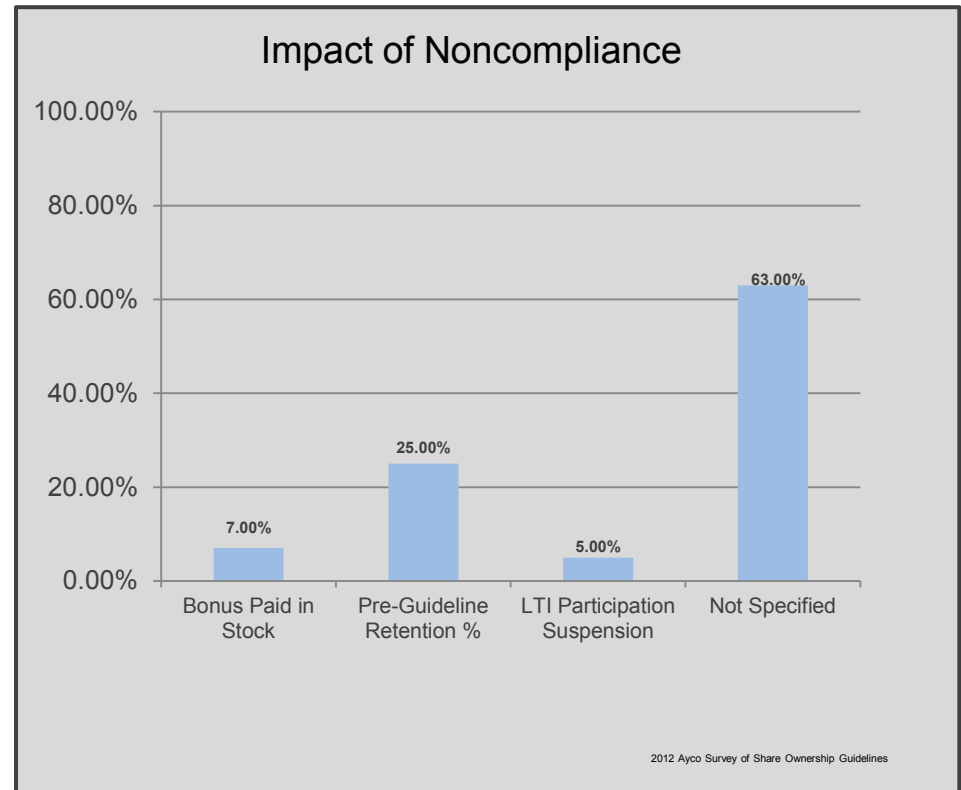


Share Ownership Guidelines

STRUCTURE AND DESIGN

❖ Noncompliance

- Compliance expected to be voluntary, but some guidelines have teeth
- Penalties imposed if guidelines not met, or even if annual progress is not sufficient
- Imposition of pre-guideline retention requirement is most common penalty



Share Ownership Guidelines

A TALE OF TWO GUIDELINES


Areas of overlap are highlighted in **GRAY**

An Overview

Lincoln Financial Group™		Outerwall™
Multiple of Base	Structure	Multiple of Base
CEO – 7x Tier 2 – 4x Tier 3/4 – 1x Non-Employee Directors – 5x	Multiple Applied	CEO – 3x Officers – 2x Non-Employee Directors – 5x
80+ Less than 100% (Circa 2012)	Number % Compliant ➤ Participants ⚡ Number % Compliant	12 100%
None	Accumulation Period	5 Years
Outright Stock Ownership Unvested Time-Based RS/RSUs In-The-Money Stock Options (EEs Only) RS/RSUs 401(k) Holdings NQDC Holdings 33% of Vested Stock Options (Directors Only)	Shares Counted	Outright Stock Ownership Unvested Time-Based RS/RSUs Performance Shares w/ Achieved Metrics
Underwater Stock Options	Shares Excluded	Stock Options
Performance Shares	Pre-Guideline Retention	Performance Shares w/ Unachieved Metrics
50% of Shares Awarded	Post-Guideline Retention	None
25% of Shares Awarded for 5 Years (CEO & Tier 2 Only)	Frequency Stock Price ➤ Measurement ⚡ Frequency Stock Price	None
Once Annually 12/31 close	Penalties for Noncompliance	Once Annually > of 12/1 Close or Acquisition Date Close
“Disciplinary Action” (Including Payment of Cash Bonus in Shares)	Once-Meet-Always-Meet	None
No	Tracking / Enforcement / Comms	No
HR/Legal	Hardship Exception	HR/Legal
Yes		Yes

Share Ownership Guidelines

A TALE OF TWO GUIDELINES

		 Outerwall™
Structure		Multiple of Base
Multiple Applied		CEO – 3x Officers – 2x Directors – 5x
Participants \leftrightarrow Number % Compliant		12 100%
Accumulation Period		5 Years
Shares Counted		Outright Stock Ownership Unvested Time-Based RS/RSUs Performance Shares w/ Achieved Metrics
Shares Excluded		Stock Options Performance Shares w/ Unachieved Metrics
Pre-Guideline Retention		None
Post-Guideline Retention		None
Measurement \leftrightarrow Frequency Stock Price		Once Annually > of 12/1 Close or Acquisition Date Close
Penalties for Noncompliance		None
Once-Meet-Always-Meet		No
Tracking / Enforcement / Comms		HR/Legal
Hardship Exception		Yes

Medium Complexity Scenario

Need to apply

- 3 different multiples
- To 12 different people

While aggregating data

- From at least 2 separate sources (equity vendor & personal accounts)
- At 2 different price points
- Requiring an interim performance metric achievement calculation

But stock has performed very well

- So guidelines are easily met

Share Ownership Guidelines

A TALE OF TWO GUIDELINES

Tracking

❖ **Responsibility**

- Legal (Stock Plan Mgr.) and Human Resources

❖ **Resourcing**

- Holdings provided to HR prior to December Comp Committee Meeting
- Quick turn around after 12/1 FMV determined

❖ **Data Collection**

- Captive broker is used for all stock-comp shares
- Hand-full of Execs transfer shares out of captive broker once settled
- Beneficial Ownership tracked throughout year by Stock Plan Mgr. (New grants, trades, RSA vestings)
 - *Same worksheet used at year-end for D&O Questionnaire*
- Beneficial Ownership Workbook sent to HR for Salary input and final calculations

Share Ownership Guidelines

A TALE OF TWO GUIDELINES

Tracking

❖ **Enforcement**

- To date, no one has failed to meet the guidelines primarily due to active review by Stock Plan Manager
- All individuals subject to share ownership guidelines are subject to pre-clearance requirements
- Enforcement of retention requirements was built into the pre-clearance process
- Guidance is provided throughout the year during each open trading window
- Smaller population = manageable outcome

Share Ownership Guidelines

A TALE OF TWO GUIDELINES

Communications

❖ Internal

- Annual measurement communication →
- Though measurement occurs only once a year – compliance consultations w/ participants are frequent and ongoing
- Proposed sale transactions provide a platform to discuss compliance status

Outerwall

Executive Officer Stock Ownership Guidelines

Executive Ownership Guidelines:

- Stock Ownership Guidelines are reviewed on December 1 of each year
- Stock Ownership Guidelines are 2x Salary for Executive Officers
- You are [on/not on] target to meet your Stock Ownership Guidelines

Stock Ownership Guideline Update: December 1, 20XX

Executive	Date Appointed	Annual Salary	# Shares Held	# Shares Unvested	Total Shares	Share Value	Current Multiple of Base Salary	Deadline to Meet Ownership Guideline
Executive Name	Month Year	\$XXX,XXX	XX,XXX	X,XXX	XX,XXX	\$X,XXX,XXX	X.XX	
Executive Title								

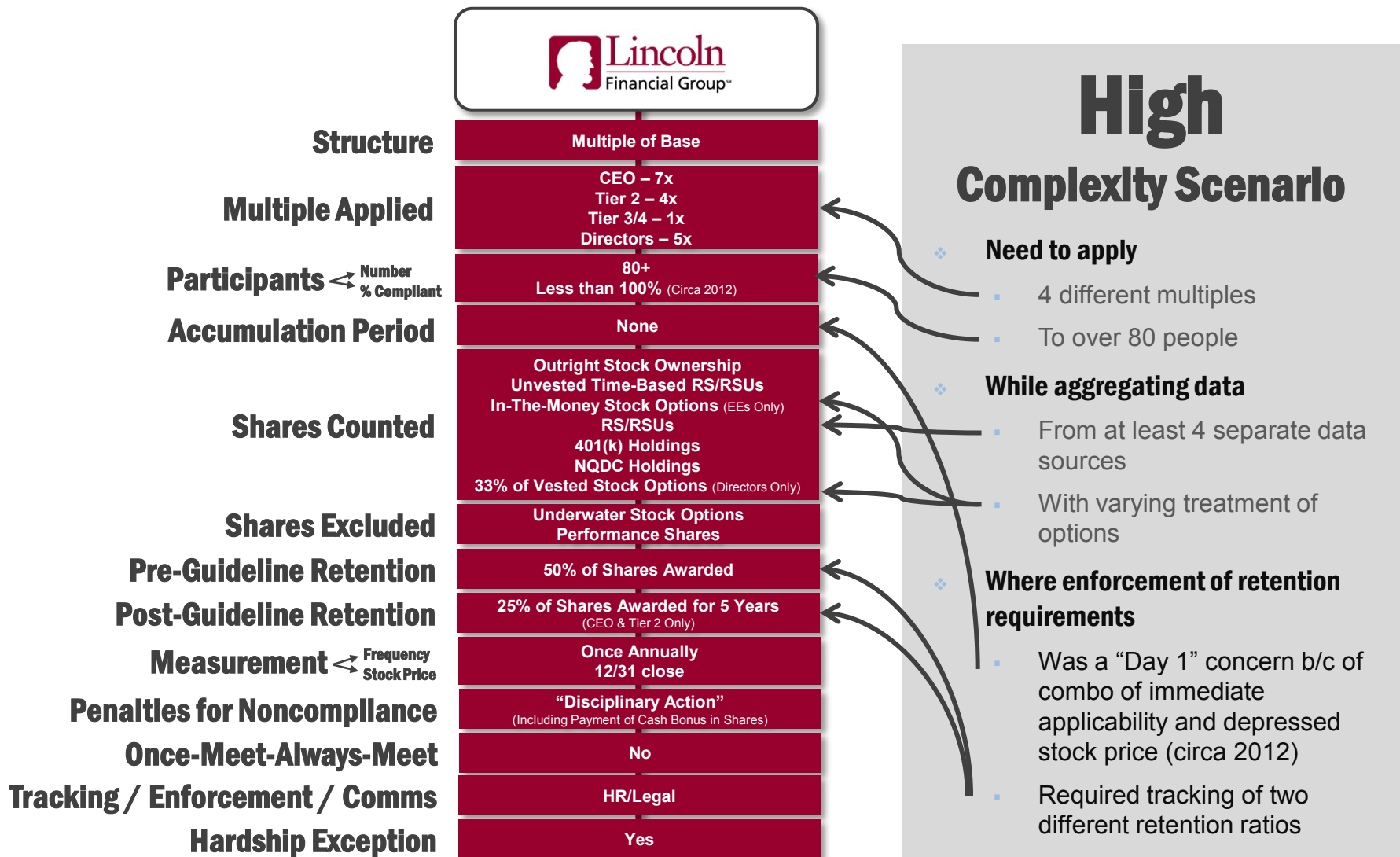
Stock Price: \$ XX.XX

Stock Price reflects closing price of OUTF stock on XX/XX/20XX
Note: Shares of unvested restricted stock include performance based restricted stock where the performance goals have been met
Equity Holdings reflect summary holdings as of XX/XX/20XX
Share Value based on greater of share price on close of XX/XX/20XX or acquisition price

For Illustrative Purposes Only

Share Ownership Guidelines

A TALE OF TWO GUIDELINES



Share Ownership Guidelines

A TALE OF TWO GUIDELINES

NOTE

Not all vendors offer long share reporting

Tracking

❖ Responsibility

- Sat solely with HR

❖ Resourcing

- 3 people / 2 weeks during annual focal period

❖ Data Collection

- Access used to aggregate data from HRIS system, equity plan vendor, 401(k) vendor & NQDC vendor
- Financial advisor phone campaign conducted to ascertain value of shares held outside HR's purview
- For 16(b)'s, totals vetted w/ Legal to ensure consistency
- All data loaded into master spreadsheet – and then the magic began . . .

	B	C	L	M	N	O	P	Q	R	S	T	U	V	W	X			
1	1	2	11	12	13	14	15	16	17	18	19	20	21	22	23			
2	FMV as of 5/3/2012																	
3	Copy the employee numbers from the CHRIS data tab for new CLG and SMC members.		Try to use "common names" found in the CLG member directory. An updated CLG directory can be obtained from X. Also check the HR Personnel Report, Preferred Name.		Pull RSUs from the RSU pivot table	Pull RSUs Dollar Value from the RSU pivot table	Pull Options from the Options pivot table	Pull Option Dollar Value from the Option pivot table	Pull Book Entry Holdings from the Book Entry Holdings for CLG tab	Book Entry Holdings Stock Price (Fair Market Value)	Direct Ownership Holdings: Input the number of shares for each Section 16 officer from the Form 4. You'll need to sum 3 columns from the report. They are: Brokerage Account, CFP salary shares, and Joint w/ Spouse. (As you get new Section 16 holder Detailed Information reports, you'll need to verify with X and Y that there aren't additional columns to consider). For CLG they will tell us if they have any Direct Ownership holdings to enter here.				Direct Ownership Dollar Value * 12 + 14 + 16 + 18	CEO - Tx Base Salary; SMC - 4x; CLG - Base Salary	Columns 19-20 Columns 19-20	If column 19 is > column 20, "Yes"; if column 19 is < column 20, "No"
4	EE #	Name	RSU Holdings	RSU Holdings Dollar value	Options (WQ) Holdings	Options (WQ) Holdings Dollar Value	Book Entry Holdings	Book Entry Holdings Dollar Value	Direct Ownership Holdings		Direct Ownership Dollar value	Total Share ownership holding	Share Ownership Amount Required	Percent Ownership	Difference	Meets Requirement		
6			2,384	\$56,585	2,623	\$19,673	1,256	\$29,854			\$0	\$122,840	\$203,533	60.4%	(\$80,693)	No		
7			2,627	\$66,120	2,019	\$15,143	3,389	\$80,455			\$0	\$164,263	\$271,830	60.4%	(\$107,566)	No		
8			5,768	\$136,939	5,756	\$43,179	1,510	\$35,637			\$0	\$428,344	\$324,165	122.6%	\$104,179	Yes		
9			307,862	\$7,306,649	0	\$0	0	\$0			198,178	\$4,704,746	\$12,976,501	\$7,525,001	172.6%	\$4,451,867	Yes	
10			4,550	\$106,834	4,034	\$30,255	1,056	\$25,069			\$0	\$228,717	\$242,000	94.5%	(\$13,282)	No		
11			106,923	\$2,530,352	38,306	\$287,295	0	\$0			\$7,064	\$1,354,699	\$4,445,077	\$2,440,000	162.2%	\$2,005,077	Yes	
12			29,316	\$697,241	8,955	\$68,486	0	\$0			2,965	\$70,389	\$382,124	\$2,180,000	98.4%	(\$1,797,816)	No	
16	Instructions Salary Requirement Form Salary Requirement Summary Net Shares Green Screen Net Shares Sort Net Shares Pivot Option Pivot RSU Pivot Equity Vendor Data DC Plan Holdings 401k Investments Book Entry Holdings for CLG																	

Share Ownership Guidelines

A TALE OF TWO GUIDELINES

Tracking

❖ Enforcement

- Based on results of annual measurement, ***majority of participants subject to either pre or post guideline retention requirements***
- HR identified these individuals and notified Legal
- Why was Legal's involvement necessary?
 - All individuals subject to share ownership guidelines likewise subject to pre-clearance restrictions
 - As a result, enforcement of retention requirements was built into the pre-clearance process
- Coordination was key to success
 - Between HR & Legal
 - Between Legal & Vendor

Share Ownership Guidelines

A TALE OF TWO GUIDELINES

Communications

❖ Internal

- Responsibility
 - HR
- Tool
 - Compliance determination included in annual compensation adjustment “statement”

Shareholder Ownership Requirements

The Compensation Committee of the Board of Directors has set new share ownership guidelines for our senior management team. The objectives of the new LFG Share Ownership Guidelines are to provide transparent ownership guidelines which create a clear and mutual understanding between the Board and Senior Management regarding the acceptable levels of stock ownership to be held as a senior executive of Lincoln National Corporation.

Holdings that count towards satisfying your share ownership requirement are:

- Outright stock ownership
- Restricted stock
- In-the-money stock options (vested and unvested)
- Share equivalents held in LNC DC SERP plans
- Stock held in LNC Employees Savings and Retirement Plan

Below are the revised Share Ownership Guidelines for SMC members:

Senior Management Committee (SMC) (SMC, direct reports to the CEO) - SMC members will be required to retain and hold 50% of his/her awarded stock until the value of all LNC shares (awarded and otherwise) owned by the SMC member is equal to four times his/her annual base salary. In addition, once the SMC member has reached the correct ownership level, he/she must retain an equivalent number of shares of stock equal to 25% of the shares delivered upon vesting (after taxes have been withheld) for an additional five years.

The table below gives you detailed information of your current stock dollar value from your retirement plan(s), deferred compensation plan(s), RSUs, and options. It then sums up the dollar values and determines if you meet the new Shareholder requirements.

2012 Shareholder Ownership Requirements Table	
401k Stock Value	\$20,000
Deferred Comp Stock Value	\$10,000
RSUs Outstanding	100,000
RSU Value	\$10,000,000
No. of Options "In-the-Money"	0
Option Dollar Value	\$0
Total Dollar Value of Stocks, RSUs & Options	\$10,130,000
Shareholder Requirement	\$5,000,000
Meets Requirement?	YES

Contacts

Lisa Leitner

Outerwall Inc.

Stock Plan Manager

Phone: 425-943-8260

Email: lisa.leitner@outerwall.com



Geoff Hammel

ISP Advisors LLC

Managing Director

Phone: 215-438-4772

Email: geoff.hammel@ispadvisors.com

