Granting Equity Across the Globe:
A Discussion on Key Considerations, Challenges, and Common Practices

Jewon Wee, Independent Stock Plan Advisors LLC

Geoff Hammel, Independent Stock Plan Advisors LLC

Yoon Park, TripAdvisor, Inc.

The information contained in this presentation has been prepared by Independent Stock Plan Advisors LLC and TripAdvisor, Inc., each of whom are responsible for their own content. E*TRADE Financial Corporate Services, Inc. does not recommend or endorse these companies or their product and service offerings.

The laws, regulations and rulings addressed by the products, services, and publications offered by E*TRADE Financial Corporate Services, Inc. and its affiliates are subject to various interpretations and frequent change. E*TRADE Financial Corporate Services, Inc. and its affiliates do not warrant these products, services, and publications against different interpretations or subsequent changes of laws, regulations and rulings. E*TRADE Financial Corporate Services, Inc. and its affiliates do not provide legal, accounting or tax advice. Always consult your own legal, accounting and tax advisers.

Agenda

- **Creating Global Granting Practices**
  - **Considerations**
  - **Challenges**
- **Survey Says**
- **TripAdvisor Case Study**
- **Q & A**

Granting Practices - Considerations

- **WHO** should receive grants…
  - Which employees should be eligible to receive a grant?
  - Which employees should receive a grant?

Granting Practices - Considerations

- **WHAT** to grant…
  - Stock Options, Restricted Stock Awards/Units, Performance Awards, Stock Appreciation Rights, Cash-based Awards…
  - Vary equity type by employee groups, countries, etc.
    - One equity type may offer more favorable tax treatment than others (e.g., Canadian 50% deduction available for stock options only)
    - Local qualification of equity awards where it makes sense (e.g., UK approved schemes)
    - Resources required to meet local compliance requirements (e.g., Israeli qualified plan requires local Trustee)
    - Filings may be expensive/unmanageable (e.g., China SAFE filing is costly up front and requires quarterly reporting)

Granting Practices - Considerations

- **HOW MUCH** to grant…
  - Vary grant size based on: Employee level vs. % of salary
  - Vary grant size based on: US vs. non-US employees
  - # of shares granted derived on: Target $ value vs. target share quantity
  - Conversion ratio (# of options vs. # of RSUs)

Granting Practices - Considerations

- **WHEN** to grant…
  - Once a year
  - Mid-cycle grants
  - New hire grants
  - Promotion grants
  - Special retention grants

Granting Practices - Considerations

What makes sense for your company?

- Greater symmetry across countries – ideal but complete symmetry is not realistic
- Less global symmetry – costly but reality in some cases
  - Unique practices for each location
  - Greater demand for resources
  - Allocate budget & time to high profile countries

Granting Practices - Considerations

- **Governance**
  - Who sets and updates grant guidelines?
  - How often should the grant guidelines be updated?
  - How openly should the grant guidelines be shared?
  - Who approves grant guidelines and grants?
    - Executives & BOD grants
    - Non-exec grants

Granting Practices - Challenges

- **Grant guidelines must adapt to changing internal and external environments**
  - Share price
  - Pressure on burn rates
  - Taxation of different equity types
  - Internal resources needed to manage multiple equity types utilized across the globe& related processes

- **Monitor/update guidelines to ensure alignment with:**
  - Company philosophy on eligibility for receiving equity awards
  - Changes in recruiting/retention demands

Granting Practices - Challenges

- **Manage employee perception about equity type & grant size**
  - Value of equity awards perceived by employee vs. cost to Company
  - Value of equity influenced by:
    - Company stock performance (what did your employees "realize" from recent vesting event?)
    - Currency exchange rate
    - Cost of living differences
    - Tax obligations on equity awards (i.e., after-tax value)
      - For example, Hong Kong vs. Germany
- **Invest in employee education!**

TripAdvisor Case Study

TripAdvisor Case Study

- **About TripAdvisor, Inc. (NASDAQ: TRIP)**

TripAdvisor® is the world's largest travel site*, enabling travelers to plan and have the perfect trip. TripAdvisor offers trusted advice from real travelers and a wide variety of travel choices and planning features with seamless links to booking tools. TripAdvisor branded sites make up the largest travel community in the world, reaching more than 260 million unique monthly visitors** in 2013, and more than 150 million reviews and opinions covering more than 3.7 million accommodations, restaurants and attractions. The sites operate in 37 countries worldwide, including China under daodao.com. TripAdvisor also includes TripAdvisor for Business, a dedicated division that provides the tourism industry access to millions of monthly TripAdvisor visitors.

*Source: comScore Media Metrix for TripAdvisor Sites, Worldwide, December 2013

**Source: Google Analytics, Worldwide data, July 2013

TripAdvisor Case Study

- **History**
  - Spun-off from Expedia in Dec 2011
  - Newly publicly traded company with legacy grants, albeit not broad-based or as extensive in terms of in the money value relative to a ~$4billion market cap company
- **2012**
  - Selective annual and new hire equity program in May 2012
    - 100% stock options, manager level and above as well as engineering talent focused
    - Keep within the burn rate of peer groups, less focused on shared based compensation expense
    - Modeled hybrid but felt Black-Scholes ratio of RSU's to options was not favorable

TripAdvisor Case Study

- **What did we learn in 2012**
  - More people wanted equity
  - Challenging to issue options to candidates when they had competing offers in RSU value
  - Challenging to explain to current employees Black-Scholes value of options
  - Needed special recognition program, i.e. promotion
  - Dilution became more important

TripAdvisor Case Study

- **2013**
  - Broad-based, hybrid equity program and introduced a promotion program
    - Mixed options and RSU’s for higher levels within the organization with continued focus on engineering talent and high performers throughout the organization
    - Keep within the burn rate of peer groups but established net share settlement for all equity awards to reduce dilution, i.e. RSU’s and stock options in July 2013 and still less focused on share-based compensation expense
    - Hybrid approach was now more favorable due to stock price, Black-Scholes ratio and dilution
    - 2012 options created ‘in the money’ value so 2013 gave us an opportunity to provide additional RSU ‘hand cuffs’
    - Options still created environment of moving the stock price for higher level employees who were in control
    - RSU’s gave us a better ‘selling’ opportunity to recruit against established tech companies using RSU’s
    - China SAFE approval in late 2013

TripAdvisor Case Study

- **2014**
  - Kept a similar approach to from 2013 for 2014 but …
    - Slight shift towards more RSU's than options given stock price
    - Every employee who walks through the door receives a grant; however, not all employees participated in the annual award, i.e. excluded entry level employees and non-performing employees
    - Hybrid approach still favorable due to stock price, Black-Scholes ratio and dilution
    - Rolled out equity program in China
    - May introduce a mid-year special cycle grant for high performers

Survey Says!

Results from a rolling survey conducted by ISP Advisors since September 2013.

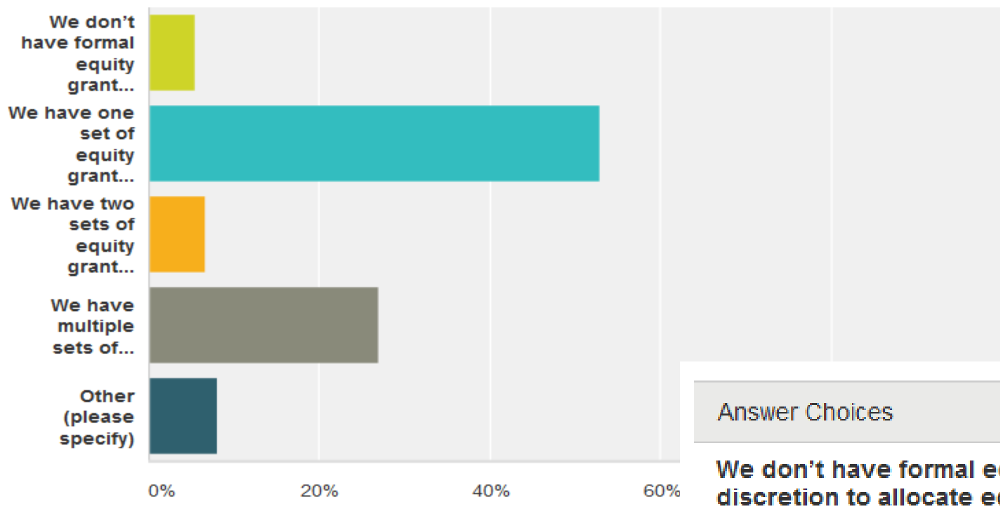
https://www.surveymonkey.com/s/ispa2013globalsurvey

Survey Questions…

1. What is your company's approach to granting equity awards globally?
2. If equity grant guidelines are not varied globally, why not?
3. If equity grant guidelines are varied, why?
4. How is the size of individual equity awards established?
5. How often are equity grant guidelines reviewed & updated?
6. How strictly are equity grant guidelines enforced?
7. How widely are the equity grant guidelines shared?
8. Which equity compensation market survey data do you utilize to benchmark grant levels for non-US?
9. For which countries do you customize equity grant guidelines, if any?

Which of the following best describes your approach to granting equity awards globally (choose one)?

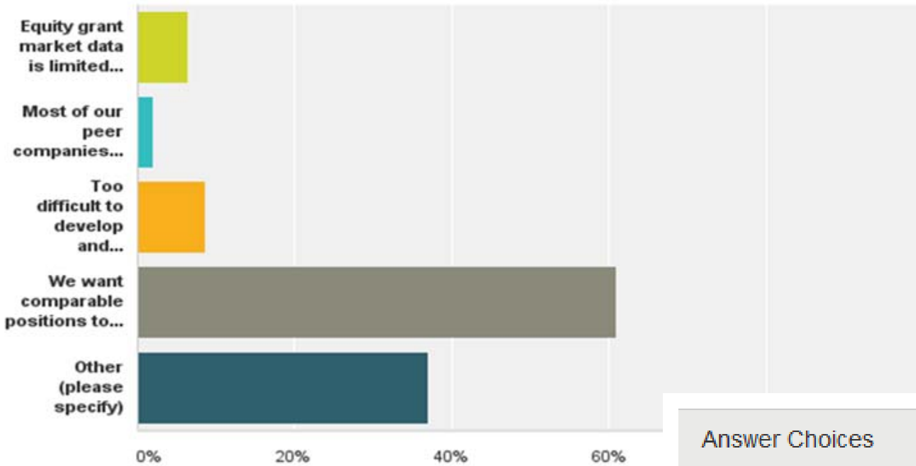
Answered: 74 Skipped: 0



Answer Choices		Responses	
We don't have formal equity grant guidelines. Senior executives use their discretion to allocate equity grants.		5.41%	4
We have one set of equity grant guidelines that are used globally.		52.70%	39
We have two sets of equity grant guidelines: One for US employees, the other for non-US employees		6.76%	5
We have multiple sets of equity grant guidelines: One for US employees, and two or more sets of guidelines for non-US employees		27.03%	20
Other (please specify)	Responses	8.11%	6
Total			74

Q10 If you use one set of equity grant guidelines globally, without varying the guidelines for non-US employees, which of the following best describe the reasons why your company does not vary equity grant practice (choose all that apply)?

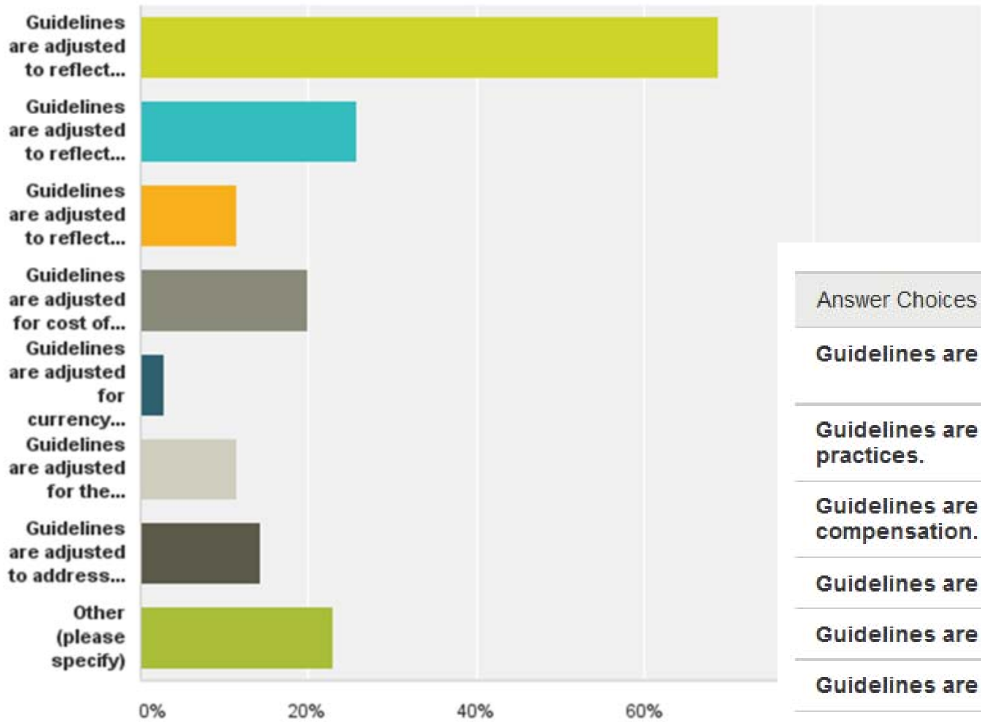
Answered: 46 Skipped: 28



Answer Choices		Responses	
Equity grant market data is limited and unreliable for non-US jobs		6.52%	3
Most of our peer companies don't vary equity grant practices		2.17%	1
Too difficult to develop and maintain multiple sets of equity grant guidelines		8.70%	4
We want comparable positions to receive the same level of equity awards regardless of where the employee is located.		60.87%	28
Other (please specify)	Responses	36.96%	17
Total Respondents: 46			

Q11 **If using a different set of equity grant guidelines for non-US employees, which of the following best describe the reasons why your company varies equity grant practice (choose all that apply)?**

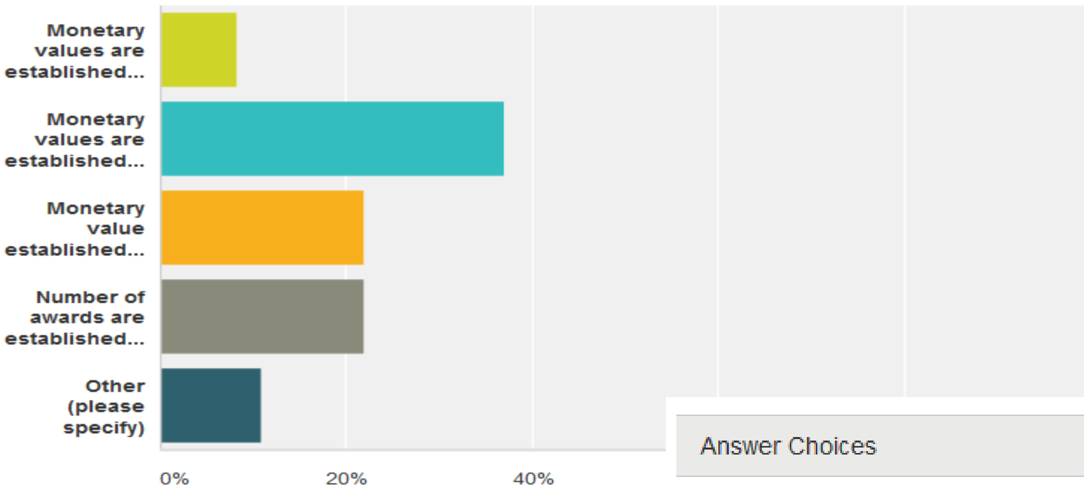
Answered: 35 Skipped: 39



Answer Choices		Responses	
Guidelines are adjusted to reflect local country/region equity grant market practices		68.57%	24
Guidelines are adjusted to reflect local country/regional total direct pay market practices.		25.71%	9
Guidelines are adjusted to reflect local employee perception of equity-based compensation.		11.43%	4
Guidelines are adjusted for cost of living differences		20%	7
Guidelines are adjusted for currency conversion rates		2.86%	1
Guidelines are adjusted for the after-tax value of equity awards by country		11.43%	4
Guidelines are adjusted to address adverse local tax and regulatory implications associated with certain equity award types		14.29%	5
Other (please specify)	Responses	22.86%	8
Total Respondents: 35			

Which of the following best describes how your company establishes the size of equity awards (choose one)?

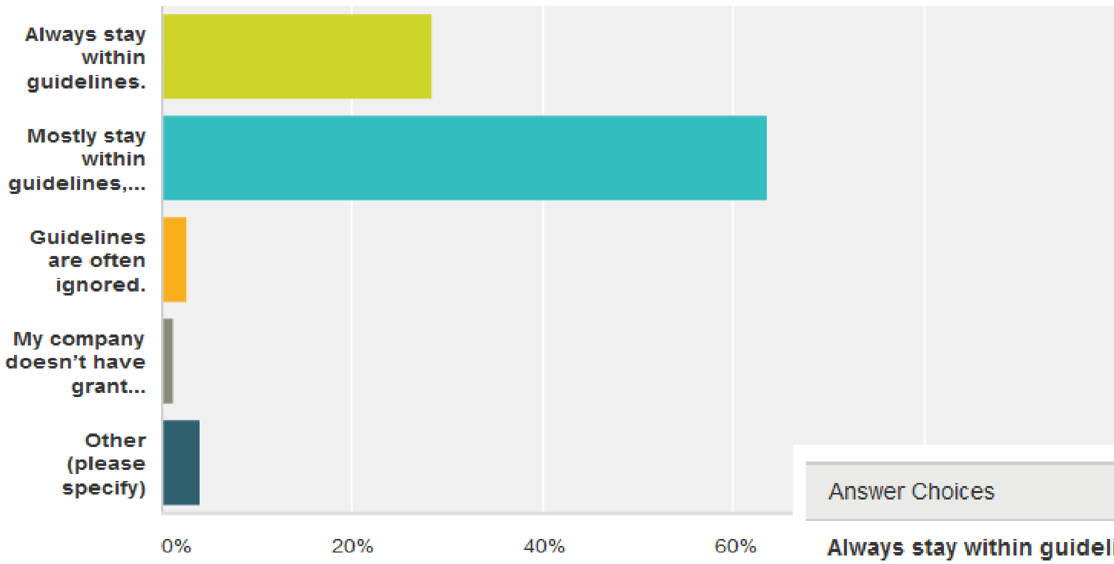
Answered: 73 Skipped: 1



Answer Choices		Responses	
Monetary values are established as percentage of salary only		8.22%	6
Monetary values are established by job grade level/function only		36.99%	27
Monetary value established as percentage of base salary and job grade level/function		21.92%	16
Number of awards are established by job grade level/function		21.92%	16
Other (please specify)	Responses	10.96%	8
Total			73

How strictly does your company enforce the equity grant guidelines?

Answered: 74 Skipped: 0



Answer Choices	Responses	
Always stay within guidelines.	**28.38%**	21
Mostly stay within guidelines, except for senior level employees, and strategic new hires	**63.51%**	47
Guidelines are often ignored.	**2.70%**	2
My company doesn't have grant guidelines.	**1.35%**	1
Other (please specify) **Responses**	**4.05%**	3
Total		74

Thank You

Jewon Wee

Managing Director

Independent Stock Plan Advisors LLC

jewon.wee@ispadvisors.com

Geoff Hammel

Managing Director

Independent Stock Plan Advisors LLC

geoff.hammel@ispadvisors.com

Yoon Park