ISS Policy Team:

The Hackett Group, Inc. welcomes the Equity Plan Scorecard proposal published by ISS for comment on October 15, 2014, and the transition away from an all or nothing approach where the failure of either of the numerical tests (Shareholder Value Transfer and Burn Rate) meant certain failure for an equity proposal. We are hopeful that the scorecard approach, if weighted properly, will take into account all material considerations associated with the equity plan or any equity plan amendment for which approval is sought.

In particular, we are hopeful that the new SVT test to be added (which would include only new shares requested plus shares remaining for future grants), will receive equal or greater weight than the traditional SVT test, which we believe improperly counts each outstanding and unvested performance based stock appreciation right (SAR) as one full share outstanding for when calculating the "overhang". It is mathematically impossible for an issuer to issue one full share of its stock upon the exercise of a SAR (which may be settled in stock alone or cash or stock in the issuer's discretion) which entitles the holder upon vesting and exercise only to receive a value equivalent to the difference between the market price of the issuer's stock upon exercise and the strike price contained in the grant instrument. Nonetheless, under the traditional SVT test SAR's that may be settled in stock alone or stock or cash at the issuer's discretion are counted as one full share for overhang purposes.

We have suggested to the Engagement Team that one logical alternative to determining the number of shares underlying performance based SARs to be included in the overhang would be to base the calculation of the number of shares attributable to the SARs on the issuer's historical volatility. A share value multiple would be assigned based on the issuer's volatility. This approach would be similar to the method used for Burn Rate test purposes where the issuer's volatility is used to assign a share multiple to full share grants. For purposes of the SVT test, the issuer's volatility would correlate with a share price multiple that would be applied to the issuer's year end share price. This "adjusted" share price and the exercise price in the SARs award agreement would then be used to determine a stock appreciation dollar value. The stock appreciation value would then be multiplied by the number of SAR's outstanding and then divided by the adjusted share price. This calculation would render a number of shares underlying the SARs to then be included in the overhang. Even though this approach does not take into account the uncertainty associated with the actual vesting of the unvested performance SARs, it would result in a more realistic number of shares to be included in the overhang for plan cost estimation purposes. Absent the inclusion of additional factors into the overhang calculation in the traditional SVT test such as the one described above, the addition of a second SVT which excludes the overhang, is appropriate subject to the weighting assigned to the additional test.

The Hackett Group believes the proposed Equity Plan Scorecard approach which considers a broader range of plan characteristics including plan cost estimate calculations, plan features and historical grant practices, if weighted appropriately, could potentially result in a more equitable assessment of equity plans and equity plan amendments.

Respectfully,

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