



## **Red Flag Criteria**

GovernanceMetrics International issues red flags in any of the six sections of its reports where there is a significant governance issue or other issue of concern that might potentially affect shareholder value. The following list provides a guide to many of the issues that would lead to the issue of a red flag by GMI:

### **Board Accountability**

- Boards with 20 or more directors
- Boards with no independent directors
- Non-independent board with a controlling shareholder
- Significant (over 5% of revenue) related-party transactions involving officers or directors

### **Financial Disclosure and Internal Controls**

- CEO, CFO or other executive (or a relative) is on the audit committee or audit board
- Significant litigation / significant investigation / significant regulatory fines for audit/accounting problems or fraud
- Persistent problems with restatements, charges, investigations, litigation or regulatory fines over time
- A qualified audit opinion
- Delisted or under threat of delisting
- Over a year late filing annual report and proxy statement
- Debt/financing/refinancing problems or pending bankruptcy proceedings

### **Shareholder Rights**

- Serious limitations on shareholders rights

### **Remuneration**

- CEO or other executive or an interlocked director (or a relative) is on the compensation committee
- Change of control or termination provision that results in the CEO and/or key executives receiving three or more times salary (with or without bonuses) at the time of a change of control or termination
- Potential dilution from option plans (issued or available for issue) is greater than 20%
- An evergreen plan is in place (an evergreen plan contains a provision that typically increases the number of shares available for issue under the plan on an annual basis by a predetermined percentage of the company's common stock outstanding)
- Significant (15% or more) vote against approval of a Compensation Discussion and Analysis Report or equivalent ("Say on Pay") or an equity incentive plan or the like

### **Market for Control**

- Poison pill with a "dead hand" provision
- Controlling shareholder
- Golden shares or their equivalent

### **Corporate Behavior**

- Significant litigation / regulatory fine / criminal investigation / conviction for environmental breaches
- Serious workplace incident(s) involving multiple deaths
- Criminal investigation / conviction for corruption / money laundering
- Significant litigation / regulatory fine (criminal or civil) for anti-competitive behavior
- Persistent behavior problems in one or more of the above areas over time

Depending on the circumstances, GMI may also issue a red flag if a situation not expressly stated above causes governance and/or potential value eroding concerns.