February 6, 2013

Navigating ISS in 2013: Compensation Voting Policy Updates, QuickScore, and New Burn Rates

The beginning of the year yielded a flurry of news from advisory firm Institutional Shareholder Services (ISS). This Client Alert updates our previous Alert, released on November 30, 2012[1], with additional technical information including:

- **Updated Compensation Voting Guidelines and Technical Implementation**: ISS had finalized its 2013 proxy voting guidelines in November 2012[2], generally applicable to shareholder meetings held on or after February 1, 2013. Since that time, ISS released additional details in FAQ format in its 2013 Comprehensive Policy Review[3] and a technical document, "Evaluating Pay for Performance Alignment"[4].

- **Governance QuickScore**: ISS replaced the GRId methodology used in prior years with a quantitatively-driven scorecard designed to identify governance risk in four categories, including compensation.
    - ISS has not disclosed its specific scoring and weightings so similar to GRId, companies need to engage with the advisory firm to determine their QuickScore results.
    - ISS set a February 15 deadline for companies to confirm the information and data used in their QuickScore analysis.

- **Updated Burn Rates for 2013:** ISS issued its annual update to the burn rate caps for Russell 3000 and Non-Russell 3000 companies by GICS groups, which influence its voting recommendations on new or amended equity plans.

2013 Compensation Voting Policy

This section summarizes the most significant compensation and governance changes for 2013, some of which may have a significant impact on Say on Pay (SOP) shareholder advisory vote outcomes. Additional implementation guidance is discussed for the new pay-for-performance (PFP) methodology, which is fundamental to ISS SOP voting recommendations, based on recently released FAQs and technical documents.

[1] See http://www.pearlmeyer.com/2013ISSUpdate
[2] See http://www.issgovernance.com/files/2013USPolicyUpdates.pdf
[3] See http://www.issgovernance.com/policy/2013/2013ComprehensiveUSCompensationPolicy
[4] See http://www.issgovernance.com/sites/default/files/EvaluatingPayForPerformance.pdf

Pay-for-Performance Test

General

ISS made two key modifications to its PFP test: a revision of the methodology used for peer group selection in its *quantitative* analysis, and the added consideration of realizable pay in its *qualitative* analysis.

Quantitative Assessment - Overview

ISS left unchanged its quantitative assessment for 2013 except for altering the methodology used for peer group selection. As in 2012, the three factors of performance, sorted by two alignment categories, are as follows:

1. Peer Group Alignment:

    - The degree of alignment between the company's TSR rank and the CEO's total pay rank within the peer group, as measured over 1- and 3-year periods (weighted 40/60, to put more emphasis on the long-term performance);

    - The multiple of CEO total pay relative to the peer group median, used to identify high-performing companies where ISS nevertheless considers the CEO to be overpaid.

2. Absolute Alignment:

    - Alignment between the trend in the CEO's pay and the company's TSR over the prior five fiscal years (*i.e.*, the difference between the trend of annual pay changes and the trend of annualized TSR during the prior 5-year period).

Quantitative Assessment – Peer Group Methodology Changes

In a significant change from previous years, ISS will now take into account a company's self-selected compensation peer group when identifying and prioritizing potential ISS peers within and outside of the subject company's GICS group. Peer groups will be comprised of 14 to 24 companies in the company's 8-digit (as opposed to 6-digit in prior years) GICS group that are selected on the basis of revenue (or assets for financial firms) and market cap.

Selection Prioritizations

Peer groups will generally be selected on the basis of:

- GICS industry classification of the subject company
- GICS industry classification of the subject company's disclosed benchmarking peers
- Size constraints for both revenue (or assets for certain financial companies) and market value

Subject to size constraints, and with the goal of getting the subject company's size close to the median of the peer group, companies are selected from a potential peer universe in the following order:

- From the subject company's own 8-digit GICS group
- From the subject company's peers' 8-digit GICS groups
- From the subject company's own 6-digit GICS group
- From the subject company's peers' 6-digit GICS groups
- From the subject company's own 4-digit GICS group

Priority is given to "first-degree" potential peers (those that are within the subject's own peer group or have chosen the subject as a peer) and companies with numerous connections to those first-degree peers (through choosing a peer or being chosen as a peer). All other considerations being equal, priority is given to peers that are closer in size.

Priority is also given to the company's own 8-digit GICS category, maintaining the subject company size at or near the median of its peer group, and maintaining the approximate distribution of GICS industry codes as reflected in the company's self-selected peer group. As a result, a company's self-selected peers will not necessarily appear in the ISS peer group, even if they meet its size constraints.

If a company uses multiple peer groups, ISS will use only the one to which CEO pay is benchmarked. Finally, ISS notes that the PFP peer group is separate from the peer group on which the allowable caps for equity plan proposals are compared.

Size Parameters

Two size constraints are used to qualify potential peers:

- Revenue/Assets: Between 40% and 250% of the company's revenue (or assets for some GICS groups, discussed below), although the range is expanded when revenue is more than $5 billion or less than $200 million. Companies smaller than $100 million are treated as if they have at least $100 million.

- Market Capitalization: Companies are classified into market cap "buckets" as follows (in millions):

ISS Buckets	Low End of Bucket	High End of Bucket	0.25x Low End	4.00x High End
Micro	$0	$200	$0	$800
Small	$200	$1,000	$50	$4,000
Mid	$1,000	$10,000	$250	$40,000
Large	$10,000	No cap	**$2,500**	**No cap**

While ISS may look outside a subject company's market cap bucket if needed to create a minimum peer group size, no peer can have a market cap of less than 25% of the low end or more than 400% of the high end of the subject's market cap, as shown above.

For the following 8-digit GICS groups, ISS generally will base company size on balance sheet assets, rather than revenue:

- 40101010 Commercial Banks
- 40101015 Regional Banks
- 40102010 Thrifts and Mortgages
- 40202010 Consumer Finance
- 40201020 Other Diversified

Special Circumstances

ISS has indicated that if the standard methodology does not produce at least 14 peers, it may allow as few as 12 peers or supplement the peer group at its discretion. It will not expand the peer group beyond 24 companies.

ISS also eliminated the "super-mega" peer group designation used in 2012. Instead, it will use the standard methodology to identify as many peers as possible for such companies, supplementing as needed using the principles described above.

> ***PM&P Observation:*** We believe these changes will result in more reasonable peer group construction. Keep in mind, however, that regardless of the detailed methodology described by ISS, the advisory firm ultimately reserves the right to adjust peer groups at its discretion.

<u>Qualitative Assessment</u>

Realizable Pay Included as Additional Factor

If the quantitative assessment results in a "high" or "medium" level of concern for alignment of long-term PFP, ISS then performs a qualitative analysis to assess how various pay elements may have increased or undermined long-term value creation and alignment with shareholder interests. The qualitative assessment is an integral piece of ISS' voting determination: in 2012 only 53% of companies that received a "high" concern under the quantitative assessment ultimately received a negative vote recommendation following ISS' review of qualitative elements discussed below.

Under the 2013 policy, realizable pay has been added as a qualitative factor to be considered, but only for "large cap" (*i.e.*, S&P 500) companies. It is important to note that ISS' consideration of realizable pay could either mitigate or exacerbate its PFP concerns. Ultimately, ISS consideration of realizable pay is a more discretionary screen used to test whether the company demonstrates a strong commitment to a PFP philosophy.

The list of factors for ISS' 2013 qualitative assessment now includes:

- The ratio of performance- to time-based equity awards;
- The overall ratio of performance-based compensation to fixed compensation;
- The robustness of disclosure and the rigor of performance goals;
- The company's peer group benchmarking practices;
- Actual results of financial/operational metrics, such as growth in revenue, profit, cash flow, etc., both absolute and relative to peers;
- Special circumstances, such as a new CEO in the prior fiscal year or anomalous equity grant practices (*e.g.,* biannual awards);
- ***Realizable pay compared to grant pay***; and
- Any other factors that ISS deems relevant.

ISS Definition of Realizable Pay

For <u>all</u> S&P 500 companies with annual meetings after February 1, 2013, ISS will include a new analysis in its report that compares CEO total realizable pay to granted pay for a 3-year measurement period. Reports issued in 2013, therefore, will compare pay data for fiscal years 2010 – 2012. If ISS identifies a "medium" or "high" concern on its quantitative review, it will include an additional assessment of realizable pay vs. granted pay in the company's report.

Under the ISS methodology, realizable pay is comprised of the following elements:

Compensation Element	ISS Methodology for Realizable Pay
Base Salary ***Bonus/Non-Equity Incentive Compensation*** ***Change in Pension Value/NQDC Earnings*** ***All Other Compensation***	As reported in the SCT for all years in the measurement period
Long-Term Cash Awards	• <u>For awards made and earned during measurement period</u>: Earned value • <u>For awards made during measurement period that remain in progress</u>: Target value
Share-Based Awards	• <u>For awards made and earned during measurement period</u>: Valued based on stock price as of end of measurement period, less any shares/units forfeited due to failure to meet performance criteria • <u>For awards made during measurement period that remain in progress</u>: Target value
Stock Options	• <u>For options granted and exercised during measurement period</u>: Net value realized • <u>For options granted but not exercised during measurement period</u>: Black-Scholes value, as computed by ISS, as of end of measurement period

ISS has indicated it sought to take a normative approach to realizable pay by using proxy-disclosed values, which are typically driven by grant-date pay. Where necessary inputs cannot be determined (*e.g.*, if it is unclear as to whether or not an award has been earned or forfeited during the measurement period), ISS will rely on target levels. In that vein, ISS has suggested that companies provide consistent disclosure of ongoing and/or completed performance-based equity awards, to eliminate the need for ISS to extract information from various locations in the proxy.

ISS provides the following table as an illustrative example:

Grant Date	Threshold Payout (#)	Target Payout	Maximum Payout	Performance Period*	Target/Actual Earned Date	Actual Payout
3/1/2009	100,000	150,000	200,000	1 year	6/1/2010	180,000
3/1/2010	150,000	200,000	250,000	3 years	6/1/2012	Not determined yet

* Performance period does not include time-vesting requirement

PM&P Observation: We believe the consideration of realizable pay is a step in the right direction by ISS, although it is unclear how much weight this factor will actually be given. We also caution that consideration of realizable pay will only be given to S&P 500 companies this year, so smaller companies should not rely on this factor to mitigate quantitative concerns yet.

Compensation Committees and recent proxy disclosures have increasingly focused on the value of considering realizable pay, and not just grant pay, in decision-making. We would, however, advise companies against trying to fit their consideration of realizable pay into the specific parameters specified by ISS.

Among the potential issues:

- Black-Scholes stock option valuations may not be appropriate for underwater options;
- Pension Value as reported may be grossly inflated due to fluctuating interest rates; and
- Target awards for cycles in progress may overinflate the amounts ultimately received by CEOs, if it remains entirely at risk.

As such, while companies should be cognizant of the ISS interpretation of realizable pay, we caution against letting it guide decision-making, or letting it dictate disclosures.

Say on Golden Parachute Advisory Vote

In 2013 ISS will expand its analysis to include legacy change-in-control (CIC) agreements in addition to evaluating new or extended arrangements. Specifically, the following features may result in an "against" recommendation, depending on their prevalence, magnitude and/or timing:

- Single-trigger or modified single-trigger cash severance;
- Single-trigger acceleration of unvested equity awards;
- Excessive cash severance (>3x base salary and bonus);
- Triggered and payable excise tax gross-ups (as opposed to a provision to provide excise tax gross-ups);
- Excessive golden parachute payments, either on an absolute basis or as a percentage of transaction equity value;

- Recent amendments that incorporate any problematic features (such as those above) or recent actions (such as extraordinary equity grants) that might render packages sufficiently attractive to influence merger agreements that may be contrary to shareholders' best interests; or
- The company's assertion that a proposed transaction is conditioned on shareholder approval of the golden parachute advisory vote.

Recent amendment(s) that incorporate problematic features will tend to carry more weight on the overall analysis, but the presence of multiple legacy problematic features will also be closely scrutinized.

> ***PM&P Observation:*** While not specifically cited by ISS as a modification, the 2013 policy takes a stronger position against single-trigger acceleration of unvested equity awards. In 2012, single-trigger vesting seemed to be disfavored only if it was coupled with a "liberal" CIC definition (*i.e.*, a CIC triggered by *approval* rather than *consummation* of the transaction). We anticipate that it may only be a matter of time before single-trigger equity acceleration and legacy excise tax gross-up features have a negative impact on SOP recommendations generally.

Hedging and Pledging of Company Shares

ISS views *hedging* (a strategy to offset or reduce the risk of price fluctuations, usually in the form of a covered call, collar or other derivative transaction) as a far more egregious practice than *pledging* (using company stock as collateral for a loan). For that reason ISS has zero tolerance for hedging activities: it views <u>any</u> hedging, but only <u>significant</u> pledging, of company shares by Directors or executives as a failure of Board risk oversight and governance. This failure may result in ISS issuing negative voting recommendations on Directors individually, on Committee members, or on the entire Board.

In determining whether the pledging is significant enough to lead to a negative vote recommendation, ISS will consider the following additional factors:

- Proxy disclosure of an anti-pledging policy that prohibits future pledging activity;
- The magnitude of aggregate pledged shares in terms of total common shares outstanding, market value or trading volume;
- Disclosure of progress or lack thereof in reducing the magnitude of aggregate pledged shares over time;
- Disclosure in the proxy statement that shares subject to stock ownership and holding requirements do not include pledged company stock; and
- Any other relevant factors.

> ***PM&P Observation:*** In an earlier draft of the guidelines, ISS categorized pledging as a poor pay practice that could lead to a negative recommendation on SOP. In its final update, ISS determined that significant pledging is more appropriately categorized as a failure in risk oversight than as a compensation program defect. It should be noted, however, that under its current policy, ISS already considers *hedging* of company stock to be a problematic pay practice for purposes of its SOP evaluation.

Sustainability

In the past, ISS voted against proposals that linked executive pay to "sustainability" (*i.e.*, environmental and social) criteria. Under the 2013 policy, ISS will issue its recommendations on such proposals on a case-by-case basis, with consideration given to the following factors:

- Whether the company has significant and/or persistent controversies or regulatory violations regarding social and/or environmental issues;
- Whether the company has management systems and oversight mechanisms in place regarding its social and environmental performance;
- The degree to which industry peers have incorporated similar non-financial performance criteria in their executive compensation practices; and
- The company's current level of disclosure regarding its environmental and social performance.

Within the context of this policy, ISS reiterated that it will continue to recommend voting against proposals calling for an analysis of the pay disparity between corporate executives and other non-executive employees, reasoning that it finds the value of such information unclear.

Board Response to Majority-Supported Shareholder Proposals

ISS will issue a negative voting recommendation in regard to individual Directors, Committee members or all Directors if the Board fails to act on a shareholder proposal that received the support of a majority of shares ***cast*** in the previous year. Under current policy, the negative recommendation was only triggered if the Board failed to act on a shareholder proposal that: (i) received the support of a majority of the ***outstanding*** shares in the previous year; or (ii) received the support of a majority of shares ***cast*** in the last year and one of the two previous years.

Unlike other modifications which are applicable for companies with annual meetings on or after February 1, 2013 this policy will be phased in as follows:

- For 2013, if the Board failed to act on a shareholder proposal that received the support of a majority of the shares outstanding the previous year;
- For 2013, if the Board failed to act on a shareholder proposal that received the support of a majority of shares cast in the last year and one of the two previous years; and
- For 2014, if the Board failed to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year.

ISS is looking for full implementation of the proposal, but will consider less than full implementation of the proposal on a case-by-case basis, taking into consideration the following:

- The proposal's subject matter;
- The previous level of shareholder support and opposition for the proposal;
- Disclosed shareholder outreach efforts in the wake of the vote;
- Board actions in response to its engagement with shareholders;
- The continuation of the underlying issue as a voting item on the ballot; and
- Other factors as appropriate.

Governance QuickScore

Overview

"QuickScore," a new ISS platform intended to produce quantitatively-driven data for identifying governance risk within companies, will evaluate companies based on their decile ranking relative to others in their home region. The new platform, which replaces the Governance Risk Indicators (GRId), will take effect for covered U.S. companies in late February/early March 2013.

Coverage

At launch, the regions below will be covered by QuickScore for the following companies:

- United States: the top 3,000 by market cap with the largest 500 compared separately from the remaining US coverage
- Canada: the top 250 companies by market cap
- Japan: all companies in the MSCI EAFE Index

Further expansion, including deeper coverage into some developed markets and into emerging markets, is planned for the second half of 2013.

Categories and Questions

Scoring will be applied over the same four "pillars" used for the GRId score, with several subcategories in each pillar. The U.S. subcategories are:

Board Structure (5)	Compensation (7)	Shareholder Rights (4)	Audit Practices (2)
• Board Composition • Committee Composition • Board Practices • Board Policies • Related Party Transactions	• Pay for Performance • Non-Performance Based Pay • Use of Equity • Equity Risk Mitigation • Communications & Disclosure • Termination • Controversies	• One Share One Vote • Takeover Defenses • Voting Issues • Voting Formalities	• External Auditor • Audit and Accounting Controversies

Specific questions within each subcategory for the U.S. market are listed in Appendix A.

A newly created Compensation subcategory for 2013 entitled "Controversies" is intended to capture practices that would either be considered "problematic" by ISS or that might negatively impact its qualitative pay review. At the same time, ISS eliminated the nine specific questions listed below from other Compensation sub-categories, which presumably have been subsumed into the new Controversies subcategory:

- *Did the company provide dividends on unvested performance shares in the last fiscal year?*
- *Has the company reimbursed NEOs for losses on sale of a home?*
- *Did the CEO receive tax gross-ups on perks other than relocation and other broad-based benefits?*
- *Did the company pay tax gross-ups on a secular trust?*
- *Are executives given credit toward pension for years not worked?*
- *If a new or amended broad-based plan is proposed, then what is the expected duration of shares?*

- *What is the basis for the CIC or severance payment for executives excluding the CEO?*
- *What is the multiple of salary plus bonus in the severance agreements for executives excluding the CEO (upon a CIC)?*
- *What is the amount of the CEO's estimated non-CIC severance amount as of the end of the last fiscal year, as a multiple of the executives' average salary + bonus over the past three years?*

Methodology

No detailed formula was disclosed for QuickScore, but the information available indicates that ISS will:

- Use a quantitative approach with specific weightings for each factor, based on its correlation with 16 key performance and risk metrics (with a higher correlation indicating a higher weighting), as follows:

Market (2)	Profitability (9)	Risk (2)	Valuation (3)
• Industry Adjusted TSR1Y • Tobin's Q	• Cash Flow ROI • 1-year Dividend Growth • EBITDA Margin • Free Cash Flow vs. Sales • Net Profit Margin • ROA, ROE & ROIC • 1-year Sales Growth	• Volatility • Z Score	• Price to Book Ratio • Price to Cash Flow Ratio • Price to Earnings Ratio

- Produce a numeric, decile-based score of a company's rank relative to companies in its region, with "1" indicating a higher raw score and lower governance risk. Companies will continue to be assessed on four "pillars" and receive an overall Governance QuickScore and assessment.
- High-level flagging within each subcategory will be provided, with green stars and red flags indicating positive and negative impact, respectively. These markers are given on an absolute basis (and are thus not indicative of actual scores, which are dictated on a relative region basis).

Data Verification Process

ISS gives companies an opportunity to verify the data used for the QuickScore platform, with the following key dates:

- <u>January 28</u>: ISS opened its data verification site for companies to review their data against the Governance QuickScore factors
- <u>February 8</u>: Companies that submit data verification requests prior to this date will receive ISS feedback no later than February 15 (submissions received after February 8 will receive feedback after product launch in late February or early March)
- <u>February 15</u>: ISS will close down the verification site until the product launch
- <u>Late February/early March</u>: Product launch, and verification site opens again

> ***PM&P Observation:*** The structure and criteria of QuickScore seem very similar to the GRId platform, with minor changes as noted above. As with GRId, ISS is elusive about the specific scoring and weightings associated with each governance factor. As a result, companies probably will not be able to check or calculate their QuickScore results without direct engagement with ISS. Thus, every company should begin immediately to review the information and data on

which ISS is basing its calculation, in order to respond before the verification site is closed on February 15[5].

2013 Burn Rates

ISS will vote against a new or amended equity plan if the company's 3-year average burn rate exceeds the greater of: (1) the mean plus one standard deviation of the company's GICS group segmented by Russell 3000 index and non-Russell 3000 index; and (2) 2% of the weighted common shares outstanding. The new 2013 policy guidelines continue to limit the annual changes in the threshold to plus or minus 2% of the previous year's thresholds.

Updated 2013 burn rate caps for Russell 3000 and Non-Russell 3000 GICS groups are shown below, alongside 2012 rates and the year-over-year changes:

Burn Rate Caps

		Russell 3000		Delta	Non-Russell 3000		Delta
GICS	**Description**	**2012**	**2013**		**2012**	**2013**	
1010	Energy	4.02%	4.57%	0.55%	7.46%	9.46%	2.00%
1510	Materials	3.08%	3.08%	0.00%	6.04%	8.04%	2.00%
2010	Capital Goods	2.93%	3.70%	0.77%	8.69%	6.69%	-2.00%
2020	Commercial & Professional Services	4.61%	4.74%	0.13%	5.81%	7.28%	1.47%
2030	Transportation	2.83%	3.21%	0.38%	2.88%	4.88%	2.00%
2510	Automobiles & Components	3.40%	3.28%	-0.12%	6.99%	7.60%	0.61%
2520	Consumer Durables & Apparel	4.81%	4.83%	0.02%	6.27%	7.01%	0.74%
2530	Consumer Services	5.81%	3.88%	-1.93%	6.99%	4.99%	-2.00%
2540	Media	5.56%	5.60%	0.04%	5.65%	6.29%	0.64%
2550	Retailing	4.02%	3.93%	-0.09%	6.62%	5.61%	-1.01%
3010, 3020,3030	Consumer Staples	3.03%	2.82%	-0.21%	7.17%	5.17%	-2.00%
3510	Health Care Equipment & Services	4.69%	5.09%	0.40%	11.92%	9.92%	-2.00%
3520	Pharmaceuticals & Biotechnology	7.49%	6.70%	-0.79%	12.58%	10.58%	-2.00%
4010	Banks	2.81%	2.75%	-0.06%	3.49%	2.28%	-1.21%
4020	Diversified Financials	9.15%	9.53%	0.38%	11.31%	9.56%	-1.75%
4030	Insurance	2.80%	3.02%	0.22%	2.31%	2.38%	0.07%
4040	Real Estate	2.34%	3.25%	0.91%	3.46%	3.09%	-0.37%
4510	Software & Services	7.76%	7.26%	-0.50%	11.58%	9.58%	-2.00%
4520	Technology Hardware & Equipment	5.73%	5.77%	0.04%	7.69%	8.53%	0.84%
4530	Semiconductor Equipment	5.83%	6.58%	0.75%	9.78%	10.55%	0.77%
5010	Telecommunications	6.50%	4.85%	-1.65%	9.08%	8.75%	-0.33%
5510	Utilities	2.00%	2.00%	0.00%	5.64%	4.99%	-0.65%

Among the 22 Russell 3000 CIGS groups, year-over-year change was a modest -.03% on average. Burn rate caps increased slightly for almost half of the Russell 3000 companies, notably by +.91% in Real

[5] The verification site can be found at: http://www.issgovernance.com/quickscore/dataverification

Estate. The largest decline in burn rate caps was in Consumer Services at -1.93%. The Non-Russell 3000 companies saw minor decline averaging -.28%, with biggest changes of +2.0% in three GICS groups and -2.0% in six GICS groups.

> ***PM&P Observation:*** ISS burn rate limits have fallen over time as the high volatility years prior to 2012 "age out" of the historical model. Therefore, companies that are making annual grants near the current limit could begin to encounter issues in future years.

Conclusion

While ISS made relatively few policy changes for 2013 compared to past years, particularly on the compensation side, the ramifications won't be fully known until the advisory group implements its new peer group methodology and its realizable pay analysis in making voting recommendations.

About Pearl Meyer & Partners

For more than 20 years, Pearl Meyer & Partners (www.pearlmeyer.com) has served as a trusted independent advisor to Boards and their senior management in the areas of compensation governance, strategy and program design. The firm provides comprehensive solutions to complex compensation challenges for multinational companies ranging from the Fortune 500 to not-for-profits as well as emerging high-growth companies. These organizations rely on Pearl Meyer & Partners to develop global programs that align rewards with long-term business goals to create value for all stakeholders: shareholders, executives, and employees. Pearl Meyer & Partners maintains U.S. offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, Los Angeles, San Francisco and San Jose, as well as an office in London.

Appendix A

QuickScore Compensation Questions for U.S. Markets
(Questions in red italics have been deleted from 2012 GRId)

Pay-for-Performance (5)

- What is the degree of alignment between the company's cumulative 3-year pay percentile rank, relative to peers, and its 3-year cumulative TSR rank, relative to peers?
- What is the degree of alignment between the company's cumulative 1-year pay percentile rank, relative to peers, and its 1-year cumulative TSR rank, relative to peers?
- What is the size of the CEO's 1-year cumulative pay, as a multiple of the median pay for company peers?
- What is the degree of alignment between the company's TSR and change in CEO pay over the past five years?
- What is the ratio of the CEO's total compensation to the next highest paid executive?

Non-Performance Based Pay (2)

- Are any of the NEOs eligible for multi-year guaranteed bonuses?
- What is the ratio of the CEO's non-performance-based compensation (All Other Compensation) to Base Salary?

- *Did the company provide dividends on unvested performance shares in the last fiscal year?*
- *Has the company reimbursed NEOs for losses on sale of a home?*
- *Did the CEO receive tax gross-ups on perks other than relocation and other broad-based benefits?*
- *Did the company pay tax gross-ups on a secular trust?*
- *Are executives given credit toward pension for years not worked?*

Use of Equity (7)

- Do the company's active equity plans prohibit share recycling for options/SARS?
- Do the company's active equity plans prohibit option/SAR repricing?
- Does the company's active equity plans prohibit option/SAR cash buyouts?
- Do the company's active equity plans have an evergreen provision?
- Do the company's active equity plans have a liberal CIC definition?
- Has the company repriced options or exchanged them for shares, options or cash without shareholder approval in the last three years?
- Does the company grant equity awards at an excessive rate, according to ISS policy?

- *If a new or amended broad-based plan is proposed, then what is the expected duration of shares?*

Equity Pay Risk Mitigation (10)

- Did the company disclose a claw back or malus provision?
- What are the minimum vesting periods mandated in the plan documents for executives' stock options or SARS in the equity plans adopted/amended in the last three years?

- What are the minimum vesting periods mandated in the plan documents adopted/amended in the last three years for executives' restricted stock?
- What is the holding period for stock options (for executives)?
- What is the holding period for restricted shares (for executives)?
- What proportion of the salary is subject to stock ownership requirements/guidelines for the CEO? Is the CEO subject to ownership guidelines?
- Are directors subject to stock ownership guidelines?
- Do all directors with more than one year of service own stock?
- Did any executive or director pledge company shares?
- Does the company have a policy prohibiting hedging of company shares by employees?

Communications and Disclosure (2)

- What is the level of disclosure on performance measures for the short-term incentive plan?
- What is the level of disclosure on performance measures for the latest active or proposed long-term incentive plan?

Termination (6)

- What's the trigger under the CIC agreements?
- What is the multiple of salary plus bonus in the severance agreement for the CEO (upon a CIC)?
- What is the basis for the CIC or severance payment for the CEO?
- Does the company provide excise tax gross-ups for CIC payments?
- What is the length of employment agreements with the CEO?
- Do equity based plans or long-term cash plans vest completely on a CIC?*****

- *What is the basis for the CIC or severance payment for executives excluding the CEO?*
- *What is the multiple of salary plus bonus in the severance agreements for executives excluding the CEO (upon a CIC)?*
- *What is the amount of the CEO's estimated non-CIC severance amount as of the end of the last fiscal year, as a multiple of the executives' average salary + bonus over the past three years?*

Controversies (2) (NEW)

- Has ISS' qualitative review identified a PFP misalignment?
- Has ISS identified a problematic pay practice or policy that raises concerns?

*****Previously grouped in "Use of Equity" subcategory in GRId but moved to Termination subcategory.

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