2013 U.S. Proxy Voting Policies and Procedures

Frequently Asked Questions

on Compensation

December 20, 2012

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Institutional Shareholder Services Inc.

2013 U.S. Policy, Procedures and Proxy Voting
Frequently Asked Questions on Compensation Policies
December 20, 2012

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US Executive Pay Overview

1. How many named executive officers' total compensation data are shown in the Executive Pay Overview section?

The executive compensation section will generally reflect the same number of named executive officer's total compensation as disclosed in a company's proxy statement. However, if six or more named executive officers' total compensation has been disclosed, only five will be represented in the section. The order will be CEO, second, third, fourth and fifth highest paid executive by total compensation. Current executives will be selected first, followed by terminated executives. Executives who are terminated after the end of the last fiscal year will be included, as they were executives within the past complete fiscal year.

2. A company's CEO has resigned and there is a new CEO in place. Which CEO is shown in the report?

Our report generally displays the CEO in office on the last day of the fiscal year.

3. How is Total Compensation calculated?

Total Compensation = Base Salary + Bonus + Non-equity Incentive Plan Compensation + Stock Awards*+ Option Awards**(based on full grant date values, as calculated by ISS) + Change in Pension Value and Nonqualified Deferred Compensation Earnings + All Other Compensation. The calculation will generally match the Summary Compensation Table with the exception of the stock option value and/or stock awards, described further below.

*Stock Awards - Grant date value, generally as reported in the Grants of Plan-Based Awards Table for any stock awards, including time-vested awards and performance shares. If the stock awards value is higher in the Summary Compensation than the grant date fair value shown in the Grants of Plan-Based Awards table, ISS will generally take the higher value in our report. If the stock awards disclosed in the Grants of Plan-Based Awards table reflect current rather than past fiscal year, ISS will not include the value in our report. Pursuant to SEC disclosure requirements, the Grants of Plan-Based Award values should reflect equity awards made in the past fiscal year. If the grant date value is not reported, the number of target units/shares multiplied by the closing stock price on the grant date will be calculated. The stock awards value should generally match for both the Summary Compensation Table and Grants of Plan-Based Awards Table.

**Option Awards - Grant date present value of options using Black-Scholes Option Pricing Model, as calculated by ISS (see #5).

4. What inputs are used in ISS' Black-Scholes methodology?

Variable	Item	Source	Comments
C	Option Value	Calculated	
S	Stock Price	Proxy	
E	Exercise Price	Proxy	
□	Volatility	XpressFeed	Historical three-year stock price volatility measured on a daily basis from the date of grant. If a company has not been publicly traded for at least three years, ISS measures volatility from the IPO date through grant date.

Q	Dividend Yield	XpressFeed	Average dividend yield over five years. If a company has not been publicly traded for at least five years, ISS averages dividend yield from the IPO date and the grant date of option. Dividend yield is based on each dividend divided by the closing stock price on the last business day before the dividend date. The calculation excludes the payouts of special dividend
R	Risk Free Rate	Dept of Treasury website	U.S. Government Bond Yield on the date of grant corresponding to the term of the option. For example, if the option has a 10-year term, the risk free rate is the 10-year U.S. Government Bond Yield on the date of grant.
T	Term/Expected Life	Proxy	Full term of the option.
E	Base of Natural Logarithm	N/A	N/A
Ln	Natural Logarithm	N/A	N/A
N(x)	Cumulative Normal Distribution Function	N/A	N/A

5. How is the present value of all accumulated pensions calculated in the CEO Tally Sheet table?

This figure represents the amounts disclosed as the present value of the benefits for all pension plans (including qualified and non-qualified), as disclosed in the Pension Benefit table of the proxy statement.

6. How is the value of Non-Qualified Deferred Compensation calculated in the CEO Tally Sheet table?

This figure represents the summation of all deferred compensation values, from both qualified and non-qualified plans, as disclosed in the Non-Qualified Deferred Compensation table.

7. How are Potential Termination Payments calculated in the CEO Tally Sheet table?

The values for an involuntary termination without cause and a change in control related termination are provided as disclosed under the relevant termination scenario in the Change in Control Table and/or narrative of the proxy statement.

Financial Data: Total Shareholder Return and Revenue

1. Where does ISS obtain a company's 1-year fiscal total shareholder return, 3-year fiscal total shareholder return, and revenue?

ISS obtains all financial data in the Compensation Profile from Standard & Poor's Research Insight.

2. How does Research Insight calculate 1-Year fiscal Total Shareholder Return (TSR)?

The one-year total shareholder return is the annualized rate of return reflecting price appreciation plus dividends (based on reinvestment as of the end of the month of the dividend payment) and the compounding effect of dividends paid on reinvested dividends over a one-year period.

3. How does Research Insight calculate 3-Year fiscal Total Shareholder Return (TSR)?

The three-year total shareholder return is the annualized rate of return reflecting price appreciation plus reinvestment of dividends (as described above) and the compounding effect of dividends paid on reinvested dividends over a three-year period.

4. How does Research Insight calculate company revenue?

Revenue is the gross sales (the amount of actual billings to customers for regular sales completed during the period) reduced by cash discounts, trade discounts, and returned sales and allowances for which credit is given to customers.

5. How does Research Insight calculate company net income (loss)?

Net income or loss is reported by a company after expenses and losses have been subtracted from all revenues and gains for the fiscal period including extraordinary items and discontinued operations.

6. Why is the CEO pay as percent of a company's revenue showing NA (not applicable)?

If a company's revenue is zero, the CEO pay as percent of a company's revenue will be NA.

7. Why is the CEO pay as percent of company's net income showing NA?

If a company's net income is zero or negative, the CEO pay as percent of a company's net income will be NA.

Management Say on Pay (MSOP) Evaluation

1. What is ISS' Executive Compensation Evaluation policy?

The Executive Compensation Evaluation policy consists of three sections: Pay for Performance, Problematic Pay Practices, and Board Communication and Responsiveness. Recommendations issued under the Executive Compensation Evaluation policy may apply to any or all of the following ballot items, depending on the pay issue (as detailed in the policy): Election of Directors (primarily compensation committee members), Advisory Votes on Compensation (MSOP), and/or Equity Plan proposals.

2. If a company has an MSOP resolution on the ballot, will ISS also apply compensation-related recommendations to members of the compensation committee who are up for election?

In general, if a company has an MSOP resolution on the ballot, any compensation-related recommendations will be applied to that proposal; however, if egregious practices are identified, or if a company previously received a negative recommendation on an MSOP resolution related to an issue that is still on-going, ISS may also recommend WITHHOLD/AGAINST votes with respect to compensation committee members.

3. If one or more directors received a negative recommendation in the prior year due to ISS' concerns over compensation practices will it have a bearing on the following year's recommendation?

If one or more directors received less than 50 percent of shareholders' support (regardless whether it is a compensation issue), ISS may recommend that shareholders withhold from the entire board with the exception of new nominees if the company fails to take adequate action to respond or remediate the issues raised in the previous report. If one or more directors received a high level of dissent (30 percent to 49.5 percent), the company should discuss any action or consideration taken to address the concern. A high level of dissent indicates an overall dissatisfaction and the board/committee should be responsive to shareholders' concerns. A lack of discussion or consideration, coupled with existing borderline concerns may have a bearing on the following year's recommendation.

Pay for Performance Evaluation

Please see ISS' "**Evaluating Pay for Performance Alignment**" white paper for an explanation of the quantitative methodology used in the first phase of this analysis, and a summary of the qualitative factors considered.

4. How does the initial quantitative pay for performance analysis affect the ultimate vote recommendation for Management Say on Pay proposals or election of compensation committee members (in the absence of management say on pay proposal)?

The quantitative pay for performance analysis serves as an initial screen of the company's pay for performance alignment. A high or medium concern from the quantitative screen results in an in-depth qualitative review of the company's Compensation Discussion & Analysis to identify the probable causes of the misalignment and/or mitigating factors. Subsequent to the qualitative review of the company's proxy statement, only 53% of the high concern companies resulted in negative vote recommendations during the 2012 proxy season, while 47% of the high concern companies received a favorable vote recommendation due to mitigating factors identified in the qualitative assessment.

5. What are the factors that ISS considers in conducting the qualitative review of the pay for performance analysis?

Here are key factors that ISS considers in conducting the qualitative review of the pay for performance analysis:

- Ratio of performance- to time-based equity awards;
- Overall ratio of performance-based compensation;
- The completeness of disclosure and rigor of performance goals;
- The company's peer group benchmarking process (e.g., whether it includes the presence of outsized peers or above-median benchmarking);
- Actual results of financial/operational metrics, such as growth in revenue, profit, cash flow, etc., both absolute and relative to peers;
- Special circumstances related to, for example, a new CEO in the prior fiscal year or anomalous equity grant practices;
- Realizable pay compared to grant pay; and
- Any other factors deemed relevant.

Relevant factors will be discussed in the report.

6. How does ISS use realizable pay in its analysis?

ISS' standard research report will show three-year realizable pay compared to the three-year granted pay for S&P 500 companies starting with Feb. 1, 2013 meeting dates. See question 7 below for ISS' definition of realizable pay and how it will be calculated.

Realizable pay will generally be discussed in cases where the company's initial quantitative screen shows a high or medium concern. For S&P 500 companies, we may utilize the realizable pay chart to see if realizable pay is higher or lower than granted pay and further explore the underlying reasons. For example, is realizable pay lower than granted pay due to the lack of goal achievement in performance based awards, or simply due to a decline in stock price? Is realizable pay higher than granted pay due to above target payouts in performance based equity awards and, if so, are the underlying goals sufficiently rigorous, or is the difference due to increasing stock price?

For all companies, ISS' consideration of realized and/or realizable pay is to assist in determining whether the company demonstrates a strong commitment to a pay-for-performance philosophy. The fact that realizable pay is lower, or higher, than grant-date pay will not necessarily obviate other strong indications that a company's compensation programs are not sufficiently tied to performance designed to enhance shareholder value over time. However, in the absence of such indications, realizable pay that demonstrates a pay-for-performance commitment will be a positive consideration. .

7. How is Realizable Pay for large cap companies computed?

ISS' goal is to calculate an estimated amount of "realizable pay" for the CEOs of S&P 500 companies. It will include the amounts actually paid or realized, or the current value of incentive grants made, during a specified measurement period*, as of the end of that measurement period.

Realizable pay will include all non-incentive compensation amounts paid over the measurement period, plus the value of equity or long-term cash incentive awards made during the period and either earned or, if the award remains on-going, revalued at target level as of the end of the measurement period. The total realizable value for these grants and payments will thus be the sum of the following:

- Base salary reported for all years in the measurement period;
- Bonus reported for all years;
- Short-term (typically annual) awards reported as Non-equity Incentive Plan Compensation for all years;
- For all prospective long-term cash awards made during the measurement period, the earned value of the award (if earned during the same measurement period) or its target value in the case of on-going award cycles;
- For all share-based awards made during the measurement period, the value (based on stock price as of the end of the measurement period) of awards made during the period (less any shares/units forfeited due to failure to meet performance criteria); or, if awards remain on-going, the target level of such awards;
- For stock options granted during the measurement period, the net value realized with respect to such granted options which were also exercised during the period; for options granted but not exercised during the measurement period, ISS will re-calculate the option value, using the Black-Scholes option pricing model, as of the end of the measurement period;
- Change in Pension Value and Nonqualified Deferred Compensation Earnings reported for all years; and
- All Other Compensation reported for all years.

*Generally three fiscal years, based on the company's fiscal year. For realizable pay calculated as part of ISS' 2013 analyses, this will generally consist of fiscal years 2010 through 2012.

Note that ISS' realizable pay amount will be based on a consistent approach, using information from company proxy disclosures. Since current SEC disclosure rules are designed to enumerate "grant-date" pay rather than realizable pay, these estimates will be based on ISS' best efforts to determine necessary inputs to the calculation. In cases where, for example, it is not sufficiently clear whether an applicable award has been earned or forfeited during a measurement period, ISS will use the target award level granted.

8. Why doesn't ISS use the intrinsic value (exercise price minus current market price) of stock options when calculating realizable pay?

Top executives' stock options typically expire after seven to 10 years, meaning that even if an option is underwater in the first few years after its grant, there is a substantial likelihood it will ultimately deliver some value to the holder prior to expiration. Shareholders recognize that in considering "realizable" pay as a pay-for-performance factor, it is important to include the economic value of underwater options (which will also reflect the impact of a lower stock price, if applicable).

9. A company would like to disclose ongoing and/or completed performance-based equity awards for awards made in the past three years. What type of disclosure format would ISS suggest?

Disclosure of ongoing or completed performance-based equity awards in a consistent manner would facilitate ISS' calculation of realizable pay (which is based on a best efforts extraction of necessary information from proxy statements). If a company has awarded performance-based equity awards in the past three years, disclosure of the awards in the following table would be helpful:

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.

10. With respect to pay-for-performance alignment, how will ISS treat CEOs who have not been in the position for three years?

The quantitative methodology will analyze total CEO pay for each year in the analysis without regard to whether all years are the same or different CEOs. If that analysis indicates significant pay for performance misalignment, the ensuing qualitative analysis may take into account any relevant factors related to a change in CEO during the period. However, given an apparent disconnect between performance and CEO pay, shareholders would expect the new CEO's pay package to be substantially performance-based.

For years when a company has more than one CEO, we will use only one CEO’s pay: the CEO who was in the position at the end of the fiscal year will generally be the one whose pay will be used. The base salary for the CEO will be annualized.

11. How are the one-year and three-year total shareholder returns (TSRs) calculated? How are "peaks and valleys" accounted for in the five-year analysis?

Under the relative assessment, the one- and three-year TSRs represent annualized rates of return reflecting stock price appreciation over the period, plus the impact of reinvestment of dividends (and the compounding effect of dividends paid on reinvested dividends).

Under the absolute assessment, indexed TSR represents the value of a hypothetical $100 investment in the company, assuming reinvestment of dividends. The investment starts on the day five years prior to the month-end closest to the company’s most recent fiscal year end, and is measured on the subsequent five anniversaries of that date. The Pay- TSR Alignment (PTA) measure (as outlined in the ISS Evaluating Pay for Performance Alignment white paper) is designed to account for the possibility of "bumps" in the overall trend.

The following table illustrates how indexed TSR would be calculated for a company with a fiscal year end of October 2, 2011, and how indexed TSR relates to annual total shareholder returns:

Date	Annual TSR	Indexed TSR
9/30/2006	-	100
9/30/2007	9.0%	109

9/30/2008	8.3%	118
9/30/2009	-22.9%	91
9/30/2010	8.8%	99
9/30/2011	5.1%	104

12. What TSR time period will ISS use for the subject company and the peers in the Pay for Performance analysis? What about the compensation period?

TSRs for the subject company and all its peers are measured from the last day of the month closest to the subject company's fiscal year end. For example, if the subject company's fiscal year end is Dec 31, then the one-year and three-year TSRs for the subject company and its peers will be based on Dec 31. Compensation figures for all companies are as of the latest available date.

13. For companies with meetings early in the year, whose latest year peer CEO 2011 pay has not yet been released, what pay data does ISS use?

ISS uses the latest compensation data available for the peer companies, which may be from the previous year.

14. Do you include the subject company in the derivation of the peer group median? When you say 14 companies minimum for peers, does the 14 include the subject company?

No, neither the CEO pay nor the TSR of the subject company is included in the median calculation. The subject company is also not included in the number of peer companies, which will generally be a minimum of 14.

15. What impact might an adverse pay-for-performance recommendation have on equity plans proposals?

If a significant portion of the CEO's misaligned pay is attributed to non-performance-based equity awards, and there is an equity plan on the ballot with the CEO as one of the participants, ISS may recommend a vote AGAINST the equity plan. Considerations in recommending AGAINST the equity plan may include, but are not limited to:

- Magnitude of pay misalignment;
- Contribution of non-performance-based equity grants to overall pay; and
- The proportion of equity awards granted in the last three fiscal years concentrated at the named executive officer level.

A concentration ratio for the top 5 that exceeds 25% would warrant additional scrutiny. We would look at both the CEO and the top 5 concentration ratios. If the CEO has less than 20% but the top five has 50% due to a new hire situation, it is unlikely that we would recommend against equity plan. We would also look at the past three years of concentration ratio with and without CEO. Is the concentration high due to the CEO or is there more/less equal distribution among the key exec? Is the LTI program similar for the CEO and the top 5? Are there performance features for the equity awards and is it the same for all top five? Are the performance goals sufficiently rigorous?

16. If a company has not been publicly traded for five fiscal years, does the quantitative Pay-for-Performance evaluation still apply? What if the company has not been publicly traded for three fiscal years? Would such a company be used as a peer company for other companies?

If the company has not been publicly traded for five fiscal years, the relative assessment, specifically the relative one-year and three-year TSR pay and performance rank and the multiple of pay against the peer median, will still apply.

If the company has not been publicly traded for three fiscal years, the one-year pay and performance ranking and the multiple of pay against the peer median will still apply if the company has been public at least one year.

In both cases, the company's limited life as a publicly traded company will be considered as part of any qualitative evaluation.

Generally, only companies with three full years of data will be peer companies. In limited circumstances, a company with less than 3 years of data may be used when the quantitative evaluation focuses on only one year.

17. Will "pay" continue to be defined as summary compensation table pay or consider the current value of LTIs (potential realizable pay)?

Total compensation calculated by ISS will continue to be defined as granted pay and pay opportunities, for a number of reasons but including that: 1) it is the best reflection of the compensation committee's oversight and decision-making, and 2) pay opportunities should be reflective of the company's past performance to some degree – in particular, if the opportunity appears to be misaligned with that performance (in a negative way), shareholders expect those grant opportunities to be strongly performance-based. Realized or potentially realizable pay will be considered as part of ISS' qualitative evaluation of pay-for-performance alignment.

18. With the discount rate at its lowest, the calculated value of pension benefits has increased. Will ISS take this into account in their assessment of CEO pay?

Because ISS' quantitative analysis has a long-term orientation, year-to-year pay anomalies such as an increase in year-over-year pension accumulations, are not expected to have a significant impact on the results. However, such anomalies may be considered in the qualitative evaluation conducted before a negative recommendation would be issued.

19. ISS has recommended withholds on a company's compensation committee or recommended against a company's management say on pay or equity plan proposal on the basis of a CEO pay for performance disconnect. What actions can the company take to address the concerns?

The pay for performance evaluation is a case-by-case analysis, and actions should be tailored according to the underlying issues identified in the pay for performance disconnect. Prospective commitments to increase the proportion of performance-based pay in the future will not adequately address concerns; adjustment to recent awards to strengthen their performance linkage may be considered, however. As an example, if the primary source of pay increase is due to time-vested equity awards, a remedy could be for the company to make a substantial portion of such equity awards to named executive officers performance-based. A substantial portion of performance-based awards would be at least 50 percent of the shares awarded to each of the named executive officers. Please note that this is 50 percent of the shares awarded rather than 50 percent of the value of the awards. Performance-based equity awards are earned or paid out based on the achievement of pre-established, measurable performance targets.

The company should disclose the details of the performance criteria (e.g., return on equity) and the hurdle rates (e.g., 15 percent) associated with the performance awards at the time they are made. From this disclosure, shareholders will know the minimum level of performance required for any equity grants to be earned. In this context, strongly performance-based equity awards do not include standard time-based stock options or performance-accelerated grants. Instead, performance-based equity awards are performance-contingent grants, where the individual will not receive the equity grant if target performance is not achieved. Premium-priced options with an exercise price at least 25 percent higher than the fair market stock price on the date of grant may be considered performance-based. The 25 percent premium should serve as a guideline rather than a bright line test. A 25 percent premium may not be rigorous for a company trading at $1.00. If option vesting is contingent on the stock reaching a specified price, the price condition should be maintained for at least 30 consecutive trading days before vesting.

In order for shareholders to assess the rigor of the performance-based bonus and equity programs, the company needs to disclose the performance measures and goals. To ensure complete and transparent disclosure, the company should disclose the following:

1. the measures(s) used (and rationale for the selections);
2. the goal(s) that were set for each metric and the target (and, if relevant, threshold and maximum) payout level(s) set for each NEO;
3. the reason that each goal was determined to be appropriate for incentive pay purposes (including the expected difficulty of attaining each goal);
4. the actual results achieved with respect to each goal; and
5. the resulting award (or award portion) paid (or payable) to the NEO with respect to each goal.

The pay-for-performance action must be made in a public filing, such as a Form 8-K or DEFA 14A. Based on the additional disclosure, ISS may recommend a vote FOR the compensation committee members up for annual election and/or vote FOR the management say on pay or equity plan proposal, if there is one on the ballot. However, ISS is not likely to recommend a vote FOR the compensation committee members and/or vote FOR the management say on pay or equity plan proposal if ISS believes the company has not provided compelling and sufficient evidence of action to strengthen the performance-linkage to its executives' compensation and comprehensive additional disclosure.

20. A company makes equity grants near the beginning of each year based on an evaluation of the company and/or the executive's performance in the immediately preceding year. Such grant information will appear in the following year's proxy statement. Will ISS take into account the timing of these early equity grants made in the current fiscal year and make adjustments to the top executives' total compensation when conducting its pay-for-performance evaluation?

Such timing issue can be problematic for investors evaluating the relationship between performance and pay. The value of equity grants generally represents a significant proportion of top executives' pay; if the grants are made subsequent to the "performance" year, disclosures in the Grants of Plan-Based Awards Table may distort the pay-for-performance link.

Some investors believe that equity awards can incentivize and retain executives for past and future performance; therefore, adjustments for such timing issues may not be relevant. In addition, ISS' pay-for-performance analysis has a long-term orientation, where these types of timing issues are less relevant than an evaluation of one year's pay. Nevertheless, ISS may consider the timing of equity awards made early in a fiscal year in its qualitative assessment if complete disclosure and discussion is made in the proxy statement. In order to ensure that pay-for-performance alignment is perceived, the company should discuss the specific pre-established performance measures and goals that resulted in equity awards made early in the next fiscal year. A general reference to last year's performance is not considered sufficient and meaningful to shareholders. If the company makes equity grants early in each year, based on the prior year's specific performance achievement, shareholders should not be required to search for the information in Form 4s and compute the adjusted total compensation for the top executives in order to make a year-over-year comparison. Instead, companies should provide information about grants made in relation to the most recently completed fiscal year in the proxy statement for the shareholder meeting that follows that fiscal year (aligned with other compensation reported for that year). Many companies provide an alternate summary compensation table that takes into account the recent equity awards made in the current fiscal year. The number of options or stock awards with the relevant exercise price or grant price should be disclosed in the proxy statement. The term of the options should be provided as well. In order for ISS to compute the adjusted total compensation and include it for purposes of our narrative discussion and analysis, companies need to make transparent and complete disclosure in the proxy statement; ISS will not search for the companies' Form 4 filings to make such adjustments but will rely on the specific grant disclosures found in the proxy statement.

21. With respect to pay-for-performance alignment, how does ISS treat CEOs who have not been in the position for three years?

ISS' quantitative methodology analyzes total CEO pay for each year in the analysis without regard to whether all years represent the same or different CEOs. If that analysis indicates significant pay for performance misalignment, the ensuing qualitative analysis may take into account any relevant factors related to a change in CEO during the period. However, given an apparent disconnect between performance and CEO pay, shareholders would expect the new CEO's pay package to be substantially performance-based.

For years when a company has more than one CEO, we will use only one CEO's pay: the CEO who was in the position at the end of the fiscal year will generally be the one whose pay will be used. The base salary for a recruited CEO will be annualized.

Determining Peer Companies

22. How does ISS select constituents for the peer groups used in its Pay-for-Performance analysis?

As of 2013, ISS' methodology for selecting peers maintains its focus on identifying companies that are reasonably similar to the subject company in terms of industry profile, size, and market capitalization, taking into account a company's self-selected peers to guide industry selections.

ISS' selected peer group generally contains a minimum of 14 and maximum of 24 companies based on the following factors:

1) the GICS industry classification of the target company
2) the GICS industry classifications of the company's disclosed benchmarking peers
3) size constraints for both revenue (or assets for certain financial companies) and market value.

Subject to the size constraints, and while choosing companies that push the subject company's size closer to the median of the peer group, peers are selected from a potential peer universe <u>in the following order</u>:

1. from the subject's own 8-digit GICS group
2. from the subject's peers' 8-digit GICS groups
3. from the subject's 6-digit GICS group
4. from the subject's peers' 6-digit GICS groups
5. from the subject's 4-digit GICS group

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

23. What are some ways that the peer groups constructed via ISS methodology implemented for 2013 differ from ISS' previous peer groups?

The following table outlines some of the characteristics of the projected 2013 peer groups (based on most recent disclosure as of September 2012) relative to prior peer groups:

	New Methodology (as of 2013)	**Prior Methodology**
GICS Precision – 8-digit	The average company has more than 80% of potential ISS peer selections based on the company's 8-digit GICS or the 8-digit GICS groups of self-selected peers	Approximately 40% of peers are based on the company's 8-digit GICS group

GICS Precision – 2 digit	No potential peer groups have members based on 2-digit GICS	12% of peer groups have members based on 2-digit GICS
Similarity with company's selected peers	42% of companies have a potential ISS peer group that overlaps at least 50% of their own. On average, potential ISS peer groups contain 44% of the company's self-selected peers.	Approximately 20% of companies have an ISS peer group that overlaps at least 50% of their own.
Size comparison	Over 90% of potential ISS peer groups maintain the subject within 20% of the peer group median size	82% of peer groups maintain the subject company within 20% of the peer group median size

24. Will a company's self-selected peers always appear in the ISS peer group, if they meet ISS' size constraints?

No. While the new methodology does place a priority on the company's own peer selections, there are a number of reasons why a company selected peer may not appear in the final ISS list, even if it meets the relevant size (revenue or assets and market capitalization) constraints. As noted above, the new methodology also places priority on other factors as it builds the peer group:

- The company's own 8-digit GICS category
- Maintaining the subject company size at or near the median of its peer group
- Maintaining the approximate distribution of GICS industry codes as reflected in the company's self-selected peer group

As a result, at times including a company's self-selected peer may push the subject company away from the median, or lead to an overrepresentation of that industry within the final peer group. In these cases the company's self-selected peer may not be included. In addition, if a company's self-selected peer is the only peer company in its 6- and 8-digit GICS category, it will receive a lower priority in the peer selection process.

25. What are ISS' size parameters for qualifying a potential peer?

ISS applies two size constraints to qualify potential peers:

1. Revenue (or assets for certain financial companies, as noted below)
   In general companies should fall in the range 0.4 to 2.5 times the company's revenue (or assets). These ranges are expanded when the subject company's revenue is larger than $10 billion or smaller than $200 million in revenue (assets). Companies smaller than $100 million in assets are treated as if they have $100 million in assets.

2. Market capitalization (in millions)
   Companies are classified into market capitalization buckets as follows:

Bucket	Low end	High end
Micro	0	200
Small	200	1,000

Mid	1,000	10,000
Large	10,000	No cap

While ISS may choose peers that fall outside a subject company's market cap bucket if necessary to reach a minimum peer group size, none may have a market cap of less than 0.25 times the low end or more than 4 times the high end of the subject's market capitalization bucket.

26. Which industry groups will be use assets for size comparisons? What happens when a company has potential peers in both asset-based and revenue-based industry groups?

ISS will use balance sheet assets (rather than revenue) to measure the size of companies in the following 8-digit GICS groups

- 40101010 Commercial Banks
- 40101015 Regional Banks
- 40102010 Thrifts + mortgage
- 40202010 Consumer Finance
- 40201020 Other diversified

Both subject and potential peer must be in the asset-based GICS groups listed above in order to be compared on the basis of assets. In cases where a subject company is in one of the asset-based GICS groups and a potential peer is not, revenues will be used for size comparisons. This principle applies to the size comparisons made to qualify a peer for potential inclusion as a peer, to the size rankings made to maintain the subject company near the median size of the peer group, and to the size prioritization of peers

27. When will a company's peer group have more than 14 members?

In general, the closer the industry match, the larger the subject size of the peer group: for direct matches to the company's own 8-digit GICS, as many as 24 peers may be chosen. For matches of the company's peers' 8-digit GICS, as many as 18 peers may be chosen, falling to a maximum of 14 peers when choosing from the company's 4-digit GICS. More peers, however, may be selected in order to bring the target company's size closer to the median of its peers.

28. If the standard methodology fails to yield the minimum number of acceptable peers, what peer group will be used? How will ISS create peer groups for very large "super-mega" companies for 2013?

In general, ISS will supplement the peer group generated by the standard methodology in such cases. For larger "super-megacap" companies, ISS will use the standard methodology to identify as many peers as possible for these very large companies. In cases where this does not provide a sufficient number of peers, ISS will supplement these peer groups according to the principles above.

In exceptional cases, the ISS peer group may contain a minimum of 12 constituents.

29. How does ISS treat foreign-domiciled or privately-held company peers?

ISS uses these peers for the purpose of identifying relevant GICS industry groups, if relevant industry data is readily available. Foreign-domiciled companies that file Def14A, 10-Qs, and 10-Ks may be included as ISS selected peers. Privately-held or other foreign-domiciled companies that do not make such filings are not included as ISS selected peers.

30. If a company used multiple peer benchmarking groups, which group will ISS use as an input to the process? What does ISS do if a company does not employ a peer group for benchmarking?

ISS uses the company peer group that is used for CEO pay benchmarking purposes. If there is no peer group employed, the peer methodology will draw peers from the company's own 8-, 6- and 4-digit GICS groups, subject to ISS' size constraints.

31. Does ISS apply additional judgment in the process of building peer groups?

ISS may adjust any peer groups that appear to have inappropriate constituents at the time of our analysis. The basic principles of the methodology will still apply: peers should come from similar industries and be of similar size, and company peers should be prioritized where possible.

32. What impact will peer group methodology changes have on the pay-for-performance quantitative screen?

ISS' preliminary back-testing indicates that more than 80 percent of companies would experience a change of less than 15 points (up or down) in their Relative Degree of Alignment (RDA) measure under the new methodology, compared to the current peer methodology. Similarly, 80 percent of companies would experience a change of less than 0.2 in their Multiple of Median (MOM) measures under the new methodology. Accordingly, for the overwhelming majority (>95%) of companies, the quantitative screen concern levels would not be affected by the new peer groups.

In addition, the overall distribution of these RDA and MOM measures under the new methodology does not deviate significantly from the current distribution of these scores.

33. When will ISS reconstruct peer groups?

Company peer groups will be reconstructed during July and August, after the Russell 3000 index is updated in July. Expectation is that any revisions to company peer groups, which are not anticipated to be significant, will be in place for research in process as of September 1 (generally affecting companies that have filed DEF14As after mid August). A subsequent peer group construction will occur in December and early January, effective for meetings as of February 1.

34. In December 2012, ISS provided companies an opportunity to communicate any changes made to their benchmarking peer groups following their 2012 proxy disclosures. Will companies with later fiscal year-ends that did not know at that time what changes they were making to peer groups used with respect to fiscal 2012 compensation decisions also have an opportunity to communicate changes?

Yes, ISS will provide a similar opportunity after proxy season, prior to reconstruction of its peer groups per above, for companies with later meetings.

35. Can only Russell 3000 companies be used as peer companies? Will ISS use companies that an issuer considers as peers (specified in the proxy) to develop the ISS comparator group?

If a Russell company discloses the names of the companies that it uses as its peers, and these companies are public, ISS will collect the data on them even if they are not in the Russell 3000. If these companies fit ISS' criteria for peers, then they may be used as ISS peers as of the next update of ISS peer groups.

36. What are GICS codes? Who can I contact if I disagree with the GICS classification?

The Global Industry Classification Standard (GICS) was developed by Standard & Poor's and MSCI in response to the financial community's need for a reliable, complete (global) standard industry classification system. GICS codes correspond to various business or industrial activities, such as Oil & Gas Drilling or Wireless Telecommunication Services. GICS is based upon a classification of economic sectors, which is further subdivided into a hierarchy of industry groups, industries and sub-industries. The GICS methodology is widely accepted as the industry analysis framework for investment research, portfolio management, and asset allocation.

ISS does not classify companies into the GICS codes. Please contact Standard & Poor's at 1-800-523-4534 if you believe that a company has been misclassified.

37. Are the same peer companies used for a company's allowable cap on an equity plan proposal (as used under the pay-for-performance analysis)?

No, the list of companies shown in the executive compensation section is not the same peer group used in calculating a company's allowable cap on an equity plan proposal. The peer group used for benchmarking executive pay is based on a combination of industry and size (revenue/assets and market cap); the peer group used for creating the allowable cap calculations for stock-based compensation is based on industry, with adjustments for market cap size.

38. How are peer medians calculated for the Components of Pay table?

The median is separately calculated for each component of pay and for the total annual compensation (TC). For this reason, the median total compensation of the peer CEOs will not equal the sum of all the peer median pay components, because the values are calculated separately for each pay component; the median TC reflects the median of TC of the peer group constituents.

Problematic Pay Practices/Commitments on Problematic Pay Practices

1. What is ISS' Problematic Pay Practices evaluation?

Pay elements that are not directly based on performance are generally evaluated on a CASE-BY-CASE basis considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. The list below highlights the problematic practices that carry significant weight in this overall consideration and may result in adverse vote recommendations:

- Repricing or replacing of underwater stock options/SARS without prior shareholder approval (including cash buyouts and voluntary surrender of underwater options);
- Excessive perquisites or tax gross-ups, including any gross-up related to a secular trust or restricted stock vesting;
- New or extended agreements that provide for:
  - CIC payments exceeding 3 times base salary and average/target/most recent bonus;
  - CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers);
  - CIC payments with excise tax gross-ups (including "modified" gross-ups).

2. Would an agreement which is automatically extended (e.g., an evergreen feature) but is not modified warrant a negative vote recommendation if it contains a problematic pay practice)?

Automatically renewing/extending agreements (including agreements that do not specify any term) are not considered a best practice, and existence of a problematic practice in such a contract is a concern. However, if an "evergreen" agreement is not materially amended in manner contrary to shareholder interests, it will be evaluated on a holistic basis, considering a company's other compensation practices along with features in the existing agreement.

3. The policy lists the most problematic practices. What is the full list of pay practices that are considered problematic and may result in a withhold or against recommendation, on a case-by-case basis?

Based on input from client surveys and roundtables, ISS has identified certain adverse practices that are contrary to a performance-based pay philosophy, which are highlighted in the list below.

- Egregious employment contracts:
  - Contracts containing multi-year guarantees for salary increases, non-performance based bonuses, or equity compensation.

- New CEO with overly generous new-hire package:
  - Excessive “make whole” provisions without sufficient rationale;
  - Any of the problematic pay practices listed in this policy.
- Abnormally large bonus payouts without justifiable performance linkage or proper disclosure:
  - Includes performance metrics that are changed, canceled, or replaced during the performance period without adequate explanation of the action and the link to performance
- Egregious pension/SERP (supplemental executive retirement plan) payouts:
  - Inclusion of additional years of service not worked that result in significant benefits provided in new arrangements
  - Inclusion of performance-based equity or other long-term awards in the pension calculation
- Excessive Perquisites:
  - Perquisites for former and/or retired executives, such as lifetime benefits, car allowances, personal use of corporate aircraft, or other inappropriate arrangements
  - Extraordinary relocation benefits (including home buyouts)
  - Excessive amounts of perquisites compensation
- Excessive severance and/or change in control provisions:
  - Change in control cash payments exceeding 3 times base salary plus target/average/last paid bonus;
  - New or materially amended arrangements that provide for change-in-control payments without loss of job or substantial diminution of job duties (single-triggered or modified single-triggered, where an executive may voluntarily leave for any reason and still receive the change-in-control severance package);
  - New or materially amended employment or severance agreements that provide for an excise tax gross-up. Modified gross-ups would be treated in the same manner as full gross-ups;
  - Excessive payments upon an executive's termination in connection with performance failure;
  - Liberal change in control definition in individual contracts or equity plans which could result in payments to executives without an actual change in control occurring
- Tax Reimbursements: Excessive reimbursement of income taxes on executive perquisites or other payments (e.g., related to personal use of corporate aircraft, executive life insurance, bonus, restricted stock vesting, secular trusts, etc; see also excise tax gross-ups above)
- Dividends or dividend equivalents paid on unvested performance shares or units.
- Internal pay disparity: Excessive differential between CEO total pay and that of next highest-paid named executive officer (NEO)
- Repricing or replacing of underwater stock options/stock appreciation rights without prior shareholder approval (including cash buyouts, option exchanges, and certain voluntary surrender of underwater options where shares surrendered may subsequently be re-granted).
- Other pay practices that may be deemed problematic in a given circumstance but are not covered in the above categories.

4. Why does ISS now consider hedging and pledging of company stock under its policy framework for the election of directors, rather than under the problematic pay practices policy?

In considering new policy related to the significant pledging of company stock, ISS obtained market feedback from our policy survey, roundtables, comment letters, and other means. While shares that are used by executives or directors who engage in hedging or pledging transactions often have been acquired via compensation programs, many investors expressed the view that the board is specifically responsible for setting policies related to risks to shareholder value. Since both hedging and pledging raise such risks, ISS decided to move this aspect of the policy to the appropriate section, election of directors, where it will be evaluated under the Egregious Actions framework.

5. How does ISS view hedging or significant pledging of company stock by an executive or director?

Hedging is a strategy to offset or reduce the risk of price fluctuations for an asset or equity. Stock-based compensation or open market purchases of company stock should serve to align executives' or directors' interests with shareholders.

Therefore, hedging of company stock through covered call, collar or other derivative transactions sever the ultimate alignment with shareholders' interests. Any amount of hedging will be considered a problematic practice warranting a negative vote recommendation against appropriate board members. Please see the Frequently Asked Questions (excluding Compensation) – Board Accountability for more insight on ISS policy in this regard.

6. *After its most recently completed annual and/or long-term performance cycle ended with no payout (due to failure to achieve goals), a company granted retention awards of cash or equity to executives. How would ISS view such awards?*

Investors do not expect boards to reward executives when performance goals are not achieved, whether by "moving the goalposts" (i.e., lowering goals) or granting other awards to compensate for the absent incentive payouts. They recognize, however, that retention of key talent may be critical to performance improvements and future shareholder value. Companies that grant special retention awards of cash or equity to executives when regular incentive plan goals are not met should provide clear and compelling rationale in their proxy disclosure. Awards of cash should be conservative and reflect the fact that performance is lagging (i.e., should generally be significantly less than unearned target award levels). Optimally, "extra" awards designed to encourage retention should also include performance conditions that will ensure strong alignment of pay and performance going forward and avoid "pay for failure" scenarios if the executive is not retained.

7. *Does the presence of single trigger vesting acceleration in an equity plan result in an automatic AGAINST recommendation for the plan, the say on pay vote, the entire compensation committee, or the full board?*

There are no “automatic” negative recommendations under ISS policy. We will consider all relevant aspects included with the company’s ultimate disclosure. With regard to equity-based compensation, ISS policy encourages “double trigger” vesting of awards after a CIC (considered best practice).

In the absence of double-triggered vesting, the current preferred practice is for the board to have flexibility to determine the best outcome for shareholders (e.g., to arrange for outstanding grants to be assumed, converted, or substituted), rather than the plan providing for *automatic* accelerated vesting upon a CIC.

Equity plans or arrangements that include a liberal CIC definition (such as a very low buyout threshold or a CIC occurring upon shareholder approval of a transaction, rather than its consummation), coupled with a provision for automatic full vesting upon a CIC, are likely to receive a negative recommendation.

8. *While guaranteed multi-year incentive awards remain problematic, is providing a guaranteed opportunity for what ISS considers a performance-based vehicle acceptable?*

While guaranteeing any executive pay elements (outside of salary and standard benefits) is not considered best practice, the fact that the payout of such an award would ultimately depend on performance attainment (i.e., no payout would occur if performance is below a specified standard), assuming the performance hurdles appear reasonably, robust would generally mitigate concerns about the guaranteed award opportunity.

9. *Are material amendments other than extensions of existing contracts a trigger for analysis with respect to problematic existing contract provisions?*

Shareholders are concerned with the perpetuation of problematic practices; thus, agreements that are extended or new will face the highest scrutiny and weight in ISS' analysis. Material amendments will be considered an opportunity for the board to fix problematic issues, but as part of the holistic analysis.

10. ***In 2009, in response to an ISS vote recommendation, a company adopted a policy prohibiting payments of tax gross-ups made on life insurance premiums in new or amended agreements. Certain officers were grandfathered at that time, and they continue to receive such payments. Is that policy, which ISS approved, to no longer be honored by ISS?***

All factors are weighed in the holistic analysis; including existing agreements, commitments, and continuing practices of the company. However, unless the existing contracts are extended, they do not rise to the level of the most problematic practices.

11. ***Will commitments entered into in 2010 or prior, before ISS announced its policy not to consider forward-looking commitments for the 2011 Proxy Season, be "grandfathered"?***

Commitments not to enact problematic features in future agreements will no longer mitigate the enacting of problematic pay practices in new or amended agreements during the prior fiscal year.

12. ***If a company put excise tax gross-ups in new agreements in the last fiscal year, what action can they take to prevent an against recommendation from ISS?***

The company can remove that provision from the new agreements.

Frequency of Advisory Vote on Executive Compensation

1. ***In the event that a company's board decides not to adopt the say on pay vote frequency supported by a plurality of the votes cast, what are the implications in terms of ISS' voting recommendations at subsequent meetings?***

Per 2012 policy, if the board adopts a longer frequency for say-on-pay votes than approved by a plurality of shareholder votes, ISS will make a case-by-case recommendation, considering the following:

- The board's rationale for choosing a frequency that is different from the frequency which received a plurality;
- The company's ownership structure;
- ISS' analysis of the company's executive compensation and whether there are compensation concerns or a history of problematic compensation practices; and
- The previous year's support level on the company's say-on-pay proposal.

Advisory Vote on Golden Parachutes (SOGP):

1. ***An event has technically triggered a change in control according to the company's formal definition; however the company continues to exist and there is minimal impact on board turnover or management structure. How would ISS apply its SOGP policy in this regard?***

In cases where ISS concludes that a bona-fide change in control event has not occurred (e.g., the company's equity remains outstanding and the board is not significantly affected) ISS views that severance payments or automatic acceleration of outstanding equity awards should not occur. If ISS' policy framework is not applicable due to unusual circumstances, recommendations will generally be made on a case-by-case basis, taking into consideration whether the outcome is beneficial to shareholders.

2. ***How would ISS determine that the performance measures would not have been achieved in the absence of the decision to accelerate the performance based awards? If a truncated performance period is used, then how would ISS know whether the performance measures would not have been achieved had no CIC transaction occurred?***

Best practice is pro rata vesting based on current achievement. If it is impossible to measure performance under pre-determined performance criteria the board should justify paying an award as if target or highest performance goals were met.

3. ***How does ISS determine whether specified golden parachute payouts are "excessive"?***

In evaluating disclosed payouts related to a change in control with respect to the SOGP proposal, ISS may consider a variety of factors, including the value of the payout on an absolute basis (e.g., relative to an executive's annual compensation) or one or total payouts relative to the transaction's equity value. There are no bright line thresholds for these considerations, since they are made in conjunction with other factors in ISS' review.

4. ***How will ISS consider existing problematic change-in-control severance features in its SOGP evaluation?***

Beginning in 2013, ISS will consider existing (as opposed to new in the last year) problematic features such as excise tax gross-up provisions and single and modified single payout triggers in determining a vote recommendation on SOGP proposals. In general, legacy excise tax gross-up provisions will be considered in the context of the amount of actual tax gross-ups reported as part of the company's SOGP disclosure. Legacy single/modified single triggers also may be considered in the context of the total change-in-control payout and whether they result in unjustifiable payouts in the absence of an executive's termination without cause in connection with the change in control.

Equity Related

Option Repricing/Exchange Proposals

1. ***With the market rebound, fewer companies are seeking shareholder approval for option exchange programs. If a company were to consider such a program, can you provide additional guidance besides the standard shareholder friendly features, such as value-for-value exchange, exclusion of named executive officers and directors, resetting vesting schedules?***

Option exchange creates a gulf between the interests of shareholders and management, since shareholders cannot reprice their stock. Option exchange should be the last resort for management to use as a tool to re-incentivize employees. Only deep underwater options should be eligible for the program rather than somewhat underwater options, especially if the company’s stock is volatile. Using a company’s 52-week high as the threshold exercise price may be reasonable in a depressed economy, but it may not be rational in a market rebound. A company’s 52-week high may be its current stock price which may suggest that these options are marginally underwater. As a rule of thumb, the threshold exercise price for eligible options should be the higher of the 52-week high or 50 percent above the current stock price. That way, only deep underwater options are eligible for the program. However, this rule of thumb should not be considered in isolation, as there are several other factors, such as the timing of the request and whether the company has experienced a sustained stock price decline that is beyond management’s control among others. Further, a company’s current stock price can be a consideration as well. A premium of 50 percent for a company trading at $1 may be a low threshold if the company’s stock price is particularly volatile.

A company should discuss the various levels of employees (management versus non-management) who will be eligible participants in the program. Some companies have broad-based option programs whereas others tend to grant to management at the Vice President level. Absent such disclosure, institutional investors may assume that equity grants are generally awarded to management.

Cost of Equity Plans

2. A company has a May 2013 shareholder meeting and did not start trading until January 2013. ISS would normally use a December QDD for this company but there is no data for this company. What would be ISS' approach in determining the company's stock price in evaluating its equity plan proposal?

Here is the hierarchy of choices that ISS uses to determine stock price with respect to equity plan proposal evaluations:

1. 200-day avg. stock price as of the applicable QDD
2. 50-day avg. stock price as of the applicable QDD
3. Closing stock price as of applicable QDD
4. If applicable QDD is not available, use most recent QDD 200-day avg stock price
5. If applicable QDD is not available, use most recent QDD 50-day avg stock price
6. If applicable QDD is not available, use closing price as of the most recent QDD
7. Last resort, use current stock price

3. How does ISS look at the practice of buying shares on the open market to fund employees' equity grants?

The practice of repurchasing shares on the open market in order to avoid dilution from employees' equity grants may be beneficial to shareholders if this represents a good use of the company's cash. However, there is still a cost to the company, and we would still capture that cost by our SVT calculation. In an efficient market, the buyback should have a positive impact on the company's stock price despite the reduction in outstanding shares. Therefore, it should have a generally neutral effect on market valuation. In addition, when a buyback is executed, a company immediately receives higher EPS and other share denominated accounting performance metrics, which in turn may lead to higher allowable cap.

With respect to burn-rate calculations, ISS uses the weighted average number of outstanding common shares for the applicable year(s), which smooths out the impact of both share buybacks and share issuances.

Adjustments to reduce the voting power dilution may be made if the share repurchase is implemented to offset dilution from stock-based compensation and if such repurchase is made within the past two years.

4. What is the policy on stock-in-lieu-of-cash plans?

ISS includes all stock in lieu of cash plans in evaluating the total costs of equity plans. ISS believes that cash or stock payments are considered as compensation to the employees and therefore should be considered in evaluating equity proposals. The total cost of equity-based compensation to directors is also generally considered under the compensation model. However, some stock-based plans do allow directors to take all or a portion of their cash compensation in the form of stock. If such plan provides for a clear dollar-for-dollar stock exchange of the cash compensation, ISS will view the stock in lieu of cash as value neutral for SVT purposes. Any other non-value neutral form of exchange which may include a premium for deferring cash compensation for stock is considered by ISS to cause transfer of shareholder's equity which should still be measured.

5. A non-REIT company would like ISS to consider its limited partnership (LP) units as part of the company's common shares outstanding when determining market capitalization in the shareholder value transfer analysis and weighted common shares outstanding in the burn rate analysis. Currently, operating partnership (OP) units are included for REIT companies because each OP unit is generally equivalent to one share of common stock and is convertible into common stock. OP units also receive the same dividend payout as common stock.

ISS applies a case-by-case analysis to determine if a company's convertible equity or debt should be considered as part of common stock outstanding. If the convertible vehicle carries direct voting and dividend rights and may be converted into common stock, then ISS may include such convertible vehicle as part of common stock outstanding. The total number of outstanding convertible vehicle, vested or unvested should be clearly disclosed in the company's proxy statement or 10-K.

Burn Rate Policy

6. How does ISS calculate the burn rate and annual stock price volatility?

The annual burn rate is calculated as follows:

Annual Burn rate = (# of options granted + # of full value shares awarded * Multiplier) / Weighted Average common shares outstanding)

Stock Volatility is based on the 3-year historical volatility as of the company's quarterly data download, then annualized:

Stock Volatility = Standard Deviation of 750 (count of daily returns) ln (P_t / P_{t-1}), where P_t is the closing stock price on day t and P_{t-1} is the closing stock price on t-1.

Annualized stock volatility = Stock Volatility X Square Root of 250.

7. A company went public two and a half years ago. However, the 10-K discloses three years of historical grant information. Does the burn rate policy apply?

The burn rate policy applies to companies that have been publicly traded for three complete fiscal years.

8. What action may a company take if it fails to meet the three-year average burn rate policy?

A company may commit to a prospective gross three-year average burn rate, which excludes stock options with a reload feature granted prior to 2005, equal to the higher of two percent of the company's common shares outstanding or the mean plus one standard deviation of its GICS peer group. A company's burn rate may exceed the peer group average in the first year, provided the prospective three-year average burn rate remains below the commitment level. The company would need to publicly notify shareholders of its commitment via, e.g., a form 8-K, DEFA14A, or in the summary plan description of the stock plan proposal in the DEF14A. The company would also be required to disclose in its future proxy statements the status of the commitment during the applicable period.

Sample Disclosure:

"The Company commits that, with respect to the number of shares subject to awards granted over the next three fiscal years [period of time], we will maintain an average annual burn rate over that period that does not exceed [x%] of weighted common shares outstanding. For purposes of calculating the number of shares granted in a particular year, all awards will first be converted into option-share equivalents. In this case, each share that is subject to awards other than options will count as equivalent to [current multiplier] option shares."

Making a commitment does not guarantee a vote change if ISS believes there are concerning flaws that remain in the company's equity plan design. Also, when the plan potentially propagates an egregious compensation practice that was identified, a recommendation AGAINST the plan may persist. Note that when a prior burn-rate commitment was modified or has been violated mid-stream, it may warrant a vote AGAINST the plan absent justifiable reasons, or in some cases, may result in a recommendation AGAINST the compensation committee members.

9. What multiplier is used to evaluate whether the company has fulfilled its burn rate commitment?

Most companies, as part of their burn rate commitment, "lock in" the current year's multiplier to reduce uncertainty. If the multiplier is thus specified in the commitment, ISS will use that multiplier. If a company did not lock in the multiplier as part of their burn rate commitment, then ISS uses the multiplier that applies to the company in the year we are analyzing whether they are fulfilling their burn rate commitment.

10. Are reload options included in the numerator of the three-year burn rate calculation?

Yes, reload options are included. ISS anticipates that many companies will eliminate reload options since FASB maintained under SFAS 123R that they must be counted as separate grants. However, reload options are excluded in the prospective three-year average burn rate commitment.

11. Which burn rate policy applies to a company whose GICS classification or Index Membership has been recently changed?

Presumably, the new classification or index membership will reflect the appropriate operational and revenue size; thus the burn rates that are reasonable for the compensation structure of similar companies under the new classification will apply. In very limited cases, ISS may consider a modified burn-rate commitment.

12. Does the burn rate policy apply to a company that has been recently acquired?

Yes. For companies that have been acquired, we would generally use the three-year average burn rate data for the acquirer. For companies that have merged in a merger of equals, we would generally average the three-year average burn rate for both companies.

13. If a company assumes an acquired company's stock options in connection with a merger, will ISS exclude these stock options in the three-year average burn rate calculation?

If the company discloses in the option activity table of the 10-K the number of assumed options in connection with the merger, ISS will not include assumed options for that year. However, if the company does not separate the number of assumed options and number of options granted, the assumed options will be included.

This exclusion does not apply to new (inducement, recruitment, retention) equity awards granted following an acquisition, as these have the effect of depleting the available share reserves for compensation purposes.

14. How many prospective burn rate commitments may a company maintain at one time?

Shareholders prefer to see clear demonstration that a company is fulfilling a burn rate commitment before accepting a new commitment; thus, consecutive-year commitments will generally not be accepted. In the case of a company that has made multiple overlapping burn-rate commitments, each average burn-rate commitment level is expected to be maintained for the applicable commitment period (i.e., a second burn-rate commitment does not supersede a prior one that is still in effect).

15. What are the implications for a company that is unable to fulfill its burn rate commitment?

ISS may recommend that shareholders withhold votes from the compensation committee members and is unlikely to accept another burn rate commitment from the company due to the company's failure to fulfill its burn rate commitment made to shareholders previously.

16. If a company reprices options, how will the shares be counted to avoid double counting?

If the company discloses the number of repriced options in the option activity table of the 10-K, and the repricing was approved by public shareholders, ISS will not include repriced options for that year. However, if the company does not separate the number of repriced options from number of options granted, the repriced options will be included.

17. If a company grants performance-based awards, how will the shares be counted to avoid double counting?

If the company clearly distinguishes the portion of unearned performance-based awards from the year's grants in its proxy statement or 10-K, ISS will not include these in the burn-rate calculation, provided that the company also clearly discloses the number of performance shares that vest each year based on attainment of performance goals. Actual performance-based shares earned, deferred shares earned, or any performance-based equity awards that deplete the share reserve will be counted as they are earned, provided that all disclosure is adequate. In general, time-based awards are counted in the year in which they are granted, and performance-based awards are counted in the year in which they are earned (subject to adequate disclosure practice).

Liberal Share Recycling

18. What is the liberal share recycling policy?

Plans that have liberal share recycling provisions, i.e., where shares granted and exercised can, under certain circumstances, be added back to the plan reserve for future grants, will receive a more costly valuation in that all shares will be evaluated in the ISS model as full-value awards.

19. Under what circumstances are shares considered "recycled"?

For purposes of ISS' liberal share recycling policy, recycled shares may include, but are not limited to, the following:

- Shares tendered as payment for an option exercise;
- Shares withheld from exercised shares for taxes;
- Shares added back that have been repurchased by the company using stock option exercise proceeds;
- Stock-settled SARs where only the actual shares delivered with respect to the award are counted against the plan reserve.

20. Are SARs settled in cash considered "recycled"?

In cases where a plan allows SARs to be settled in either cash or stock, ISS will assume all to be stock-settled. If the plan also provides that only the net shares delivered with respect to the award will be counted against the plan reserve, the liberal share recycling policy will be triggered.

21. What happens if a company provides a limit on the number of shares that it can recycle?

If there is an articulated limit on full value awards and it is explicit that liberal recycling is only allowed on full value awards, then ISS will apply the limit accordingly as stated. However, if liberal recycling is also permitted on other forms of awards (i.e. options), then ISS will consider that the recycling feature effectively nullifies the stated limit under the plan because of the additional cost attributed to the potential of recycling other types of awards.

Repricing

22. Does ISS consider the cancellation and regrant of stock options/SARs as repricing? What about the cancellation of stock options/SARs for cash payments?

Yes, ISS considers the above two scenarios as repricing and will recommend an AGAINST vote on the equity plan if the company undertakes such arrangements without shareholder approval.

23. What progressive action may a company take if it fails to meet the repricing provision policy in equity plans?

Companies may eliminate the provision that allows the board or the administrator discretion to implement any form of repricing without seeking prior shareholder approval. Alternatively, such provisions can also be explicitly superseded by a statement clarifying that any transaction allowing for an economic value exchange by optionees will require further shareholder approval.

Sample Language:

"Except in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, distribution (whether in the form of cash, Common Shares, other securities or other property), stock split, extraordinary cash dividend, recapitalization, change in control, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Common Shares or other securities, or similar transaction(s)), the company may not, without obtaining stockholder approval: (a) amend the terms of outstanding Options or SARs to reduce the exercise price of such outstanding Options or SARs; (b) cancel outstanding Options or SARs in exchange for Options or SARs with an exercise price that is less than the exercise price of the original Options or SARs; or (c) cancel outstanding Options or SARs with an exercise price above the current stock price in exchange for cash or other securities."

Liberal Definition of Change in Control

24. What is the policy on liberal change in control definitions found in equity plans?

ISS may recommend a vote AGAINST an equity plan if it could permit accelerated vesting of equity awards based upon a liberal change in control definition (e.g., a trigger linked to shareholder approval of a transaction, rather than its consummation, or an unapproved change in less than a substantial proportion of the board, or acquisition of a low percentage of outstanding common stock, such as 15 percent).

25. What progressive action may a company take if its equity plans contain liberal change in control definitions?

A company may qualify the problematic change in control definition to be preconditioned on determinate events that effectively constitute a change in control event, such as "consummation of a transaction" or "constructive loss of employment (double-triggered CIC)."

Sample language: *"Change in Control shall be deemed to have occurred…upon the consummation of a merger or consolidation of the Company with any other corporation."*

For an existing plan that is being amended, as opposed to a new plan, it is acceptable to specify that the non-liberal CIC definition is effective for grants made after the plan amendment date.

Examples:

http://www.sec.gov/Archives/edgar/data/729237/000072923710000012/exhibit1011.htm http://www.sec.gov/Archives/edgar/data/1324948/000114420410046664/v195238_ex10-1.htm

Fungible Plans

26. How does ISS evaluate flexible share plans or fungible share pools?

Under a flexible share plan, each full-value award counts more than one share and each option counts as one share of the plan reserve. ISS evaluates the total costs of the plan by analyzing a flexible share plan under two scenarios: (1) all new shares requested as full value awards (2) all new shares requested as stock options. Under the first scenario, ISS adjusts the number reserved according to the ratio provided in the plan document. ISS will support a flexible share plan as long as both scenarios generate total costs below the allowable cap. ISS presents the more costly scenario in our proxy analysis.

162(M) Plans

27. A post-IPO company submits an equity plan that has problematic issues (e.g. repricing provisions) for approval by public shareholders for the first time, solely for 162(m) purposes. The company will not be adding shares to the plan or in any way changing any provision in the plan. Will ISS review the plan?

Per 2012 policy updates, while ISS generally recommends support for 162(m) plan approvals, all equity plans put up for shareholder approval, for any reason, for the first time following a company's IPO will receive a standard analysis, including SVT calculation and a review of plan features. This is to ensure that any adverse provisions would not have a more detrimental potential impact on shareholders than a potential loss of tax deductions related to named executive officer grants.

Stock Option Overhang Carve-Out

28. When will ISS apply the stock option overhang carve-out policy?

Companies with sustained positive stock performance and high overhang cost attributable to in-the-money options outstanding in excess of six years may receive a carve-out of these options from overhang as long as the dilution attributable to the new share request is reasonable and the company exhibits sound compensation practices. A company needs to demonstrate that the in-the-money options outstanding in excess of six years have been continuously in-the-money after they were vested. The fact that employees had the opportunity to exercise these options but chose not to exercise them may reflect the confidence they have in the company's future prospects. Presenting in-the-money options in excess of six years is not sufficient information for ISS to determine whether these options were continuously in-the-money after they were vested. Companies are advised to provide the individual tranches of option grants with grant dates, option exercise prices and vesting schedules so that ISS can analyze the portion of in-the-money options to potentially carve out from the overhang.

29. In the stock option overhang carve-out policy, what does ISS consider to be sustained positive stock performance?

ISS generally looks for positive 5-year total shareholder return (TSR) as well as positive year over year performance for the past five fiscal years at the time of the analysis. Exceptions may be made if stock performance was negative for the first two years and then strongly positive for the remaining three years, but vested grants that have been underwater for a substantial time during the 5-year period will not be eligible for the carve-out. These options should be deeply in the money for the periods where the company's stock performance was only high for the latest three years. A comparison of the company's five-year TSR against its four-digit GICS group can be helpful.

30. *Is ISS making any exceptions to the sustained positive stock performance criteria in light of the financial debacle experienced by almost all companies in 2009?*

ISS recognizes that companies are affected by the global recession and would take that into consideration of the company's stock performance during this tumultuous period. Strong performing companies have experienced significant market rebound and should reflect that the stock price decline is temporary.

31. *Can ISS provide an example of a company providing such disclosure in order for ISS to carve out continuously in-the-money options outstanding in excess of six years?*

Please see Myriad Genetics' DEFA 14A filed Oct. 28, 2009, Air Products and Chemicals' 8K filed Jan. 5, 2010, NVR's DEF 14A filed March 19, 2010.

32. *How does ISS define high overhang cost in applying the stock option overhang carve-out policy?*

High overhang cost means that the sum of outstanding options and stock awards and remaining shares available under existing equity plan(s) should exceed or approach the company's specific allowable cap. Outstanding options and stock awards must be a significant driver of the high overhang, and should be in the range of 75 to 100 percent of the total overhang.

33. *What does ISS look for with respect to the distribution of awards to executives vs. other employees (concentration ratio) in the stock option overhang carve-out policy?*

ISS will calculate the concentration ratio in the past fiscal year, defined as total equity grants to the top five executives divided by total equity grants to employees and directors. Concentration ratios greater than 50 percent to named executive officers may be concerning.

Note: The questions and answers in this FAQ page are intended to provide high-level guidance regarding the way in which ISS' Global Research Department will generally analyze certain issues in the context of preparing proxy analyses and vote recommendations for U.S. companies. However, these responses should not be construed as a guarantee as to how ISS' Global Research Department will apply its benchmark policy in any particular situation.