U.S. Corporate Governance Policy

2010 Updates

November 19, 2009

RiskMetrics Group U.S. Corporate Governance Policy

2010 Updates

Effective for Meetings on or after Feb. 1, 2010
Updated Nov. 19, 2009

These policy updates present changes and clarifications to RiskMetrics Group's ("RMG") U.S. benchmark guidelines for 2010. If new issues arise, such as shareholder proposals or regulatory developments, prior to the next formal update, RMG will adopt policies to cover such issues on an as-needed basis.

ROUTINE/MISCELLANEOUS

Corporate Governance Issue: Limited Partnerships and Limited Liability Companies

Current Coverage: RMG has not had a policy for preparing reports for the annual and special meetings of publicly traded limited partnerships ("LPs") and limited liability companies ("LLCs").

Key Change: RMG will provide proxy voting analyses and recommendations for the meetings of *public* LPs and LLCs.

New Coverage: For the 2010 proxy season, RMG will generally apply its benchmark policies to meetings of publicly traded limited partnerships and publicly traded limited liability companies, and will develop specialized policies as needed.

Rationale for Update: Clients have requested that RMG begin delivering analyses and vote recommendations for meetings held by these types of businesses. Publicly traded limited partnerships are also called master limited partnerships ("MLPs"). MLPs distribute return on equity to partners (also called unitholders) on a regular basis. As such, distributable cash flow, not net earnings, drives the value of the partnerships units. Most MLPs do not submit director elections for shareholder approval.

Publicly traded limited liability companies may adopt a distributable cash model like an MLP or a capital appreciation plus dividends model like a corporation.

Corporate Governance Issue: Plans of Reorganization (Bankruptcy)

Current Coverage: None

Key Change: Adopt a new policy that covers our expanded research on bankruptcy reorganization proposals (solely as it relates to equity holders).

New Coverage and Recommendation:

Vote CASE-BY-CASE basis on proposals to common shareholders on bankruptcy plans of reorganization, considering the following factors including, but not limited to:

- Estimated value and financial prospects of the reorganized company;
- Percentage ownership of current shareholders in the reorganized company;
- Whether shareholders are adequately represented in the reorganization process (particularly through the existence of an Official Equity Committee);

- The cause(s) of the bankruptcy filing, and the extent to which the plan of reorganization addresses the cause(s);
- Existence of a superior alternative to the plan of reorganization; and
- Governance of the reorganized company.

Rationale for Update:

The recent financial crisis has placed Chapter 11 bankruptcy reorganizations as a potential alternative for distressed companies. While the number of bankruptcies has risen over the past year as evidenced by many firms, including General Motors and Lehman Brothers, the prevalence of these reorganizations can vary year over year due to, among other things, market conditions and a company's ability to sustain its operations. Additionally, the amount of time that lapses between a particular company's entrance into Chapter 11 and its submission of a plan of reorganization varies significantly depending on the complexity, timing, and jurisdiction of the particular case. These plans are often put to a vote of shareholders (in addition to other interested parties), as required by the Bankruptcy Code.

Due to client interest, RMG will be expanding its research coverage in 2010 to include analysis and voting recommendations on proposals seeking approval of bankruptcy reorganization plans as it relates to equity holders through the application of this new policy.

BOARD

Corporate Governance Issue:
Voting on Director Nominees in Uncontested Elections

Definition of "New Nominee"

Current Definition: A "new nominee" is a director who will be elected by shareholders for the first time.

Key Change: Factoring in how long the director has been on the board before being elected by shareholders.

New Definition: A "new nominee" is any current nominee who has not already been elected by shareholders and who joined the board after the problematic action in question transpired. If RMG cannot determine whether the nominee joined the board before or after the problematic action transpired, the nominee will be considered a "new nominee" if he or she joined the board within the 12 months prior to the upcoming shareholder meeting.

Rationale for Update: When recommending to vote against or withhold on director nominees, RMG has traditionally not recommended withhold/against votes on "new nominees," under the rationale that such new nominees should not be held accountable for actions taken by the board before they joined. However, as what constitutes a "new" nominee can vary (for example, a nominee on a classified board may be technically "new" but in fact has served on the board for a year or more), we have more specifically defined a new nominee. This definition places the focus on whether a nominee was on the board at the time of a problematic action, or has been on the board long enough to be held accountable for the board's decisions. The new definition will be applicable to all director election policies where withhold/against votes on "new nominees" are considered on a case-by-case basis.

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Voting on Directors for the Adoption or Renewal of Non-Shareholder Approved Poison Pills

Current Recommendation: VOTE AGAINST or WITHHOLD from all nominees of the board of directors (except new nominees, who should be considered on a CASE-by-CASE basis) if:

- The board adopts or renews a poison pill without shareholder approval, does not commit to putting it to a shareholder vote within 12 months of adoption (or in the case of a newly public company, does not commit to put the pill to a shareholder vote within 12 months following the IPO), or reneges on a commitment to put the pill to a vote, and has not yet received a withhold recommendation for this issue.

Key Change: RMG is separating the vote recommendations based on the term of the pill adopted: short-term vs. long term pills. Also, companies who adopt long-term pills will be reviewed either every 3 years if the company has an annually elected board, or every year if the company has a classified board, and RMG will recommend to withhold from or vote against all nominees (except new nominees) if the pill is still in place without shareholder approval.

New Recommendation: VOTE AGAINST or WITHHOLD from all nominees of the board of directors (except new nominees, who should be considered on a CASE-by-CASE basis) if:

- The board adopts a poison pill with a term of more than 12 months ("long-term pill"), or renews any existing pill, including any "short-term" pill (12 months or less), without shareholder approval. A commitment or policy that puts a newly-adopted pill to a binding shareholder vote may potentially offset an adverse vote recommendation. Review such companies with classified boards every year, and such companies with annually-elected boards at least once every three years, and vote AGAINST or WITHHOLD votes from all nominees if the company still maintains a non-shareholder-approved poison pill. This policy will apply to all companies adopting or renewing pills after the announcement of this policy (Nov 19, 2009).
- The board makes a material, adverse change to an existing poison pill without shareholder approval.

Vote CASE-By-CASE on all nominees if the board adopts a poison pill with a term of 12 months or less ("short-term pill") without shareholder approval, taking into account the following factors:

- The date of the pill's adoption relative to the date of the next meeting of shareholders- i.e. whether the company had time to put the pill on ballot for shareholder ratification given the circumstances;
- The issuer's rationale;
- The issuer's governance structure and practices; and
- The issuer's track record of accountability to shareholders.

Rationale for Update: Institutional investors view shareholder rights plans, or poison pills, as among the most onerous of takeover defenses that may serve to entrench management and have a detrimental impact on their long-term share value. While recognizing that boards have a fiduciary duty to use all available means to protect shareholders' interests, RMG believes that, as a best governance principle, boards should seek shareholder ratification of a poison pill (or an amendment thereof) within a reasonable period. Boards that fail to do so should be held accountable for ultimately disregarding shareholders' interests. In applying this principle to voting in uncontested director elections, RMG considers the term of the pill an important factor, as shorter term pills are generally less onerous as a takeover defense when compared to longer term pills, and may in some cases provide the board with a valuable tool to maximize shareholder value in the event of an opportunistic offer.

RMG's policy aims to encourage companies to seek shareholder approval of poison pills. Companies that unilaterally adopt a long-term pill will be subject to a more frequent review -–at least once every three years, beginning the first year following the adoption and extending until the pill has expired or been redeemed. However, we believe special consideration must be given to the combination of a poison pill and a classified board; together they create a powerful anti-takeover and entrenchment device. This view is echoed in comment period letters received from institutional clients. Instead of only reviewing such companies every 3 years, an annual review is more appropriate. Under a 3-year review, the same class of directors would be receiving withhold recommendations, while the other 2 classes of directors would be shielded. An annual review would hold responsible all directors of classified boards for not putting the pill to a shareholder vote. In 2010, we will only apply this policy on a going-forward basis to companies adopting or renewing pills after the date of announcement of the policy. However, in future years, it is possible that the policy will be applied retroactively to companies that previously adopted long-term pills.

Voting on Directors for Egregious Actions

Current Recommendation: Vote AGAINST or WITHHOLD from directors, individually or the entire board, for egregious actions or failure to replace management as appropriate.

Key Change: Clarify language under the election of directors policy to reflect that RMG will consider a potential adverse vote recommendation at the board, committee, or individual level, on an exceptional basis, if a director has had significant involvement with a failed company and/or where a director has in the past appeared not to have acted in the best interests of all shareholders.

New Recommendation: Under extraordinary circumstances, vote AGAINST or WITHHOLD from directors individually, on a committee, or the entire board, due to:

- Material failures of governance, stewardship, or fiduciary responsibilities at the company;
- Failure to replace management as appropriate; or
- Egregious actions related to the director(s)' service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

Rationale for Update: Director accountability and competence have become issues of prime importance given the failings in oversight exposed by the global financial crisis. There is also concern over the environment in the boardrooms of certain markets, where past failures appear to be no impediment to continued or new appointments at major companies and may not be part of the evaluation process at companies in considering whether an individual is, or continues to be, fit for the role and best able to serve shareholders' interests.

This update clarifies RMG's position that, under exceptional circumstances that raise substantial doubt about a director's ability to serve as an effective monitor of management and in the best interests of shareholders, including consideration of past performance on other boards, we may consider a negative recommendation on directors.

Corporate Governance Issue:
2010 Classification of Directors/Definition of Independence

Based on market trends, RMG has updated its evaluation of director independence, including as it relates to both professional and transactional services, to reflect a more pragmatic approach and to increase clarity on application of this policy to both issuers and shareholders.

The policy update to RMG's director independence classification reflects the following key changes and rationales for each change:

Update of transactional relationships:

1. The materiality test for transactional relationships (including charitable contributions) will be bifurcated, such that companies which follow NYSE/Amex listing standards will be subject to an NYSE-based test of the greater of $1 million or 2 percent of the recipient's gross annual revenues, and that companies which follow NASDAQ listing standards will continue to be subject to a NASDAQ-based test of

the greater of $200,000 or 5 percent of the recipient's gross annual revenues. In general, the proposed change will more accurately align the materiality test used for NYSE/Amex-listed companies. For companies that do not follow either exchange's listing standards with regard to related party transactions, we will continue to apply the NASDAQ-based materiality test. This default arrangement ensures that there is a policy in place for all scenarios and does not represent a change from our current policy.

2. The materiality for transactional relationships will be examined in the following cases: if the director (or an immediate family member) has the transactional relationship; or if the director (or an immediate family member) is a partner in, a controlling shareholder, or an executive officer of, an organization that has the transactional relationship. No other transactional relationships involving a director will be considered material. The definition of affiliation codifies how we currently apply our policy and is derived from the definition of affiliation in NASDAQ Rule 5605.

Clarification of professional services:

1. The $10,000 de minimis threshold for professional services will be examined in the following cases: if the director (or an immediate family member) provides the professional service; or if the director (or an immediate family member) is a partner in, a controlling shareholder, or an employee of, an organization which provides the professional service. This change codifies how we have always applied our policy. Previously, a literal interpretation of our policy would limit the scope of professional services to a director (or his or her immediate family members) providing the service to the company, and would exclude organizations with which the director (or his or her immediate family member) is affiliated providing the service. The definition of affiliation is similar to the definition of affiliation used in evaluating transactional relationships—both are derived from the definition of affiliation in NASDAQ Rule 5605—but is more strict in that a director (or immediate family member) only has to be an employee of the organization providing the professional service, as opposed to an executive officer in the case of a transactional relationship. This distinction reflects the spirit of our policy in distinguishing between professional services and transactional relationships.
2. The characterization of professional services will be changed from "advisory in nature" to "advisory in nature, generally involve access to sensitive company information or to strategic decision-making, and typically having a commission- or fee-based payment structure". This change codifies the spirit of the professional services policy and how we currently apply this policy.
3. Insurance services will be considered professional services unless the company explains why such services are not advisory. This change codifies how we currently apply our policy. These services are frequently advisory in nature, involve access to sensitive company information, and have a payment structure that could create a conflict of interest. All commissions or fees paid to a director (or to an immediate family member or an entity affiliated with either the director or the immediate family member) are an indication that the relationship was a professional service. The case where a company has an insurance policy with and pays premiums to an entity with which one of the company's directors is affiliated will be considered a transactional relationship. However, the burden will be on the company to explain why the service is not advisory.
4. Information technology (IT) services will be considered professional services unless such services are tech support. This change codifies how we currently apply our policy. Although tech support could be considered advisory in nature, in all cases we have seen, the provision of such services has been tied to a previous transactional relationship, typically a purchase of hardware or software. The provision of tech support does not involve strategic decision-making or a payment structure which could create a conflict of interest.

5. Marketing services will be considered professional services unless the company explains why such services are not advisory. Only certain types of marketing services could reasonably be considered advisory in nature, involving access to sensitive company information or to strategy decision-making. These include market research, market strategy, branding strategy, and advertising strategy. Other marketing services, such as the sale of promotional materials, sponsorships, or the purchase of advertising, are transactional in nature. However, the burden will be on the company to make the distinction.
6. Educational services will no longer generally be considered professional services. Educational services are typically not advisory and do not generally involve access to sensitive company information or to strategic decision-making.
7. Lobbying services will be considered professional services. This change codifies how we currently apply our policy. These services are advisory in nature and have a payment structure that could create a conflict of interest.
8. Executive search services will be considered professional services. This change codifies how we currently apply our policy. These services are advisory in nature and have a payment structure that could create a conflict of interest.
9. Property management and realtor services will be considered professional services. This change codifies how we currently apply our policy. These services are advisory in nature and have a payment structure that could create a conflict of interest.
10. "Of Counsel" relationships will only be considered immaterial if the individual does not receive any form of compensation (in excess of $10,000 per year), or has retired from the firm providing the professional service. This change generally codifies how we currently apply our policy. Because individuals can receive significant compensation from the entity for which they are "Of Counsel," this relationship could jeopardize that individual's independence should the entity provide a professional service to the company where the individual is a director. As a result, we are placing the burden on the company to disclose that no material financial tie exists between the director and the entity providing the professional service. As with directors serving as officers due to statutory requirements and with professional services generally, the $10,000 de minimis amount of compensation would most likely not compromise the independence of that director.
11. In the case of a company providing a professional service to one of its directors or to an entity with which one of its directors is affiliated, the relationship will be considered transactional rather than professional. This change codifies how we currently apply our policy. Since neither the director nor the entity with which the director is affiliated is receiving fees for the service, there is no direct financial tie which could compromise that director's independence.

Substantive changes to the Classification of Insider Director:

1. One of the criteria for inside directors will be changed from "Non-employee officer of the company if among the five most highly paid" to "Among the five most highly paid individuals". The driver in this policy position is the fact that the director is among the most highly paid individuals at the firm, regardless of whether the director is an officer.
2. With regard to non-employee directors serving as officers due to statutory requirements (e.g. corporate secretary), there will be a de minimis threshold of $10,000 per year for additional compensation for serving in such capacity to classify the director as an "Insider." This change codifies how we currently apply our policy. A de minimis amount of compensation for the provision of what

could be considered a professional service would most likely not compromise the independence of that director.

Redesign and update in logic of director classification policy framework:

The director classification table is now numbered and organized along specific themes to improve clarity to clients and companies as to the rationale of a director classification. See the table that follows.

2010 RMG Classification of Directors

1. **Inside Director (I)**
   1.1. Employee of the company or one of its affiliates[i].
   1.2. Among the five most highly paid individuals (excluding interim CEO).
   1.3. Listed as an officer as defined under Section 16 of the Securities and Exchange Act of 1934 ("Section 16 officer")[ii].
   1.4. Current interim CEO.
   1.5. Beneficial owner of more than 50 percent of the company's voting power (this may be aggregated if voting power is distributed among more than one member of a defined group).

2. **Affiliated Outside Director (AO)**

   <u>Board Attestation</u>

   2.1. Board attestation that an outside director is not independent.

   <u>Former CEO</u>

   2.2. Former CEO of the company[iii,iv].
   2.3. Former CEO of an acquired company within the past five years[iv].
   2.4. Former interim CEO if the service was longer than 18 months. If the service was between twelve and eighteen months an assessment of the interim CEO's employment agreement will be made[v].

   <u>Non-CEO Executives</u>

   2.5. Former Section 16 officer[ii] of the company, an affiliate[i] or an acquired firm within the past five years.
   2.6. Section 16 officer[ii] of a former parent or predecessor firm at the time the company was sold or split off from the parent/predecessor within the past five years.
   2.7. Section 16 officer[ii], former Section 16 officer, or general or limited partner of a joint venture or partnership with the company.

   <u>Family Members</u>

   2.8. Immediate family member[vi] of a current or former Section 16 officer[ii] of the company or its affiliates[i] within the last five years.
   2.9. Immediate family member[vi] of a current employee of company or its affiliates[i] where additional factors raise concern (which may include, but are not limited to, the following: a director related to numerous employees; the company or its affiliates employ relatives of numerous board members; or a non-Section 16 officer in a key strategic role).

   <u>Transactional, Professional, Financial, and Charitable Relationships</u>

   2.10. Currently provides (or an immediate family member[vi] provides) professional services[vii] to the company, to an affiliate[i] of the company or an individual officer of the company or one of its affiliates in excess of $10,000 per year.
   2.11. Is (or an immediate family member[vi] is) a partner in, or a controlling shareholder or an employee of, an organization which provides professional services[vii] to the company, to an affiliate[i] of the company, or an individual officer of the company or one of its affiliates in excess of $10,000 per year.
   2.12. Has (or an immediate family member[vi] has) any material transactional relationship[viii] with the company or its affiliates[i] (excluding investments in the company through a private placement).
   2.13. Is (or an immediate family member[vi] is) a partner in, or a controlling shareholder or an executive officer of, an organization which has any material transactional relationship[viii] with the company or its affiliates[i] (excluding investments in the company through a private placement).
   2.14. Is (or an immediate family member[vi] is) a trustee, director, or employee of a charitable or non-profit organization that receives material grants or endowments[viii] from the company or its affiliates[i].

   <u>Other Relationships</u>

   2.15. Party to a voting agreement[ix] to vote in line with management on proposals being brought to shareholder vote.
   2.16. Has (or an immediate family member[vi] has) an interlocking relationship as defined by the SEC involving members of the board of directors or its Compensation Committee[x].
   2.17. Founder[xi] of the company but not currently an employee.
   2.18. Any material[xii] relationship with the company.

3. **Independent Outside Director (IO)**
   3.1. No material[xii] connection to the company other than a board seat.

Footnotes:

[i] "Affiliate" includes a subsidiary, sibling company, or parent company. RMG uses 50 percent control ownership by the parent company as the standard for applying its affiliate designation.

[ii] "Section 16 officer" (officers subject to Section 16 of the Securities and Exchange Act of 1934) includes the chief executive, operating, financial, legal, technology, and accounting officers of a company (including the president, treasurer, secretary, controller, or any vice president in charge of a principal business unit, division, or policy function). A non-employee director serving as an officer due to statutory requirements (e.g. corporate secretary) will be classified as an Affiliated Outsider. If the company provides explicit disclosure that the director is not receiving additional compensation in excess of $10,000 per year for serving in that capacity, then the director will be classified as an Independent Outsider.

[iii] Includes any former CEO of the company prior to the company's initial public offering (IPO).

[iv] When there is a former CEO of a special purpose acquisition company (SPAC) serving on the board of an acquired company, RMG will generally classify such directors as independent unless determined otherwise taking into account the following factors: the applicable listing standards determination of such director's independence; any operating ties to the firm; and the existence of any other conflicting relationships or related party transactions.

[v] RMG will look at the terms of the interim CEO's employment contract to determine if it contains severance pay, long-term health and pension benefits, or other such standard provisions typically contained in contracts of permanent, non-temporary CEOs. RMG will also consider if a formal search process was underway for a full-time CEO at the time.

[vi] "Immediate family member" follows the SEC's definition of such and covers spouses, parents, children, step-parents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

[vii] Professional services can be characterized as advisory in nature, generally involve access to sensitive company information or to strategic decision-making, and typically have a commission- or fee-based payment structure. Professional services generally include, but are not limited to the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; legal services; property management services; realtor services; lobbying services; executive search services; and IT consulting services. The following would generally be considered transactional relationships and not professional services: deposit services; IT tech support services; educational services; and construction services. The case of participation in a banking syndicate by a non-lead bank should be considered a transactional (and hence subject to the associated materiality test) rather than a professional relationship. "Of Counsel" relationships are only considered immaterial if the individual does not receive any form of compensation (in excess of $10,000 per year) from, or is a retired partner of, the firm providing the professional service. The case of a company providing a professional service to one of its directors or to an entity with which one of its directors is affiliated, will be considered a transactional rather than a professional relationship. Insurance services and marketing services are assumed to be professional services unless the company explains why such services are not advisory.

[viii] A material transactional relationship, including grants to non-profit organizations, exists if the company makes annual payments to, or receives annual payments from, another entity exceeding the greater of $200,000 or 5 percent of the recipient's gross revenues, in the case of a company which follows NASDAQ listing standards; or the greater of $1,000,000 or 2 percent of the recipient's gross revenues, in the case of a company which follows NYSE/Amex listing standards. In the case of a company which follows neither of the preceding standards, RMG will apply the NASDAQ-based materiality test. (The recipient is the party receiving the financial proceeds from

the transaction).

[ix] Dissident directors who are parties to a voting agreement pursuant to a settlement arrangement, will generally be classified as independent unless determined otherwise taking into account the following factors: the terms of the agreement; the duration of the standstill provision in the agreement; the limitations and requirements of actions that are agreed upon; if the dissident director nominee(s) is subject to the standstill; and if there any conflicting relationships or related party transactions.

[x] Interlocks include: executive officers serving as directors on each other's compensation or similar committees (or, in the absence of such a committee, on the board); or executive officers sitting on each other's boards and at least one serves on the other's compensation or similar committees (or, in the absence of such a committee, on the board).

[xi] The operating involvement of the founder with the company will be considered. Little to no operating involvement may cause RMG to deem the founder as an independent outsider.

[xii] For purposes of RMG's director independence classification, "material" will be defined as a standard of relationship (financial, personal or otherwise) that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.

Corporate Governance Issue:
Board-Related Shareholder Proposals

Establish/Amend Nominee Qualifications

Current Recommendation: Vote CASE-BY-CASE on proposals that establish or amend director qualifications. Votes should be based on how reasonable the criteria are and to what degree they may preclude dissident nominees from joining the board.

Key Change: Adding a policy for shareholder proposals that seek a director with particular expertise.

New Recommendation: Vote CASE-BY-CASE on proposals that establish or amend director qualifications. Votes should be based on the reasonableness of the criteria and to what degree they may preclude dissident nominees from joining the board.

Vote CASE-BY-CASE on shareholder resolutions seeking a director nominee candidate who possesses a particular subject matter expertise, considering:

- The company's board committee structure, existing subject matter expertise, and board nomination provisions relative to that of its peers;
- The company's existing board and management oversight mechanisms regarding the issue for which board oversight is sought;
- The company disclosure and performance relating to the issue for which board oversight is sought and any significant related controversies; and
- The scope and structure of the proposal.

Rationale for Update: RMG is expanding the existing policy as a result of a new resolution which surfaced during the 2009 proxy season. Specifically, the proposal asked for one candidate to be selected and recommended for election to the company's board who: (1) possesses experience in environmental matters; and (2) is independent. While the resolution spoke to concerns over ongoing environmental controversies at the target company, RMG is adopting a general policy framework that will be applicable in the event that other shareholder proponents may in the future seek a particular form of expertise on the board as a governance measure to mitigate risk.

Establishment of Board Committees

Current Recommendation: Generally vote AGAINST shareholder proposals to establish a new standing board committee, as such proposals seek a specific oversight mechanism/structure that potentially limits a company's flexibility to determine an appropriate oversight mechanism for itself. However, the following factors will be considered:

- Existing oversight mechanisms (including current committee structure) regarding the issue for which board oversight is sought;
- Level of disclosure regarding the issue for which board oversight is sought;
- Company performance related to the issue for which board oversight is sought;
- Board committee structure compared to that of other companies in its industry sector; and/or
- The scope and structure of the proposal.

Key Change: Deleting the word "standing" in the first sentence, to address the establishment of temporary committees.

New Recommendation: Generally vote AGAINST shareholder proposals to establish a new board committee, as such proposals seek a specific oversight mechanism/structure that potentially limits a company's flexibility to determine an appropriate oversight mechanism for itself. However, the following factors will be considered:

- Existing oversight mechanisms (including current committee structure) regarding the issue for which board oversight is sought;
- Level of disclosure regarding the issue for which board oversight is sought;
- Company performance related to the issue for which board oversight is sought;
- Board committee structure compared to that of other companies in its industry sector; and/or
- The scope and structure of the proposal.

Rationale for Update: The only change to this policy is the deletion of the word "standing." The general implication of a standing committee is that it either exists or is expected to exist in perpetuity. In some shareholder proposals that have been submitted, the proponents requested the establishment of a committee to investigate a particular issue at each company. In such cases, the committee appointed would no longer be relevant once the investigation was complete. The inclusion of the word "standing" serves no purpose other than to limit the types of committees based on their expected useful life.

SHAREHOLDER RIGHTS & DEFENSES

Corporate Governance Issue: Charter/Bylaw Amendents

Net Operating Loss (NOL) Protective Amendments

Current Recommendation: None

Key Change: Adopting a formal policy to cover NOL protective amendments.

New Recommendation: For management proposals to adopt a protective amendment for the stated purpose of protecting a company's net operating losses ("NOLs"), the following factors should be considered on a CASE-BY-CASE basis:

- The ownership threshold (NOL protective amendments generally prohibit stock ownership transfers that would result in a new 5-percent holder or increase the stock ownership percentage of an existing five-percent holder);
- The value of the NOLs;
- Shareholder protection mechanisms (sunset provision or commitment to cause expiration of the protective amendment upon exhaustion or expiration of the NOL);
- The company's existing governance structure including: board independence, existing takeover defenses, track record of responsiveness to shareholders, and any other problematic governance concerns; and
- Any other factors that may be applicable.

Rationale for Update: The current difficult market conditions continue to result in widespread losses in certain industries. This has resulted in previously profitable companies considering the adoption of an NOL protective amendment and/or poison pill to protect their NOL tax assets, which may be lost upon an acquisition of 5 percent of a company's shares. As a result, RMG has created a policy to address the NOL protective amendments, taking into account the terms of and purpose behind the proposal, as well as the company's existing governance structure, to assess whether the structure actively promotes board entrenchment or adequately protects shareholder rights. While RMG acknowledges the high estimated tax value of NOLs, which benefit shareholders, the ownership acquisition limitations contained in an NOL protective amendment coupled with a company's problematic governance structure could serve as an antitakeover device.

Given the fact that shareholders will want to ensure that such an amendment does not remain in effect permanently, RMG will also closely review whether the amendment contains a sunset provision or a commitment to cause the expiration of the NOL protective amendment upon exhaustion or expiration of the NOLs.

Corporate Governance Issue: Poison Pills

Net Operating Loss (NOL) Poison Pills

Current Recommendation: Vote CASE-BY-CASE on management proposals for poison pill ratification. For management proposals to adopt a poison pill for the stated purpose of preserving a company's net operating losses ("NOLs"), the following factors are considered on a CASE-BY-CASE basis:

- The trigger (NOL pills generally have a trigger slightly below 5%);
- The value of the NOLs;
- The term;
- Shareholder protection mechanisms (sunset provision causing expiration of the pill upon exhaustion or expiration of NOLs); and
- Any other factors that may be applicable.

Key Change: Adding the company's governance structure and responsiveness to shareholders as factors in vote determination.

New Recommendation: Vote CASE-BY-CASE on management proposals for poison pill ratification. For management proposals to adopt a poison pill for the stated purpose of preserving a company's net operating losses ("NOLs"), the following factors are considered on a CASE-BY-CASE basis:

- The ownership threshold to transfer (NOL pills generally have a trigger slightly below 5%);
- The value of the NOLs;
- The term;
- Shareholder protection mechanisms (sunset provision, or commitment to cause expiration of the pill upon exhaustion or expiration of NOLs);
- The company's existing governance structure including: board independence, existing takeover defenses, track record of responsiveness to shareholders, and any other problematic governance concerns; and
- Any other factors that may be applicable.

Rationale for Update: The inclusion of governance structure and responsiveness to shareholders as factors in the consideration of NOL pills parallels the rationale for their inclusion in the consideration of NOL protective amendments.

Corporate Governance Issue:
Shareholder Ability to Call Special Meetings

Current Recommendation:

Vote AGAINST proposals to restrict or prohibit shareholders' ability to call special meetings.

Vote FOR proposals that remove restrictions on the right of shareholders to act independently of management.

Key Change: Specifying the factors RMG looks for in the right to call special meetings.

New Recommendation:

Vote AGAINST management or shareholder proposals to restrict or prohibit shareholders' ability to call special meetings.

Generally vote FOR management or shareholder proposals that provide shareholders with the ability to call special meetings taking into account the following factors:

- Shareholders' current right to call special meetings;
- Minimum ownership threshold necessary to call special meetings (10% preferred);
- The inclusion of exclusionary or prohibitive language;
- Investor ownership structure; and
- Shareholder support of and management's response to previous shareholder proposals.

Rationale for Update: Over the past year management-sponsored proposals have begun to appear on ballots with the stated intention of providing shareholders with a right to call special meetings. However, while these proposals give shareholders a right in form, the specific terms often result in a loss of substance. Specifically, companies' proposals have included language establishing certain procedural hurdles for shareholders to call a special meeting: unattainably high thresholds; broad discretion given to the board to reject proposals; advance notice restrictions leaving only a small window of time to propose and hold a special meeting; and amendments included in the company's charter or certification of incorporation making it more difficult for a shareholder to amend or repeal the provision at a later date.

Such restrictions can be used as antitakeover devices – impeding the removal of incumbent board members or delaying a takeover attempt of the company – and, therefore, run counter to the stated intention of allowing shareholders to call special meetings. RMG's new policy regarding special meeting proposals encourages companies to submit and shareholders to support proposals that provide a substantive right to shareholders.

Corporate Governance Issue:
Shareholder Ability to Act by Written Consent

Current Recommendation:

Vote AGAINST proposals to restrict or prohibit shareholders' ability to take action by written consent.

Vote FOR proposals to allow or make easier shareholders' action by written consent.

Key Change: Specifying the factors RMG looks for in the right for shareholders to act by written consent, such as threshold, exclusions, etc.

New Recommendation:

Vote AGAINST management and shareholder proposals to restrict or prohibit shareholders' ability to act by written consent.

Generally vote FOR management and shareholder proposals that provide shareholders with the ability to act by written consent taking into account the following factors:

- Shareholders' current right to act by written consent;
- Consent threshold;

- The inclusion of exclusionary or prohibitive language;
- Investor ownership structure; and
- Shareholder support of and management's response to previous shareholder proposals.

Rationale for Update: The policy on written consent is being updated to parallel the changes made to the policy on shareholder ability to call special meetings.

Corporate Governance Issue: Supermajority Vote Requirements

Current Recommendation:

Vote AGAINST proposals to require a supermajority shareholder vote.

Vote FOR proposals to lower supermajority vote requirements.

Key Change: Factoring in an individual's or a group's majority ownership in the company, which may be detrimental to minority shareholders' interests.

New Recommendation:

Vote AGAINST proposals to require a supermajority shareholder vote.

Vote FOR management or shareholder proposals to reduce supermajority vote requirements. However, for companies with shareholder(s) who have significant ownership levels, vote CASE-BY-CASE, taking into account:

- Ownership structure;
- Quorum requirements; and
- Supermajority vote requirements.

Rationale for Update: The general lack of credit availability for financially distressed companies has resulted in "rescue" or highly dilutive stock and warrant issuances, which often comprise a majority of the company's voting stock upon conversion. When an investor takes control of the company through the conversion of securities, the new owners often seek statutory amendments, such as adopting written consent, or allowing 50 percent shareholders to call a special meeting, that allow effective control over the company with little or no input from minority shareholders.

In such cases, the existing supermajority vote requirements would serve to protect minority shareholders' interests. The reduction in the vote requirements, when coupled with low quorum requirements (in Nevada and other states) could shift the balance in power away from small shareholders while overly empowering large shareholders.

CAPITAL/RESTRUCTURING

Corporate Governance Issue: Common Stock Authorization

Current Recommendation: Vote CASE-BY-CASE on proposals to increase the number of shares of common stock authorized for issuance. Take into account company-specific factors which include, at a minimum, the following:

- Specific reasons/ rationale for the proposed increase;
- The dilutive impact of the request as determined through an allowable cap generated by RiskMetrics' quantitative model;
- The board's governance structure and practices; and
- Risks to shareholders of not approving the request.

Vote FOR proposals to approve increases beyond the allowable increase when a company's shares are in danger of being delisted, or if a company's ability to continue to operate as a going concern is uncertain.

Vote AGAINST proposals at companies with dual-class capital structures to increase the number of authorized shares of the class of stock that has superior voting rights.

Key Changes: Emphasis on disclosure of specific reasons for the proposed increase; expansion of the narrative analysis to include a discussion of the company's historical use of existing shares and recent total shareholder return; new presentation of the factors examined.

New Recommendation: Vote CASE-BY-CASE on proposals to increase the number of shares of common stock authorized for issuance. Take into account company-specific factors which include, at a minimum, the following:

- Past Board Performance:
  - The company's use of authorized shares during the last three years;
  - One- and three-year total shareholder return; and
  - The board's governance structure and practices;
- The Current Request:
  - Disclosure in the proxy statement of the specific reasons for the proposed increase;
  - The dilutive impact of the request as determined through an allowable cap generated by RiskMetrics' quantitative model, which examines the company's need for shares and its three-year total shareholder return; and
  - Risks to shareholders of not approving the request.

Vote AGAINST proposals at companies with more than one class of common stock to increase the number of authorized shares of the class that has superior voting rights.

Rationale for Update:

In the past, companies did not need shareholder approval of all equity compensation plans or certain other uses of shares. Therefore, voting on management's proxy proposal to increase authorized shares was often shareholders' only opportunity to hold directors accountable for poor share usage. Today, shareholders have a say over many more uses of shares, but there are still two prevalent uses of shares over which shareholders generally have no say: acquisitions that involve the issuance of up to 20 percent of a company's outstanding common stock, and the adoption of poison pills. As such, we determined that the analysis of requests for increased authorized shares remains an important component of shareholder protections.

For the 2009 proxy season, in response to client requests, we added a narrative overlay to the analysis that discusses the company's governance and the risks of voting against the request. For the 2010 proxy season, we will enhance the narrative overlay to add information on planned share usage (to the extent that specifics appear in the proxy statement), recent TSR performance, and past share usage, in order to better align our analysis with the factors that clients find most important when evaluating these proposals. Past share usage includes details of acquisitions, previous new share requests, and equity plan requests and usage (including burn rate and repricings). Investors are less likely to approve new share requests if the company provides no specific reason for its request, underperforms its industry peers, or has problematic governance. In our 2008 policy survey, clients ranked a company's planned use of capital, track record of share usage, and stock performance as the most important factors in how they evaluate requests for more shares.

Corporate Governance Issue:
Preferred Stock Authorization

Current Recommendation: Vote CASE-BY-CASE on proposals to increase the number of shares of preferred stock authorized for issuance. Take into account company-specific factors which include, at a minimum, the following:

- Specific reasons/rationale for the proposed increase;
- The dilutive impact of the request as determined through an allowable cap generated by RiskMetrics' quantitative model;
- The board's governance structure and practices; and
- Risks to shareholders of not approving the request.

Vote AGAINST proposals at companies with dual-class capital structures to increase the number of authorized shares of the class of stock that has superior voting rights.

Vote AGAINST proposals authorizing the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution, and other rights ("blank check" preferred stock).

Vote FOR proposals to create "declawed" blank check preferred stock (stock that cannot be used as a takeover defense).

Vote FOR proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable.

Vote AGAINST proposals to increase the number of blank check preferred stock authorized for issuance when no shares have been issued or reserved for a specific purpose.

Key Changes: Emphasis on disclosure of specific reasons for the proposed increase; expansion of the narrative analysis to include a discussion of the company's historical use of existing shares, recent total shareholder return, and any anti-takeover effect if the company requests authorization of blank check preferred stock; new presentation of the factors examined.

New Recommendation: Vote CASE-BY-CASE on proposals to increase the number of shares of preferred stock authorized for issuance. Take into account company-specific factors that include, at a minimum, the following:

- Past Board Performance:
  - The company's use of authorized preferred shares during the last three years;
  - One- and three-year total shareholder return; and
  - The board's governance structure and practices;
- The Current Request:
  - Disclosure in the proxy statement of specific reasons for the proposed increase;
  - In cases where the company has existing authorized preferred stock, the dilutive impact of the request as determined through an allowable cap generated by RiskMetrics' quantitative model, which examines the company's need for shares and three-year total shareholder return; and
  - Whether the shares requested are blank check preferred shares, and whether they are declawed.

Vote AGAINST proposals at companies with more than one class or series of preferred stock to increase the number of authorized shares of the class or series that has superior voting rights.

Rationale for Update: Companies do not generally need shareholder approval for financing activities, and financing activities often involve grants of preferred stock. As such, a request for new authorized shares of preferred stock is often the only opportunity that shareholders have to oppose unsatisfactory financing activities. The changes made to the analytical framework for preferred share requests parallel the changes made to the framework for common share request evaluations.

Although we are clarifying and simplifying the policy language relating to blank check preferred stock, we will continue to recommend against requests for authorizations of blank check preferred stock unless: (a) the company commits not to use the blank check preferred stock for anti-takeover purposes without shareholder approval; (b) the company already has existing authorized and outstanding blank check preferred stock, making the addition of more shares of blank check preferred stock moot for anti-takeover purposes; or (c) the analyst determines, on the basis of specific disclosure in the proxy statement, that the risks of rejecting the proposal outweigh the risks of adopting it.

COMPENSATION

Corporate Governance Issue: Compensation Overview

Executive pay remains a perennial hot button issue for shareholders, and the global financial crisis raised new questions about the role of incentives in influencing executive behavior, including their risk appetite. Evolving disclosure requirements have opened a wider window into compensation practices and processes, giving shareholders more opportunity and responsibility to ensure that pay is designed to create and sustain value. The advent of "say on pay" votes for shareholders of U.S. companies is providing a new communication mechanism and impetus for constructive engagement between shareholders and managers/directors on a range of pay issues.

While there are few changes to specific recommendation guidelines in this area for 2010, within that backdrop, RMG determined that an integrated policy for evaluating executive compensation with respect to the key considerations of (1) pay-for-performance, (2) pay practices, and (3) board responsiveness and communication on compensation issues provides the most effective means to communicate and clarify the factors that underlie RMG recommendations on voting proposals related to executive pay. The Voting Manual Compensation section is being reorganized along these lines with an integrated, holistic, Executive Compensation Evaluation policy. The Executive Compensation Evaluation policy incorporates guidelines from RMG's existing Pay for Performance and Poor Pay Practices policies, as well as additional guidelines adopted in 2007 for Management Say on Pay ("MSOP") proposals. Further, the five global principles on executive and director pay (which were introduced as part of the prior MSOP policy and now underlie the comprehensive Executive Compensation Evaluation Policy) further align RMG policy with overarching best practices in remuneration at a global level and illustrate RMG's approach of recognizing market distinctions within a global policy framework.

As supported by a majority (52 percent) of client survey responses this year, the MSOP proposal will be the primary communication avenue to initially address problematic pay practices, with additional or alternative negative recommendations on Compensation Committee members (or potentially the full board) in egregious or continuing situations. If concerns raised in the MSOP are not sufficiently addressed in the subsequent year, RMG may recommend withhold/against votes on Compensation Committee members.

Clarifying specific factors that may, on an individual basis, result in AGAINST recommendations will provide additional transparency to the market as to how our overall pay evaluation policy may be applied with respect to MSOP, director election, and equity plan proposals. Further, the 2009/2010 annual policy survey results indicated that certain factors are viewed as more critical/important than others in an MSOP evaluation. Specifically, Pay for Performance (deemed "critical" by 58.6% and "important" by 35.4%), Performance Metrics (53.5%/42.4%), and Pay Practices (35.7%/49%) are viewed as the most important. As such, a company that triggers one or more of these critical factors may elicit an AGAINST recommendation regardless of other factors; in contrast, 39.4% of respondents consider Internal Pay Disparity as only "Somewhat Important" and 6.1% consider it "Not Relevant", so this is no longer a stand-alone factor, although it will continue to be considered in overall evaluations.

The addition of a guideline for assessing company policies and disclosure related to compensation that could incentivize excessive risk-taking was prompted by concerns raised as a result of the financial system crisis. In 2009, TARP participants were required to conduct and disclose the implications of a review of any risk incentivizing behavior within their compensation programs. Further, the SEC is proposing to amend CD&A requirements to include a new section that will require information about how a company's overall compensation policies for employees create incentives that can affect the company's risk and management of that risk. Given the proposed new section, RMG has included this key factor within its compensation policy related to MSOP recommendations, as it is also expected that potential regulatory requirements will incorporate some emphasis on compensation risk evaluation by issuers.

The Compensation section of the Voting Manual is being reorganized into four policy sections:

I. Executive Pay Evaluation

II. Equity-Based and Other Incentive Plans

III. Director Compensation

IV. Shareholder Proposals

Within these sections the policy changes for 2010 are in Executive Pay Evaluation: pay for performance and problematic pay practices; and in Equity-Based and Other Incentive Plans: updated volatility and stock price assumptions and burn rate tables for 2010.

Corporate Governance Issue: Executive Pay Evaluation

Pay-for Performance

Key changes: An additional factor is being added to the Pay-for Performance evaluation: the consideration of the alignment of the CEO's total direct compensation (TDC) and total shareholder return (TSR) over a period of at least five years.

New Recommendation:

Vote CASE-BY-CASE on MSOP, election of directors or equity plans by analyzing the alignment of CEO pay and performance with regard to shareholder returns over time:

Consider the alignment of the CEO's pay with performance over time, focusing particularly on companies that have underperformed their peers over a sustained period. From a shareholders' perspective, performance is predominantly gauged by the company's stock performance over time. Even when financial or operational measures are utilized in incentive awards, the achievement related to these measures should ultimately translate into superior shareholder returns in the long-term.

Focus on companies with sustained underperformance relative to peers, considering the following key factors:

- Whether a company's one-year and three-year total shareholder returns ("TSR") are in the bottom half of its industry group (i.e., four-digit GICS – Global Industry Classification Group); <u>and</u>
- Whether the total compensation of a CEO who has served at least two consecutive fiscal years is aligned with the company's total shareholder return over time, including both recent and long-term periods.

If a company falls in the bottom half of its four-digit GICS, analyze the CD&A to better understand the various pay elements and whether they create or reinforce shareholder alignment. In addition, assess the CEO's pay relative to the company's TSR over a time horizon of at least five years. The most recent year-over-year increase or decrease in pay remains a key consideration, but there will be additional emphasis on the long term trend of CEO total compensation relative to shareholder return. Also consider the mix of performance-based compensation relative to total compensation. In general, RMG does not consider standard stock options or time-vested restricted stock to be performance-based. If a company provides performance-based incentives to its executives, the company is highly encouraged to provide the complete disclosure of the performance measure and goals (hurdle rate) so that shareholders can assess the rigor of the performance program. The use of non-GAAP financial metrics also makes it very challenging for shareholders to ascertain the rigor of the program as shareholders often cannot tell the type of adjustments being made and if the adjustments were made consistently. Complete and transparent disclosure would help shareholders to better understand the company's pay for performance linkage.

If there is a misalignment between CEO pay and performance with regard to shareholder value, vote AGAINST MSOP and/or election of directors (generally compensation committee members).

If a significant portion of the CEO's misaligned pay is attributed to equity awards, and there is an equity plan on the ballot in which the CEO participates, vote AGAINST the equity plan. Considerations in voting AGAINST the equity plan may include, but are not limited to, magnitude of pay increase/decrease in the last fiscal year, source of pay increase (cash or equity), and proportion of equity awards granted in the last fiscal year concentrated at the named executive officer level.

Rationale for update: Based on the 2009 Policy Survey results, 71.3 percent of institutional respondents indicated that five years is the appropriate time horizon for assessing long-term performance relative to pay. Our current policy looks at relative one- and three-year TSR performance and most recent year-over-year CEO pay changes. By indexing the company's stock performance (TSR) over a five year period and comparing it with the CEO's total compensation trend in the same period, shareholders can more readily assess the alignment between CEO pay and stock performance. A long-term alignment chart will focus on the long-term trend of company performance and CEO pay and also will tend to smooth out issues related to the timing of equity grants relative to performance years.

Problematic Pay Practices

Key Changes: Putting the MSOP as the initial vehicle to address pay practices, identifying the most serious practices, and providing a new focus on practices that may motivate inappropriate risk-taking.

New Recommendation:

If the company maintains problematic pay practices, generally vote:

- AGAINST management say on pay (MSOP) proposals;
- AGAINST/WITHHOLD on compensation committee members (or, in rare cases where the full board is deemed responsible, all directors including the CEO) in egregious situations, or when no MSOP item is on the ballot, or when the board has failed to respond to concerns raised in prior MSOP evaluations; and/or
- AGAINST an equity-based incentive plan proposal if excessive non-performance-based equity awards are the major contributor to a pay-for-performance misalignment.

RMG recognizes that companies adopt a variety of pay arrangements that may be acceptable in their particular industries, or unique for a particular situation, and all companies are reviewed on a case-by-case basis. However, based on input from client surveys and roundtables, RMG has identified certain adverse practices that are particularly contrary to a performance-based pay philosophy. Vote recommendations are generally based on the preponderance of problematic elements; however, certain adverse practices carry more weight on a stand-alone basis in the evaluation. While not exhaustive, this is the list of the practices that carry greatest weight in this consideration and may result in negative recommendations on a stand-alone basis. For more details, please refer to RMG's Compensation FAQ document: www.riskmetrics.com/policy/2010_compensation_FAQ

- Multi-year guarantees for salary increases, non-performance based bonuses, and equity compensation;
- Including additional years of unworked service that result in significant additional benefits, without sufficient justification, or including long-term equity awards in the pension calculation;
- Perquisites for former and/or retired executives, and extraordinary relocation benefits (including home buyouts) for current executives;
- Change-in-control payments exceeding 3 times base salary and target bonus; change-in-control payments without job loss or substantial diminution of duties ("Single Triggers"); new or materially amended agreements that provide for "modified single triggers" (under which an executive may voluntarily leave for any reason and still receive the change-in-control severance package); new or materially amended agreements that provide for an excise tax gross-up (including "modified gross-ups");
- Tax Reimbursements related to executive perquisites or other payments such as personal use of corporate aircraft, executive life insurance, bonus, etc; (see also excise tax gross-ups above)
- Dividends or dividend equivalents paid on unvested performance shares or units;
- Executives using company stock in hedging activities, such as "cashless" collars, forward sales, equity swaps or other similar arrangements; or
- Repricing or replacing of underwater stock options/stock appreciation rights without prior shareholder approval (including cash buyouts and voluntary surrender/subsequent regrant of underwater options).

In addition, assess company policies and practices related to compensation that could incentivize excessive risk-taking, for example:

- Guaranteed bonuses;
- A single performance metric used for short- and long-term plans;
- Lucrative severance packages;
- High pay opportunities relative to industry peers;
- Disproportionate supplemental pensions; or
- Mega annual equity grants that provide unlimited upside with no downside risk.

Factors that potentially mitigate the impact of risky incentives include rigorous claw-back provisions and robust stock ownership/holding guidelines.

Rationale for update: As discussed in the Compensation Overview, the MSOP proposal will be the primary vehicle to initially address problematic pay practices. In the list of such pay practices, some practices are considered worse than others, and are more apt to draw against vote recommendations from RMG; we are providing more clarity in this document and in our FAQ. Lastly, riskiness is a subject of shareholder concern as well as various legislative and regulatory initiatives, especially with regard to pay design that may promote excessive risk taking that could threaten the company's long-term viability. While most of these "risk-motivating" incentive practices were already cited by RMG as "poor pay practices," the policy is updated to provide a separate focus on those factors.

Corporate Governance Issue: Equity-Based and Other Incentive Plans

Volatility and Stock Price Assumptions in Equity Plan Proposals (SVT and Burn Rate)

Current Calculation: For the Dec. 1, 2008, Mar. 1, Jun. 1, and Sept. 1, 2009 quarterly data downloads, RMG used the 400-day volatility for the shareholder value transfer and burn rate polices and 90-day average stock price.

Key Change: RMG will revert to the 200-day volatility and 200-day average stock price for the Dec. 1, 2009 and subsequent quarterly data downloads.

New Calculation: For the Dec. 1, 2009 and future quarterly data downloads, RMG will use the 200-day volatility for the shareholder value transfer and burn rate policies. We will also use the 200-day average stock price for the shareholder value transfer policy.

Rationale for Update: While the stock market has experienced volatile periods in the past and may in the future, volatility levels at the end of 2008 and early 2009 were unprecedented. This extraordinary stock price volatility could have lead to unintended consequences such that companies' stock option valuations moving close to that of full value shares in some cases. By extending the 200-day volatility to 400-day volatility for the four quarters, the recent spike in volatility had less impact, and thus provided better representation of companies' stock valuation. The unprecedented volatility rendered many options to be deeply-under-the-water during 2009; therefore, by using a 90-day stock price, RMG has minimized the measurement discrepancy in valuing potential underwater options.

After a re-evaluation of market volatility, RMG noted that commencing September 2009, as evidenced by the S&P 500's annual stock volatility returns, the 200-day volatility value has moved far enough from the volatile period of the market and is actually lower than a 400-day volatility measurement. This trend is anticipated to persist in the near future as the 200-day measurement period would intuitively consist less of the abnormally volatile period during late 2008 and early 2009. Similarly, the unprecedented volatility in the market shows the same phenomena on the 200-day stock price. During late 2008 and early 2009, the 200-day stock price was artificially higher than the 90-day price by a range of 30 percent to 50 percent. Towards September 2009, RMG notes that this ratio has consistently approached the value of one, and as such the 200-day stock price for succeeding quarterly downloads would cease to differ significantly as the market stabilizes over time.

Burn Rate Table for 2010

		Russell 3000				Non-Russell 3000		
GICS	Description	Mean	Standard Deviation	Mean+STDEV		Mean	Standard Deviation	Mean+STDEV
1010	Energy	1.07%	1.08%	2.14%		2.04%	2.26%	4.30%
1510	Materials	0.94%	0.68%	1.63%		1.97%	2.57%	4.54%
2010	Capital Goods	1.10%	0.85%	1.95%		2.07%	2.62%	4.69%
2020	Commercial Services & Supplies	1.67%	1.23%	2.89%		1.82%	1.71%	3.53%
2030	Transportation	1.20%	0.93%	2.13%		1.36%	0.95%	2.31%
2510	Automobiles & Components	1.36%	1.63%	2.99%		1.36%	1.63%	2.99%
2520	Consumer Durables & Apparel	1.76%	1.21%	2.97%		1.56%	1.81%	3.37%
2530	Hotels Restaurants & Leisure	1.69%	1.11%	2.80%		1.52%	1.65%	3.17%
2540	Media	1.36%	0.93%	2.28%		2.14%	1.88%	4.03%
2550	Retailing	1.69%	1.41%	3.10%		2.19%	1.82%	4.01%
3010, 3020, 3030	Food & Staples Retailing	1.25%	1.67%	2.92%		1.52%	1.65%	3.17%
3510	Health Care Equipment & Services	2.19%	1.46%	3.65%		3.77%	4.16%	7.92%
3520	Pharmaceuticals & Biotechnology	3.19%	1.97%	5.16%		4.52%	4.05%	8.58%
4010	Banks	1.02%	1.04%	2.05%		0.81%	1.31%	2.12%
4020	Diversified Financials	2.21%	2.94%	5.15%		4.25%	4.05%	8.30%
4030	Insurance	1.07%	0.94%	2.02%		1.03%	1.28%	2.31%
4040	Real Estate	0.56%	0.49%	1.04%		0.99%	2.14%	3.13%
4510	Software & Services	3.15%	2.32%	5.47%		4.32%	3.26%	7.58%
4520	Technology Hardware & Equipment	2.60%	2.18%	4.79%		3.32%	3.76%	7.08%
4530	Semiconductors & Semiconductor Equipment	2.94%	1.88%	4.82%		4.33%	2.98%	7.31%
5010	Telecommunication Services	1.30%	1.20%	2.50%		2.63%	2.45%	5.08%
5510	Utilities	0.41%	0.39%	0.80%		0.76%	0.88%	1.64%

Vote AGAINST equity plans for companies whose average three-year burn rates 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 (see table above); or (2) two percent of weighted common shares outstanding.

For companies that grant both full value awards and stock options to their participants, RMG applies a premium on full value awards for the past three fiscal years. The guideline for applying the premium will be as follows:

Stock Price Volatility	Multiplier
54.6% and higher	1 full-value award will count as 1.5 option shares
36.1% or higher and less than 54.6%	1 full-value award will count as 2.0 option shares
24.9% or higher and less than 36.1%	1 full-value award will count as 2.5 option shares
16.5% or higher and less than 24.9%	1 full-value award will count as 3.0 option shares
7.9% or higher and less than 16.5%	1 full-value award will count as 3.5 option shares
Less than 7.9%	1 full-value award will count as 4.0 option shares

SOCIAL/ENVIRONMENTAL ISSUES

Corporate Governance Issue:
Climate Change and the Environment

Greenhouse Gas (GHG) Emissions

Current Recommendation: Generally vote FOR proposals requesting a report on greenhouse gas (GHG) emissions from company operations and/or products, unless:

- The company already provides current, publicly-available information on the impacts that GHG emissions may have on the company as well as associated company policies and procedures to address related risks and/or opportunities;
- The company's level of disclosure is at least comparable to that of industry peers; and
- There are no significant, controversies, fines, penalties, or litigation associated with the company's GHG emissions.

Generally vote AGAINST proposals that call for a reduction in GHG emissions by specific amounts or within a specific time frame, unless:

- The company lags behind industry standards; and
- The company has been the subject of recent, significant violations, fines, litigation, or controversy related to GHG emissions.

Key Change: Policy is being changed from a "generally vote AGAINST" recommendation to a "CASE-BY-CASE" recommendation on proposals that call for the adoption of GHG reduction goals, with additional factors considered.

New Recommendation: Generally vote FOR proposals requesting a report on greenhouse gas (GHG) emissions from company operations and/or products and operations, unless:

- The company already provides current, publicly-available information on the impacts that GHG emissions may have on the company as well as associated company policies and procedures to address related risks and/or opportunities;
- The company's level of disclosure is comparable to that of industry peers; and
- There are no significant, controversies, fines, penalties, or litigation associated with the company's GHG emissions.

Vote CASE-BY-CASE on proposals that call for the adoption of GHG reduction goals from products and operations, taking into account:

- Overly prescriptive requests for the reduction in GHG emissions by specific amounts or within a specific time frame;
- Whether company disclosure lags behind industry peers;
- Whether the company has been the subject of recent, significant violations, fines, litigation, or controversy related to GHG emissions;
- The feasibility of reduction of GHGs given the company's product line and current technology and;
- Whether the company already provides meaningful disclosure on GHG emissions from its products and operations.

Rationale for Update: RMG is changing its policy from recommending to generally vote AGAINST proposals that call for a reduction in GHG emissions by specific amounts or within a specific time frame to a CASE-BY-CASE policy, which reflects a change in the proposals that have been submitted over the last few years. Recent proposals ask that the target company adopt GHG reduction goals for its operational emissions; in addition, the proposals are now asking the company to adopt GHG emissions reduction goals for its products. As a result, RMG's newly adopted CASE-BY-CASE evaluation of GHG goals resolutions will consider a variety of factors, listed above.

While reporting on operational GHG emissions is increasingly the norm, adopting GHG goals from products in certain industries could be problematic. For example, adopting GHG reductions goals from products may not be possible without a product reformulation for companies that sell carbon-based products (such as oil or coal) or at companies where product may depend on consumer energy conservation (such as utilities or homes).

In some cases, the focus on GHG emissions from products may be viewed as a product reformulation request. As such, RMG's new policy framework is geared towards examining the existing considerations of scope and timeline, while also allowing for capturing industry specific factors and existing company disclosure on GHG emissions metrics and reduction goals.

Corporate Governance Issue: Diversity

Board Diversity

Current Recommendation: Generally vote *FOR* requests for reports on the company's efforts to diversify the board, unless:

- The board composition is reasonably inclusive in relation to companies of similar size and business; and
- The board already reports on its nominating procedures and diversity initiatives.

Vote *CASE-BY-CASE* on proposals asking the company to increase the representation of women and minorities on the board, taking into account:

- The degree of board diversity;
- Comparison with peer companies;
- Established process for improving board diversity;
- Existence of independent nominating committee;
- Use of outside search firm;
- History of EEO violations.

Key Change: Defining diversity; examining how prescriptive is the shareholder proposal.

New Recommendation: Generally vote *FOR* requests for reports on the company's efforts to diversify the board, unless:

- The gender and racial minority representation of the company's board is reasonably inclusive in relation to companies of similar size and business; and
- The board already reports on its nominating procedures and gender and racial minority initiatives on the board and within the company.

Vote *CASE-BY-CASE* on proposals asking the company to increase the gender and racial minority representation on its board, taking into account:

- The degree of existing gender and racial minority diversity on the company's board and among its executive officers;
- The level of gender and racial minority representation that exists at the company's industry peers;
- The company's established process for addressing gender and racial minority board representation;
- Whether the proposal includes an overly prescriptive request to amend nominating committee charter language;
- The independence of the company's nominating committee;
- The company uses an outside search firm to identify potential director nominees; and
- Whether the company has had recent controversies, fines, or litigation regarding equal employment practices.

Rationale for Update: While the current policy does account for diversity language in a company's nominating procedures and initiatives, it does not specify the RMG definition of what constitutes 'diversity'. Companies may state they seek a diversity of backgrounds when evaluating director candidates, but they often do not state whether their definition is limited to professional diversity rather than gender or racial minority diversity. In addition, as recent proposals have called for prescriptive changes, RMG will evaluate whether the proposal seeks a prescriptive change to the nominating committee charter language versus a non-prescriptive report on company diversity initiatives.

Corporate Governance Issue:
General Corporate Issues

Environmental, Social, and Governance (ESG) Compensation-Related Proposals

Current Recommendation: Vote CASE-BY-CASE on proposals to report on ways of linking executive compensation to non-financial criteria, such as corporate downsizings, customer or employee satisfaction, community involvement, human rights, environmental performance, or predatory lending. Such resolutions should be evaluated in the context of:

- The relevance of the non-financial criteria in question to the company;
- The degree to which non-financial criteria are already included in the company's executive compensation structure and publicly disclosed;
- The degree to which non-financial criteria are used by industry peers in setting executive compensation;
- Significant company violations or controversies associated with social and/or environmental performance or compensation practices;
- The company's current level of disclosure regarding environmental and social performance; and
- Independence of the compensation committee.

Generally vote AGAINST proposals to link executive compensation to non-financial criteria, such as corporate downsizings, customer or employee satisfaction, community involvement, human rights, environmental performance, and predatory lending.

Generally vote AGAINST proposals calling for an analysis of the pay disparity between corporate executives and other employees.

New Recommendation: Generally vote AGAINST proposals to link, or report on linking, executive compensation to environmental and social criteria (such as corporate downsizings, customer or employee satisfaction, community involvement, human rights, environmental performance, or predatory lending) as the practice of linking executive compensation and such criteria is currently the exception rather than the norm and there appears to be a lack of widely-accepted standards regarding the implementation of effective linkages between executive compensation and corporate non-financial performance. However, the following factors will be considered:

- Whether the company has significant and persistent controversies or 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.

Generally vote AGAINST proposals calling for an analysis of the pay disparity between corporate executives and other non-executive employees. The value of the information sought by such proposals is unclear.

Rationale for Update: Despite the growing interest in how Environmental, Social, and Governance (ESG) performance may influence overall company performance and the fact that companies are increasingly measuring, tracking, and managing their sustainability risks and performance, there remains a lack of standards or consensus over how such ESG performance metrics should be linked to executive compensation. Given the ongoing debate over how ESG metrics should be incorporated into executive compensation practices and provided that very few companies have incorporated such practices, best practices will likely continue to evolve. An independent Compensation Committee, with a firm pay-for-performance policy, is best entrusted with interpreting the academic research, consumer pressure, and regulatory changes which are part of this debate. A request for the board to produce a report on the subject is unlikely to add to the debate or enhance shareholder value.