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October 24, 2014

ISS QuickScore 3.0

Yesterday evening, Institutional Shareholder Services (ISS) announced its third iteration of the Governance QuickScore product, with QuickScore 3.0 scheduled to be launched on November 24, 2014 for the 2015 proxy season. Companies will have from November 3rd until 8pm Eastern time on November 14th to verify the underlying raw data and submit updates and corrections through ISS's data review and verification site. ISS currently plans to release the new ratings on November 24th for inclusion in proxy research reports issued to institutional shareholders. Ratings should be updated based on companies' public disclosures during the calendar year.

Listed in Annex A are the individual factors ISS currently plans to assess for the U.S. market in QuickScore 3.0 (which was preceded by QuickScore 2.0, QuickScore 1.0, the GRId Governance Risk Indicators and the original CGQ Corporate Governance Quotient). At present, the topics addressed in this latest iteration will address at least seven new items:

(1) "Does the company disclose a policy requiring an annual performance evaluation of the board?"

(2) "Has the board failed to address the issue underlying majority director WHs (withhold votes)?"

(3) "Has ISS' review found that the Board of Directors recently took action that materially reduces shareholder rights?"

(4) "Is there a sunset provision on the company's unequal voting structure?"

(5) "Does the company have a controlling shareholder?"

(6) "Does the company's average 3-year equity grant rate exceed the greater of 2 percent and the average of its industry/index peers?"

(7) "How long is the notice period for the CEO if the company terminates the contract?"

With respect to continuing factors, Board-Level Gender Diversity, which had previously been disclosed in the QuickScore report for informational purposes but did not impact ratings, is now expected to be scored and weighted for the first time. Other new factors from QuickScore 2.0 that impacted scoring, such as "lengthy" director tenure, low director approval rates relative to average industry levels of support, low say-on-pay support levels relative to average industry levels, measures of outside director compensation and levels of alignment between pay and TSR – will continue to affect rankings. Regulatory investigations have also historically impacted scoring, and QuickScore 3.0 is expected to address regulatory matters, including materiality of penalties, in greater detail under the "Audit and Risk Oversight" category (the specifics of how this will be done have yet to be released). Notably, perhaps in a nod to concerns that the longstanding "snapshot in time" approach is inadequate, the QuickScore 3.0 reports will include data on historical scores and changes made by a company, as well as directional graphics conveying whether and how scores have improved, stayed the same, or declined over time.

We remain concerned by attempts to reduce the complex realities of corporate governance into easily digestible, but inherently misleading, "scores," particularly ones based on unproven and opaque methodologies. For example, ISS has previously failed to disclose the specific weightings and balancing among the quantitative and qualitative factors in its scoring model, and we hope that ISS will take the opportunity presented by QuickScore 3.0 to provide greater transparency into its methodology and measurement system.

No single metric or bundle of metrics can substitute for the informed business judgment of a well-advised board as to what is necessary and appropriate in dynamic, real-world circumstances. We continue to urge companies and boards to see QuickScore for what it is—a data point generated by an artfully marketed product, rather than a target or an ideal—and to consider their individual circumstances in establishing and evaluating appropriate corporate governance practices and compensation policies for their companies.

David A. Katz　　　　Sabastian V. Niles

Annex A

ISS QuickScore 3.0 Factors for U.S. Companies

(as of October 23, 2014 Initial Announcement)

1. Non-Audit fees represent what percentage of total fees?
2. Did the auditor issue an adverse opinion in the past year?
3. Has the company restated financials for any period within the past two years?
4. Has the company made non-timely financial disclosure filings in the past two years?
5. Has a regulator initiated enforcement action against the company in the past two years?
6. Has a regulator initiated enforcement action against a director or officer of the company in the past two years?
7. Is the company, a director or officer of the company currently under investigation by a regulatory body?
8. Has the company disclosed any material weaknesses in its internal controls in the past two years?
9. How many financial experts serve on the audit committee?
10. How many directors serve on the board?
11. What is the number/proportion of women on the board?
12. What is the independent director composition of the Board?
13. What proportion of non-executive directors on the board has lengthy tenure?
14. What is the classification of the Chairman of the Board?
15. Has the company identified a Senior Independent Director or an independent Lead Director?
16. What percentage of the board consists of immediate family members of majority shareholders, executives and former executives (within the past five years)?
17. What percentage of the board are former or current employees of the company?
18. What is the independent status of the nominating committee members?
19. What is the independent status of the compensation committee members?
20. What is the independent status of the audit committee members?
21. Does the CEO serve on an excessive number of outside boards?
22. How many non-executives serve on an excessive number of outside boards?
23. Did any directors attend less than 75% of the aggregate board and applicable key committee meetings without a valid excuse?
24. How many directors received withhold/against votes of 50% or greater at the last annual meeting?
25. What percentage of directors received shareholder approval rates below 80%?
26. What was the average outside director's total compensation as a multiple of the peer median?
27. Do all directors with more than one year of service own stock?
28. Did any executive or director pledge company shares?
29. Does the company disclose a policy requiring an annual performance evaluation of the board?
30. Does the company disclose board/governance guidelines?
31. Are directors subject to stock ownership guidelines?
32. Does the company have a robust policy prohibiting hedging of company shares by employees?
33. What percent of the directors were involved in material RPTs?
34. Do the directors with RPTs sit on key board committees?
35. Are there material related-party transactions involving the CEO?
36. Has the board failed to implement a shareholder resolution supported by a majority vote, or failed to address the issue underlying majority director WHs?
37. Has ISS' review found that the Board of Directors recently took action that materially reduces shareholder rights?
38. Does the company have classes of stock with different voting rights?
39. Are there any directors on the board who are not up for election by all classes of common shareholders?
40. Is there a sunset provision on the company's unequal voting structure?
41. Are all directors elected annually?
42. Is the board authorized to issue blank check preferred stock?
43. Does the company have a poison pill (shareholder rights plan) in effect?
44. What is the trigger threshold for the poison pill?
45. Does the poison pill have a sunset provision?
46. Does the poison pill have a TIDE provision?
47. Does the poison pill have a qualified offer clause?

48. What is the expiration date of the poison pill?
49. Is the poison pill designed to preserve tax assets (NOL pill)?
50. When was the poison pill implemented or renewed?
51. Does the company's poison pill include a modified slow-hand or dead-hand provision?
52. Does the company have a controlling shareholder?
53. If the company has a majority voting standard, is there a plurality carve-out in the case of contested elections?
54. Does the company require a super-majority vote to approve amendments to the charter and by-laws?
55. Does the company require a super-majority vote to approve mergers/business combinations?
56. What is the percentage of share capital needed to convene a special meeting?
57. Can shareholders act by written consent?
58. Does the company have a majority vote standard in uncontested elections?
59. Are there material restrictions as to timing or topics to be discussed, or ownership levels required to call the meeting?
60. What is the degree of alignment between the company's cumulative 3-year pay percentile rank, relative to peers, and its 3-year cumulative TSR rank, relative to peers?
61. What is the degree of alignment between the company's 1-year pay percentile rank, relative to peers, and its 1-year TSR rank, relative to peers?
62. What is the size of the CEO's 1-year pay, as a multiple of the median pay for company peers?
63. What is the degree of alignment between the company's TSR and change in CEO pay over the past five years?
64. What is the ratio of the CEO's total compensation to the next highest paid executive?
65. What is the degree of alignment between the company's annualized 3-year pay percentile rank, relative to peers, and its 3-year annualized TSR rank, relative to peers?
66. Are any of the NEOs eligible for multi-year guaranteed bonuses?
67. What is the ratio of the CEO's non-performance-based compensation (All Other Compensation) to Base Salary?
68. Do the company's active equity plans prohibit share recycling for options/SARS?
69. Do the company's active equity plans prohibit option/SAR repricing?
70. Does the company's active equity plans prohibit option/SAR cash buyouts?
71. Do the company's active equity plans have an evergreen provision?
72. Do the company's active equity plans have a liberal CIC definition?
73. Has the company repriced options or exchanged them for shares, options or cash without shareholder approval in the last three years?
74. Does the company's average 3-year equity grant rate exceed the greater of 2 percent and the average of its industry/index peers?
75. Did the company disclose a claw back or malus provision?
76. What are the vesting periods mandated in the plan documents for executives' stock options or SARS in the equity plans adopted/amended in the last 3 years?
77. What are the vesting periods mandated in the plan documents, adopted/amended in the last three years, for executives' restricted stock/stock awards?
78. What is the holding/retention period for stock options (for executives)?
79. What is the holding/retention period for restricted shares/stock awards (for executives)?
80. What proportion of the salary is subject to stock ownership requirements/guidelines for the CEO?
81. Does the company disclose a performance measure for the short term incentive plan (for executives)?
82. What is the level of disclosure on performance measures for the latest active or proposed long term incentive plan?
83. Did the most recent Say on Pay proposal receive shareholders' support below 70%?
84. What's the trigger under the change-in-control agreements?
85. Do equity-based plans or other long term awards vest completely upon a change-in-control?
86. What is the multiple of pay in the severance agreements for the CEO (upon a change-in-control)?
87. What is the basis for the change-in-control or severance payment for the CEO?
88. How long is the notice period for the CEO if the company terminates the contract?
89. Does the company provide excise tax gross-ups for change-in-control payments?
90. What is the length of employment agreement with the CEO?
91. Has ISS' qualitative review identified a pay-for-performance misalignment?
92. Has ISS identified a problematic pay practice or policy that raise concerns?