Principled Pay Practices
The Center On Executive Compensation

Mission Statement

The Center On Executive Compensation is dedicated to developing and promoting principled pay practices and advocating compensation policies that serve the best interests of shareholders and other corporate stakeholders. The Center believes that the management of the executive compensation function by corporations should be conducted in accordance with a set of clearly defined principles. The Center encourages companies to incorporate these principles in the development, administration and communication of their executive compensation arrangements. The Center further believes that executive compensation principles should be periodically updated to reflect the most contemporary thinking on the subject. The following pages provide links to the explanation of the Center's current principles, as well as a document providing more detail of how they are applied in practice.

Principled Pay Practices

- ***Aligned*** With the Best Interests of the Company's Shareholders and Other Stakeholders
- ***Fully Compliant*** With Applicable Laws and Regulations
- ***Independently Informed and Approved***
- ***Appropriately Customized*** to the Company's Culture, Values, Industry and Strategy
- ***Transparent and Accessible***
- ***Fair and Reasonable*** to the Company's Shareholders and Executives as a Whole

***Aligned:* Executive Compensation Arrangements Should Be Aligned With the Best Interests of a Company's Shareholders and Other Stakeholders**

- Link to Results. Incentives should be contingent on achieving stringent, well-defined results-based measures linked to a company's business, with a significant share of the total compensation at risk, or not guaranteed, and compensation proportionate to results.
- Ensure Appropriate Incentive Balance. Incentives should be structured to mitigate the possibility that executives would be encouraged to make decisions that could significant reduce the long-term value of the firm by including, for example, caps on total earnings potential, an appropriate mix among short- and long-term compensation elements and an appropriate balance among equity used in long-term incentives.
- Require Appropriate Ownership Stake. Executives should have a significant ownership stake in their company, driven by an appropriate amount of pay delivered through equity-based compensation, a substantial portion of which is linked to results, and implemented through meaningful ownership and/or retention guidelines applied to option exercises, stock vesting and/or payouts of stock compensation.
- Enable Necessary Talent. Executive compensation arrangements should enable companies to attract, retain and develop the executive talent necessary to serve the shareholders' and other corporate stakeholders' best interests, while ensuring a proper balance between pay that is focused on results and that which is focused on retention.
- Support the Business Strategy. Compensation should be structured to support the company's ability to execute its business strategy.

***Fully Compliant:* Executive Compensation Arrangements Should Be Structured and Executed in Full Compliance With Applicable Laws And Regulations and a Culture of Compliance Should Be Adopted to Guide a Company's Pay Policies and Practices.**

***Independently Informed and Approved:* Executive Compensation Arrangements Should Be Approved by the Board of Directors' Independent and Active Compensation Committee That Is Guided by High Corporate Governance Standards Implemented Through a Well-Defined Charter and Informed by Independent Advisors.**

The Board's compensation committee will:

- Employ Sound Corporate Governance Practices. Leading corporate governance practices help ensure that all elements of compensation are carefully reviewed and appropriately structured.
- Use Independent Compensation Advisors. Outside advisors retained by the compensation committee should not provide other services that create an actual or perceived conflict of interest with the executive pay advice provided.

- Conduct Periodic, Independent Competitive Compensation Reviews. A thorough periodic assessment of the company's executive compensation programs and practices helps to reinforce sound governance and appropriate compensation design.
- Evaluate Committee Regularly. Committee member evaluation helps ensure the committee acts consistent with its charter thus reinforcing accountability.

Appropriately Customized: **Executive Compensation Arrangements Should Be Appropriately Customized to and Aligned With the Company's Culture and Values, Business Strategy, Industry, and Competitive and Financial Conditions.**

- Utilize Well-Defined, Relevant and Rigorous Results-Based Metrics. Incentive plans should be customized to the company to support the realization of its business strategy while limiting overly aggressive or overly conservative decisionmaking.
- Ensure Pay Peer Group Is Appropriate for the Company. The pay peer group typically includes similarly situated companies in terms of industry, size, location(s) and performance and should correlate closely with the performance peer group.
- Confirm Compensation Levels Are Proportionately Appropriate Relative to Competitors. By comparing the company's compensation program to that of its peers, the compensation committee can determine the competitiveness of each element of executive compensation and the total program.

Transparent and Accessible: **The Compensation Committee Should Ensure That the Company's Executive Compensation Program Is Disclosed in a Clear and Understandable Manner and Ensure That the Company Is Accessible to Explain the Program to Shareholders and Other Stakeholders.**

- Provide Clear, Concise, Customized Disclosure. Executive compensation arrangements should be disclosed and explained in a clear, concise and customized manner that facilitates a full understanding of the rationale for and levels of all aspects of reportable executive compensation.
- Be Accessible. Designated company executives and/or directors should be accessible to discuss and respond to inquiries about the company's executive compensation policies and practices with its shareholders and other corporate stakeholders.

Fair and Reasonable: **Executive Compensation Arrangements Should Be Fair to the Company's Shareholders and Executives When Viewed as a Whole, and Reasonable Given the Context in Which the Arrangements Are Structured and Compensation Is Earned.**