



MERIDIAN
COMPENSATION PARTNERS, LLC

KEY FINDINGS
2011-2012 STUDY OF
**Executive
Change-in-Control
Arrangements**

About Meridian Compensation Partners, LLC

Meridian Compensation Partners, LLC is one of the largest independent executive compensation and corporate governance consulting firms in North America.

Meridian consultants advise Boards of Directors and Senior Management on the full range of executive compensation issues that confront them. Whether the subject is compensation philosophy, pay for performance, incentive plan designs, peer group development, retention, shareholder initiatives, M&A or Board governance, we have the resources, experience, expertise and judgment to help. We guide Compensation Committees as they make difficult but informed decisions on executive pay. Our decades of experience provide context for our clients to make sound business judgments, and provide a deep understanding of Compensation Committees' responsibilities.

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Report Scope and Study Group Characteristics

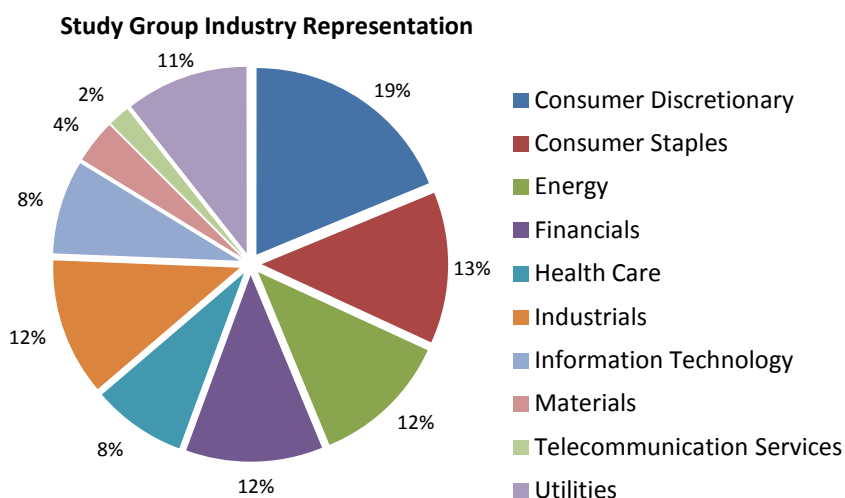
Meridian Compensation Partners' 2011-2012 Study on Executive Change-in-Control Arrangements (the "Study") is intended to provide current information and data on change-in-control (CIC) severance practices of large public companies.

This Study examines a broad range of CIC severance practices of large U.S.-listed public companies. Data for fiscal 2010 CIC severance practices is derived primarily from **2011 definitive proxy statements** filed by 160 public companies (the "Study Group").

Study Group Characteristics

The companies in the Study Group are component companies of the Standard & Poor's 500[®] Index (S&P 500[®]) and represent a cross-section of the Index. Revenue and market capitalization statistics for the Study Group are displayed below. The pie chart below shows the distribution of Study Group companies among the ten industry sectors established under the Global Industry Classification Standards.

| | FY 2010 Revenues (\$ Millions) | | Market Capitalization December 31, 2011 (\$ Millions) | |
|-----------------------------|-----------------------------------|----------|---|----------|
| | Study Group | S&P 500 | Study Group | S&P 500 |
| 25 th Percentile | \$5,629 | \$3,621 | \$6,837 | \$5,988 |
| Median | \$10,715 | \$7,776 | \$13,308 | \$10,941 |
| 75 th Percentile | \$21,468 | \$16,978 | \$28,906 | \$22,226 |



Data Collected and Presentation of Findings

We collected proxy-disclosed data relating to CIC benefits that are provided or paid to named executive officers (NEOs) of Study Group companies. NEOs refers to a company's chief executive officer (CEO), chief financial officer (CFO) and the three highest-paid executive officers other than the CEO and CFO (referred to herein as NEO #3, NEO #4 and NEO #5).

Where meaningful, the Study shows separate prevalence statistics for each NEO. When prevalence statistics are shown for the entire NEO group or a subset of the NEO group, those statistics represent an approximate average of the prevalence statistics for the entire NEO group or subset of that group, as applicable. Unless otherwise indicated, statistics presented in this Study are based on the number of companies in the Study Group that maintain CIC arrangements providing for the payment of cash severance benefits in connection with a CIC.

Often large companies maintain general severance policies which cover their NEOs. Unlike benefits provided under a CIC arrangement, general severance benefits are not conditioned upon the occurrence of a CIC and are usually lower in amount. The statistics developed under this Study do **not** take into account these non-CIC severance benefits.

Key Findings

CIC Arrangements Providing for Cash Severance

The prevalence of CIC arrangements that provide cash severance benefits to executive officers has remained relatively constant over the past several years. Approximately 75% of Study Group companies provide CIC cash severance to their executive officers. A company's market capitalization appears to impact the prevalence of CIC cash severance. We found that executive officers of Study Group companies in the top 20% of market capitalization are 25% to 40% less likely (depending on the level of the executive) to receive CIC cash severance than their counterparts at Study Group companies in the lower 80% of market capitalization. Arguably, the size of the largest cap companies makes them less likely to become takeover targets, thereby lessening the perceived need to provide CIC protection for their executive officers.

Trigger Events for Payment of Cash Severance

- **Trigger event for cash severance.** Of the companies providing CIC cash severance benefits, the overwhelming practice is for cash severance to be paid upon a "double-trigger event." The prevalence of companies paying cash severance to their NEOs upon a double trigger is well over 90%. Other common CIC benefits, such as continuation of health care, enhancement of retirement benefits and provision of perquisites, also are typically paid upon a double-trigger event. As discussed below, this is **not** necessarily the case with vesting of equity awards in connection with a CIC.
- **Definition of double-trigger event.** A double-trigger event is universally defined as a "qualifying termination of employment" that occurs within a specified period of time ("protection period") following a CIC. A qualifying termination of employment is defined by 100% of the companies to cover involuntary terminations of employment without "cause" and 95% of the companies to cover voluntary terminations of employment for "good reason." Over 75% of companies define protection period as the 24-month period following a CIC. Over 90% of companies define CIC to include (i) acquisitions of a specified percentage (e.g., 20%) of company stock; (ii) significant change in board composition; and (iii) certain major corporate transactions. A less prevalent but still majority practice (77% of companies) is for the definition of CIC to include shareholder approval of a company's dissolution or liquidation.

Determination of Cash Severance

- Cash severance multiple.** Historically, the most prevalent cash severance multiple used to determine CEO and other NEOs' cash severance was 3x. The Study shows downward pressure on severance multiples as 2x severance multiple is increasing in prevalence at the expense of 3x severance multiple. For purposes of this Study, a 2.99x cash severance multiple is treated as a 3x cash severance multiple.

Prevalence of Cash Severance Multiples

| | 3× Severance Multiple | 2× Severance Multiple | Other |
|---------------|-----------------------|-----------------------|-------|
| CEO | 65% | 23% | 12% |
| CFO | 44% | 42% | 14% |
| NEO #3 | 48% | 36% | 16% |
| NEO #4 and #5 | 41% | 44% | 15% |

- Definition of compensation to determine cash severance.** For purposes of calculating cash severance benefits, 93% of companies define “compensation” as the sum of base salary and “annual bonus.” The prevalence of defining “annual bonus” as either current year target or the multiyear average bonus (typically 3-year average) is roughly split, but the trend is toward target.

Long-Term Incentive Compensation

Where Study Group companies grant long-term incentive (LTI) awards, well over 90% provide for the vesting of such awards in accordance with one of the following three methods: (i) solely and completely upon a CIC; (ii) upon a qualifying termination of employment following a CIC; or (iii) upon the failure of a successor entity to assume or substitute outstanding LTI awards following a CIC or, if assumed or substituted, when the assumed or substituted awards do not protect employees in the case of a post-CIC termination. Historically, the overwhelmingly dominant practice was to vest equity awards solely upon a CIC (i.e., single-trigger vesting). However, double-trigger vesting is increasing in prevalence due to pressure from activist shareholders and proxy advisory firms, but remains a significant minority practice. Currently, single-trigger vesting is the majority practice, but is declining in prevalence.

The prevalence of the principal methods for vesting LTI awards in the context of a CIC is summarized in the table below.

Prevalence of Vesting Triggers

| | Solely Upon a CIC | Upon a Qualifying Termination of Employment Following a CIC | Upon CIC Due to Failure to Assume Award |
|--------------------|-------------------|---|---|
| Stock Options | 50% | 32% | 11% |
| RS/RSUs | 50% | 36% | 9% |
| Performance Shares | 55% | 31% | 9% |
| Performance Units | 62% | 31% | 3% |

It is a majority practice for performance shares (60% of companies) and performance units (51% of companies) that vest in connection with a CIC to be paid at target.

Enhanced Retirement Benefits

Of the companies maintaining CIC arrangements, 39% enhance supplemental executive retirement program (SERP) benefits in connection with a CIC. Of the companies providing enhanced SERP benefits, 54% enhance benefits under defined benefit (DB)-type SERPs, 28% enhance benefits under defined contribution (DC)-type SERPs and 18% enhance benefits under both DB- and DC-type SERPs. The most prevalent enhancement is to provide either three years of additional age and service credits or three years of additional contributions.

Continuation of Health Care Benefits

Over 80% of companies continue health care benefits following an NEO's qualifying termination of employment. The most prevalent practice is to continue health care benefits for 36 months for CEOs (44% of companies) and 24 months for other NEOs (35% of companies).

Perquisites and Personal Benefits

Approximately 50% of companies provide at least one perquisite or personal benefit to their executive officers following a qualifying termination of employment. The most prevalent perquisites and personal benefits are outplacement and financial counseling, which is in line with historical practices.

Tax Gross-Up Provisions

The prevalence of full and modified tax gross-up provisions has shown a steady decline over the past several years. Based on forward-looking disclosures made by Study Group companies, we anticipate the prevalence of these provisions **will continue to decline significantly**. This change in prevalence can be attributed, in large part, to intense pressure from institutional shareholders and proxy advisory firms to eliminate this formerly common feature in CIC programs.

The table below shows the prevalence of full and modified tax gross-up provisions in 2010 and projects the prevalence of these provisions once legacy agreements are modified or eliminated for new incumbents.

Prevalence of Full/Modified Tax Gross-Up Provisions

| | 2010 | Projected |
|--------------------|------|-----------|
| CEO | 60% | 30% |
| CFO | 57% | 26% |
| NEOs #3, #4 and #5 | 57% | 26% |