2013 Trends and Developments in Executive Compensation
Executive Summary

In order to keep our clients at the forefront of significant compensation trends and critical issues, Meridian Compensation Partners, LLC has surveyed approximately 140 major companies on a variety of issues pertinent to the continually changing landscape in executive compensation. The results from this survey are intended to provide an overview of the current direction companies are moving when it comes to executive compensation and corporate governance practices.

As scrutiny over executive pay has continued, companies have shifted compensation programs to create a much stronger alignment between pay and performance. Accordingly, this year’s survey summarizes how companies evaluate their “pay-for-performance” goals.

Highlights and key findings of Meridian’s 2013 Trends and Developments in Executive Compensation survey include:

Pay for Performance
- Three-quarters of responding companies performed a pay-for-performance analysis in the past year.
- Most companies looked at pay and performance over a 3-year period and used the grant-date value of LTI in their definition of compensation.

Say on Pay
- Companies’ expectations for strong shareholder support regarding Say on Pay votes remains high as 93% of companies expect shareholder support above 70% in 2013.
- Only 3% of companies reported that their shareholder base does not generally track Institutional Shareholder Service’s (ISS’s) recommendations, demonstrating the weight behind an ISS vote recommendation.

2013 Merit Increase Budgets
- No significant changes in year-over-year merit increases; the majority of companies increased budgets between 3.0% and 3.5%.

Annual Incentives
- 2013 annual incentive payouts (for 2012 performance) were slightly lower than 2012 payouts, although 61% reported payouts were at or above target.
- Companies are streamlining annual incentive plans around 2 or 3 financial performance metrics in addition to non-financial metrics.

Long-Term Incentives
- Of companies using performance plans, a strong majority use a 3-year performance period and set goals at the beginning of the performance period.
- Average value delivered through each vehicle (Restricted stock/RSUs, Options/SARs, and Performance awards) is relatively unchanged from 2012.
- Three-year trends show companies moving toward using 2 or 3 LTI vehicles.
- The use of Total Shareholder Return (TSR) in long-term performance plans continues to increase.
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</tbody>
</table>
Background Information
Background Information

Participating Organizations
The survey includes responses from 136 companies. These organizations are listed, by primary GICS sector, in the Appendix. Financial highlights for the participating organizations are presented in the table below.

<table>
<thead>
<tr>
<th></th>
<th>FYE Revenues (Millions)</th>
<th>Market Value (Millions)</th>
<th>Current Enterprise Value (Millions)</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>25th Percentile</td>
<td>$1,725</td>
<td>$2,270</td>
<td>$3,231</td>
<td>2,180</td>
</tr>
<tr>
<td>Median</td>
<td>$3,851</td>
<td>$5,628</td>
<td>$7,641</td>
<td>6,412</td>
</tr>
<tr>
<td>75th Percentile</td>
<td>$8,792</td>
<td>$14,035</td>
<td>$17,946</td>
<td>21,575</td>
</tr>
</tbody>
</table>

Source: Standard & Poor's Compustat Database

Trailing four-quarter revenues were used for companies that have not reported fiscal year-end 2012 figures. Market value and enterprise value are effective as of December 31, 2012.

2013 Participants by Industry Sector

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrials</td>
<td>27%</td>
</tr>
<tr>
<td>Energy</td>
<td>19%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>18%</td>
</tr>
<tr>
<td>Financials</td>
<td>9%</td>
</tr>
<tr>
<td>Utilities</td>
<td>8%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>5%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>5%</td>
</tr>
<tr>
<td>Health Care</td>
<td>4%</td>
</tr>
<tr>
<td>Materials</td>
<td>3%</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>2%</td>
</tr>
</tbody>
</table>

Three-Year Performance Summary of Participants

<table>
<thead>
<tr>
<th></th>
<th>Operating Margin</th>
<th>ROIC</th>
<th>EPS Growth</th>
<th>Annualized TSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>25th Percentile</td>
<td>5.8%</td>
<td>4.2%</td>
<td>-2.4%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Median</td>
<td>10.3%</td>
<td>8.4%</td>
<td>5.0%</td>
<td>10.9%</td>
</tr>
<tr>
<td>75th Percentile</td>
<td>18.8%</td>
<td>13.9%</td>
<td>13.1%</td>
<td>29.3%</td>
</tr>
</tbody>
</table>

Source: Standard & Poor's Compustat Database
Pay for Performance
Pay for Performance

As the emphasis on pay-for-performance continues to increase, many companies are now taking steps to evaluate how they are compensating executives for actual performance. In 2012, 73% of responding companies indicated they have conducted a pay for performance analysis. Such analyses can often take several shapes, but a majority evaluated pay and performance in comparison to an external benchmark, typically the company’s custom benchmarking peer group.

<table>
<thead>
<tr>
<th>Absolute Comparison</th>
<th>Relative to Benchmarking Peer Group</th>
<th>Relative to ISS Modeled Peer Group</th>
<th>Relative to Broad Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevalence</td>
<td>33%</td>
<td>72%</td>
<td>37%</td>
</tr>
</tbody>
</table>

The most common (40%) time frame to measure pay and performance was over a 3-year period; however, many companies chose a 1-year period (34%). These time frames coincide with the typical performance periods for short-term and long-term incentive plans.

<table>
<thead>
<tr>
<th>1-Year</th>
<th>2-Year</th>
<th>3-Year</th>
<th>5-Year</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevalence</td>
<td>34%</td>
<td>9%</td>
<td>40%</td>
<td>11%</td>
</tr>
</tbody>
</table>

In their pay-for-performance evaluations, most companies opted to go beyond base salary and actual bonus by incorporating some element of long-term compensation (e.g., equity).

Of those who conducted a pay-for-performance analysis, the most common approach (65%) for measuring pay was to include base salary, actual bonus payout, and grant date value of long-term incentives. Some companies (27%) went a step further by revaluing LTI at the end of the performance period to better estimate the “realized” or “realizable” value of the awards granted.

### Definition of Pay

<table>
<thead>
<tr>
<th>Definition of Pay</th>
<th>Prevalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary + actual bonus paid</td>
<td>2%</td>
</tr>
<tr>
<td>Salary + actual bonus + LTI revalued at the end of the performance period</td>
<td>27%</td>
</tr>
<tr>
<td>Salary + actual bonus + grant date value of LTI</td>
<td>65%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
</tbody>
</table>

Given the data, it's clear that companies are increasingly focused on pay-for-performance, and the strategies employed vary widely depending on the specific needs and goals of the organization.
Say on Pay
Say on Pay

Expected Level of Support for Say on Pay
Sixty-two percent (62%) of respondents with a Say on Pay vote this year expect to receive above 90% shareholder support at their 2013 annual shareholder meeting. Further, 93% expect to receive greater than 70% support, meaning that those companies expect to be outside of ISS designated cautionary "yellow card" zone.

In addition to a Say on Pay vote, 26% of companies also went to shareholders in 2013 seeking additional shares for compensation plans. Most companies (85%) seeking additional shares expected shareholder support of their Say on Pay vote to be above 70%.

2013 Say on Pay Expected Shareholder Support

- 62% Above 90%
- 31% Between 71% and 90%
- 4% Between 50% and 70%
- 3% Below 50%
Steps Taken to Prepare for 2013 ISS Evaluation

In 2013, the majority of respondents (73%) replicated ISS’s quantitative Pay-for-Performance tests in order to prepare for ISS’s evaluation.

<table>
<thead>
<tr>
<th>Prevalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Replicate ISS Tests Internally</td>
</tr>
<tr>
<td>ISS Tests Replicated by Outside Consultant</td>
</tr>
<tr>
<td>Paid ISS Fee for Preliminary Test Results</td>
</tr>
<tr>
<td>Shareholder Outreach</td>
</tr>
<tr>
<td>No Specific Work Done</td>
</tr>
<tr>
<td>Shareholder Base Does Not Follow ISS</td>
</tr>
</tbody>
</table>

Note: Total exceeds 100% as some companies use multiple approaches.

As Say on Pay votes continue to garner high levels of scrutiny, it is important for companies to be proactive in understanding the relationship between pay and performance for executives. It appears as though companies tend to use an approach that is consistent with the methodology used by ISS for determining compensation (base salary + actual bonus paid + grant date fair value of LTI awards). However, based on Meridian’s experiences, the trend appears to be towards using a realized or realizable value of long-term awards.

ISS and Pay for Performance

ISS continues to have a strong influence over Say on Pay vote outcomes. The table below details Say on Pay vote results for meetings that have taken place in 2013. Note that this data is substantially broader than the survey group used in this report. Among companies receiving a “For” recommendation, the median level of support was 96.1%. This compares favorably against companies receiving an “Against” recommendation from ISS, in such instances, the median level of support was only 68.5%. Furthermore, approximately 15% of companies receiving an “Against” recommendation from ISS failed to receive a majority level of support for their say on pay proposal.

<table>
<thead>
<tr>
<th>2013 Say on Pay Vote Result (n=415)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;50%</td>
</tr>
<tr>
<td>Count</td>
</tr>
<tr>
<td>% of Total</td>
</tr>
</tbody>
</table>
2013 Merit Increase Budgets
2013 Merit Increase Budgets

Merit Budgets Increase for Executives
2013 merit budget increases for executives have remained modest at approximately 3%, a shade above US inflation rates.

Merit Budgets Increase for Salaried Non-Exempt
Many companies also increased their 2013 merit budget slightly for salaried employees. In 2013, 14% of responding companies have implemented or will implement a merit increase for this group over 3.5%.

2013 Merit Budget Increase Range

<table>
<thead>
<tr>
<th>Increase Range</th>
<th>Prevalence Executives</th>
<th>Prevalence Salaried Non-Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% (no merit increase for 2013)</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>&lt; 2.0%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>2.0% - 2.99%</td>
<td>22%</td>
<td>29%</td>
</tr>
<tr>
<td>3.0% - 3.49%</td>
<td>30%</td>
<td>48%</td>
</tr>
<tr>
<td>3.5% - 3.99%</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>4.0% - 4.49%</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>4.5% - 5%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>&gt; 5.0%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>No Fixed Budget for 2013</td>
<td>25%</td>
<td>3%</td>
</tr>
</tbody>
</table>
Annual Incentives

2013 Annual Incentive Payouts for 2012 Performance
Sixty-one percent (61%) of responding companies paid bonuses at or above target in 2013, which is a slight decrease from 2012 when 68% of respondents reported paying bonuses at or above target. It is also noteworthy that only 9% of companies paid less than 50% of target for 2012 performance.

<table>
<thead>
<tr>
<th>Payout</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above Target</td>
<td>53%</td>
<td>49%</td>
</tr>
<tr>
<td>At Target</td>
<td>15%</td>
<td>12%</td>
</tr>
<tr>
<td>Below Target</td>
<td>32%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Use of Discretion in Annual Incentive Plan Payouts
Nearly three-quarters (74%) reported not using discretion to adjust the 2012 results for extraordinary, unusual or unplanned events. Of those respondents making adjustments, the adjustments typically increased the performance payouts.

Number of Annual Incentive Performance Metrics
A strong majority of responding companies (76%) continue to utilize two or more performance metrics. Year-over-year data shows companies are streamlining their annual incentive plans around two or three performance metrics. Only four percent (4%) of responding companies use three or more financial performance metrics.

Number of Financial Performance Metrics Used

![Bar chart showing the distribution of financial performance metrics used by responding companies.](chart)
Types of Corporate Performance Metrics

As illustrated below, profit measures continue to be the most commonly used metrics to evaluate annual performance. The most prevalent performance metric for 2013 was operating income (42%). 2013 also saw a slight increase in “other” metrics, this continues a trend from 2011 (24%) and 2012 (27%). Of companies specifying the other metrics that they use, “safety” was the most common (33%).

The vast majority of responding organizations (90%) do not utilize relative performance goals (goals that compare against a peer group or index) for their annual incentive plan. Also, very few (4%) use TSR as an annual performance metric.

Corporate Performance Metrics

Most Common Annual Incentive Performance Metrics

- **Operating Income (EBIT/EBITDA)**
  - 2012: 39%
  - 2013: 42%
- **Net Income**
  - 2012: 20%
  - 2013: 27%
- **EPS**
  - 2012: 14%
  - 2013: 28%
- **Operating Income Margin**
  - 2012: 6%
  - 2013: 5%
- **Return on Invested Capital**
  - 2012: 13%
  - 2013: 12%
- **Return on Equity**
  - 2012: 4%
  - 2013: 2%
- **Free Cash Flow**
  - 2012: 20%
  - 2013: 18%
- **Free Cash Flow Margin**
  - 2012: 2%
  - 2013: 5%
- **Economic Value Added**
  - 2012: 2%
  - 2013: 4%
- **Total Shareholder Return**
  - 2012: 4%
  - 2013: 4%
- **Sales/Revenues**
  - 2012: 25%
  - 2013: 26%
- **Individual Qualitative Goals**
  - 2012: 11%
  - 2013: 12%
- **Individual Discretionary Factor**
  - 2012: 10%
  - 2013: 6%
- **Corporate/Division Discretionary Goals**
  - 2012: 18%
  - 2013: 18%
- **Industry Specific Financial Measure**
  - 2012: 16%
  - 2013: 17%
- **Other**
  - 2012: 27%
  - 2013: 30%
Plan Design—Payout Opportunity

The majority of respondents (62%) provide a maximum opportunity of 200% of target under their annual incentive plan. Just over 10% of companies provide payout opportunities of 250% or more.

![2013 Maximum Payout Opportunity Compared to Target](image)

Sixty-two percent (62%) of responding companies set the minimum payout for the annual incentive plan below 50% of target.

![2013 Minimum Payout Opportunity Compared to Target](image)
Primary Earnings Measures
About two-thirds of companies (66%) set performance goals higher in 2013 than in 2012, suggesting improved performance expectations.

<table>
<thead>
<tr>
<th>2013 Primary Earnings-Related Goal Compared to 2012 Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower than 2012 goal</td>
</tr>
<tr>
<td>Same as 2012 goal</td>
</tr>
<tr>
<td>Higher than 2012 goal by 5% or less</td>
</tr>
<tr>
<td>Higher than 2012 goal by more than 5%</td>
</tr>
</tbody>
</table>

Further, 84% of respondents set their 2013 target goals higher than 2012 actual performance.

<table>
<thead>
<tr>
<th>2013 Primary Earnings-Related Goal Compared to 2012 Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>All goals are at or above last year’s actual results</td>
</tr>
<tr>
<td>Threshold goal is below last year’s actual results</td>
</tr>
<tr>
<td>Target goal is below last year’s actual results</td>
</tr>
<tr>
<td>Maximum goal is below last year’s actual results</td>
</tr>
</tbody>
</table>

Financial Performance Required to Earn Threshold and Maximum Payout
An oft-cited threshold goal level is 80% of target for an annual incentive performance measure. However, 40% of the respondents set threshold performance at less than 80% of target for their primary earnings-related annual incentive performance measure, suggesting a somewhat flatter performance line.

A typical maximum goal level is 120% of target for an annual incentive plan. However, 45% of the respondents set maximum performance at more than 120% of target for their primary earnings-related goal.
Long-Term Incentives
Long-Term Incentives

LTI Target Values
Target LTI values were largely flat year-over-year, with 55% of respondents indicating 2013 LTI grants were about the same as 2012 grants. Thirty-eight percent (38%) of companies reported increasing targets. For those that increased targeted LTI values, the typical increase was approximately 5%–15%. Nearly all companies (94%) grant LTI as a fixed dollar value or percent of base salary, the remaining companies grant either a fixed number or shares or a combination of the two.

Methodology for Determining Long-Term Incentive Grant Values
Depending on the type of award being used (e.g., stock option, restricted stock, performance share), companies often use different approaches on how to value each instrument. We asked companies the methodology they employ when valuing long-term incentive awards for purposes of grant sizing; the tables below detail the findings.

LTI Vehicle: Stock Option/SARs

<table>
<thead>
<tr>
<th>Method for Determining Grant Size</th>
<th>Prevalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same as accounting cost (i.e., FAS 123R)</td>
<td>54%</td>
</tr>
<tr>
<td>Hypothetical value provided by third-party consultant</td>
<td>33%</td>
</tr>
<tr>
<td>Flat percent of stock price (e.g., 25%)</td>
<td>13%</td>
</tr>
</tbody>
</table>

LTI Vehicle: Performance-Based Share/Unit Awards

<table>
<thead>
<tr>
<th>Method for Determining Grant Size</th>
<th>Prevalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% of stock price on grant date (i.e., accounting cost)</td>
<td>85%</td>
</tr>
<tr>
<td>Hypothetical value provided by third-party consultant</td>
<td>9%</td>
</tr>
<tr>
<td>Other flat percent of stock price (e.g., 90%)</td>
<td>6%</td>
</tr>
</tbody>
</table>
### LTI Vehicle: Performance Cash

<table>
<thead>
<tr>
<th>Method for Determining Grant Size</th>
<th>Prevalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% of targeted value</td>
<td>86%</td>
</tr>
<tr>
<td>Hypothetical value provided by third-party consultant</td>
<td>11%</td>
</tr>
<tr>
<td>Other flat percent of targeted value</td>
<td>3%</td>
</tr>
</tbody>
</table>

### LTI Vehicle: Time-Based Restricted Stock/RSUs

<table>
<thead>
<tr>
<th>Method for Determining Grant Size</th>
<th>Prevalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% of stock price on grant date</td>
<td>88%</td>
</tr>
<tr>
<td>Hypothetical value provided by third-party consultant</td>
<td>6%</td>
</tr>
<tr>
<td>Other flat percent of stock price (e.g., 90%)</td>
<td>6%</td>
</tr>
</tbody>
</table>

### Key Factors for Determining Long-Term Incentive Grants

When determining LTI grants for senior-most executives, approximately 78% consider market data as a primary factor while internal equity and prior year grant value are also commonly considered.

|                                      | Primary Factor | Additional Factor | Not a Factor |
|                                      |                |                  |             |
| Competitive Market Data              | 78%            | 20%              | 2%          |
| Internal Equity (i.e., grouping by level) | 27%            | 68%              | 5%          |
| Individual Performance               | 27%            | 41%              | 32%         |
| Prior year grant size in number of shares | 0%             | 21%              | 79%         |
| Prior year grant size in dollars     | 6%             | 52%              | 42%         |
| Share pool dilution                  | 8%             | 37%              | 55%         |
Eighty-five percent (85%) of respondents are actively using 2 or 3 LTI vehicles in 2013 for senior executives, companies using more than 3 vehicles is rare. In Meridian’s experiences, it is most common to grant just one vehicle below the senior executive level, most often restricted stock or RSU’s.

Performance-based stock/unit awards continue to be the most prevalent LTI vehicle. Performance-based cash awards saw a slight decrease from 2012.

<table>
<thead>
<tr>
<th>Prevalence of LTI Vehicles</th>
<th>2012 Prevalence</th>
<th>2013 Prevalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Options/SARs</td>
<td>56%</td>
<td>50%</td>
</tr>
<tr>
<td>Performance-Based Stock/Unit Awards</td>
<td>75%</td>
<td>78%</td>
</tr>
<tr>
<td>Performance-Based Cash Awards</td>
<td>22%</td>
<td>19%</td>
</tr>
<tr>
<td>Time-Vested Restricted Stock/RSUs</td>
<td>68%</td>
<td>74%</td>
</tr>
</tbody>
</table>

On a dollar-weighted basis, performance-based vehicles represent the largest portion of LTI granted to senior-most executives. On average, 51% of the total LTI value for senior executives is delivered through performance share/unit/cash awards, consistent with last year. The average portions delivered in restricted stock increased slightly year over year.
Time-Based Full-Value Award Details

While time-based full-value awards continue to comprise a meaningful portion of total LTI values for senior executives, many companies are choosing to grant share-based units instead of actual shares. However, the clearly preferred medium of payout remains shares, as only 9% of companies actually deliver the vested payout in cash. Also, of those companies awarding time-based RSUs, 66% reported paying dividend equivalents.

Performance-Based Full Value Award Details

Consistent with last year, performance shares are the most common type of performance plan (70%).

Note: Figures are not additive because some companies grant multiple types of performance awards.

The grant types are defined as: Performance Shares—a performance-based award with the same value as a share of company stock that provides for a potential range of payout depending on achievement against goals; Performance Units—a performance-based award that assigns a notional value to each unit that is not related to the value of a share of company common stock and provides for a potential range of payouts; Performance-Based Restricted Stock/Units—a performance-contingent equity award with no upside in the number of shares that can be earned.
**Eligibility for Long-Term Performance Plan Awards**
Eligibility in long-term performance plans is largely unchanged from 2012 results; only 6% of respondents limit performance plan eligibility to the Named Executive Officers (NEOs) with most companies including the entire management group in plans.

<table>
<thead>
<tr>
<th>Percent Eligible</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO Only</td>
<td>0%</td>
</tr>
<tr>
<td>Named Executive Officers Only</td>
<td>6%</td>
</tr>
<tr>
<td>Section 16 Executives Officers Only</td>
<td>16%</td>
</tr>
<tr>
<td>Management Group</td>
<td>53%</td>
</tr>
<tr>
<td>All Long-Term Incentive Eligible Employees (Broader than management group)</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Long-Term Performance Period Length**
The great majority of long-term performance plans use a 3-year performance period (87%). In addition to determining the length of the performance period, companies must also consider how goals are set; most companies using 3-year performance periods set goals once at the beginning of the performance period. Performance periods less than 3 years are becoming increasingly uncommon, 9% of respondents indicated performance periods of 1 or 2 years, down from 22% in 2012 as earnings visibility has improved. Additional vesting after the performance period has ended is rare with only 6% of companies reporting additional vesting.

<table>
<thead>
<tr>
<th>Performance Period</th>
<th>Prevalence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>7%</td>
</tr>
<tr>
<td>2 years; goals set at beginning of performance period</td>
<td>2%</td>
</tr>
<tr>
<td>3 years; goals set at beginning of performance period</td>
<td>73%</td>
</tr>
<tr>
<td>4 years; goals set at beginning of performance period</td>
<td>2%</td>
</tr>
<tr>
<td>2 years; goals set annually</td>
<td>0%</td>
</tr>
<tr>
<td>3 years; goals set annually</td>
<td>14%</td>
</tr>
<tr>
<td>4 years; goals set annually</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>

*Note: Does not sum to 100% because some companies have multiple performance awards.*
Total Shareholder Return (TSR), which is used in 58% of performance plans, continues to increase in prevalence (44% in 2011, 50% in 2012). Furthermore, 49% of all companies surveyed incorporate TSR into their LTI program. This trend has three primary drivers: (i) the inability of many companies to set realistic long-term incentive goals, (ii) the view that management should (only) be rewarded outperforming a reasonable set of industry peers, and (iii) the focus of committees interested in direct alignment of LTI payouts with shareholder results.

Sixty-four percent (64%) of performance plans use a relative performance metric in 2013, up from 49% in 2012. For those companies, relative performance metrics are weighted 79% on average for the performance plan. Also, of such plans, approximately 82% use TSR performance relative to a peer group or index.
Payout Opportunities
A majority of performance plans (72%) have a maximum payout opportunity equal to 200% of target; approximately 12% of companies have a maximum payout above 200% or uncapped.

[Chart showing the distribution of 2013 Maximum Payout Opportunity (% of Target): 72% for 200%, 11% for 150%, 5% for 250%, 3% for 300%, 2% for Uncapped, and 7% for Other.]

[Chart showing the distribution of 2013 Threshold Payout Opportunity (% of Target): 33% for Less than 25%, 30% for 25%-49%, 6% for 50%-74%, 6% for 75%-100%, and 3% for Other.]

Treatment of LTI Awards Upon Normal Retirement
Upon normal retirement (as defined by the company), it is common (58%) to pay out performance awards at the end of the performance cycle; however, few companies allow for accelerated vesting of performance awards.

<table>
<thead>
<tr>
<th></th>
<th>Accelerated Vesting/Payout</th>
<th>Prorated (Paid at Retirement)</th>
<th>Prorated (Paid at End of Vesting or Performance Cycle)</th>
<th>Forfeited</th>
<th>Committee Discretion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Options/SARs</td>
<td>53%</td>
<td>8%</td>
<td>11%</td>
<td>18%</td>
<td>10%</td>
</tr>
<tr>
<td>Performance Awards</td>
<td>13%</td>
<td>5%</td>
<td>58%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>(including performance-contingent Restricted Stock/RSUs)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance Cash</td>
<td>12%</td>
<td>2%</td>
<td>62%</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Time-Vested Restricted Stock/RSUs</td>
<td>41%</td>
<td>15%</td>
<td>14%</td>
<td>19%</td>
<td>11%</td>
</tr>
</tbody>
</table>
Perquisites and Other Executive Benefits
Perquisites and Other Executive Benefits

According to the survey results, personal use of the company plane continues as a minority practice for new NEOs, yet one out of three companies offer this perquisite to their CEO. Annual physicals and financial/tax planning assistance remain as the most common perquisites offered to new or legacy NEOs. Excise tax gross-ups for new NEOs are almost nonexistent though it still remains in place for some CEOs in several legacy plans. Meridian expects to see non-business perquisites continue to decrease in the coming years.

<table>
<thead>
<tr>
<th>Perquisite</th>
<th>CEO</th>
<th>At Least One Legacy NEO</th>
<th>New NEOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company plane for personal use</td>
<td>35%</td>
<td>15%</td>
<td>7%</td>
</tr>
<tr>
<td>Excise tax gross-ups (in CIC)</td>
<td>15%</td>
<td>17%</td>
<td>1%</td>
</tr>
<tr>
<td>Company car/lease/allowance</td>
<td>27%</td>
<td>27%</td>
<td>16%</td>
</tr>
<tr>
<td>Flexible perquisite allowance</td>
<td>13%</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Financial/Tax planning</td>
<td>43%</td>
<td>40%</td>
<td>35%</td>
</tr>
<tr>
<td>Club memberships</td>
<td>18%</td>
<td>18%</td>
<td>7%</td>
</tr>
<tr>
<td>Annual physical</td>
<td>48%</td>
<td>45%</td>
<td>39%</td>
</tr>
<tr>
<td>Matching Charitable Gifts</td>
<td>31%</td>
<td>26%</td>
<td>24%</td>
</tr>
<tr>
<td>Home Security</td>
<td>9%</td>
<td>7%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Please email Jerrold Rosema (jrosema@meridiancp.com) or call 847-235-3618 with any questions or comments.
Appendix: Participating Companies
## Appendix: Participating Companies

### Consumer Discretionary
- American Axle & Manufacturing Holdings, Inc.
- Arby's Restaurant Group, Inc.
- BorgWarner Inc.
- Brinker International, Inc.
- Brown Shoe Company, Inc.
- Buffalo Wild Wings, Inc.
- Darden Restaurants, Inc.
- Dollar General Corporation
- Follett Corporation
- Gannett Co., Inc
- Harley-Davidson, Inc.
- Leggett & Platt, Incorporated
- McDonald's Corporation
- Scripps Networks Interactive, Inc.
- Service Corporation International
- Signet Jewelers Limited
- Starwood Hotels & Resorts Worldwide, Inc
- Tenneco Inc.
- The Bon-Ton Stores, Inc.
- The E. W. Scripps Company
- Tim Hortons Inc.
- Tower International, Inc.
- Toys "R" Us, Inc.
- YUM! Brands, Inc.

### Consumer Staples
- Beam Inc
- Coca-Cola Enterprises, Inc.
- Mondelēz International, Inc.
- Pilgrim's Pride Corporation
- Reynolds American Inc.
- Roundy's, Inc.
- The Procter & Gamble Company

### Energy
- Arch Coal, Inc.
- Bill Barrett Corporation
- Cabot Oil & Gas Corporation
- Cal Dive International, Inc.
- Concho Resources Inc.
- Denbury Resources Inc.
- Devon Energy Corporation
- Dril-Quip, Inc.
- Encana Corporation
- Endeavour International Corporation
- Ensco plc
- EOG Resources, Inc.
- FMC Technologies, Inc.
- Helix Energy Solutions Group, Inc.
- Linn Energy, LLC
- Marathon Oil Corporation
- Matrix Service Company
- Newfield Exploration Company
- Noble Energy, Inc.
- Phillips 66 Company
- Pioneer Natural Resources
- QEP Resources, Inc.
- Southwestern Energy Company
- Suncor Energy Inc.
- Tidewater Inc.
- WPX Energy, Inc.

### Financials
- BlueCross BlueShield of Arizona, Inc.
- BlueCross BlueShield of South Carolina, Inc.
- Freddie Mac
- Home Trust Company
- LPL Financial Holdings Inc
- MetLife, Inc.
- Moody's Corporation
- The PNC Financial Services Group, Inc.
- Radian Group Inc
- The Hanover Insurance Group, Inc.
- Walter Investment Management Corp.
Health Care
Covance Inc.
Medtronic, Inc.
Perrigo Company
UnitedHealth Group Incorporated
Vertex Pharmaceuticals Incorporated

Industrials
BNSF Railway Company
US Foods, Inc.
Avis Budget Group Inc.
Barnes Group Inc.
BlueLinx Holdings Inc.
Caterpillar Inc.
Chicago Bridge & Iron Company N.V.
CSX Corporation
Delta Air Lines, Inc.
Eaton Corporation plc
Equifax Inc.
Flowers Foods, Inc.
Flowserve Corporation
Fortune Brands Home & Security, Inc.
Gardner Denver, Inc.
Global Power Equipment Group Inc.
IHS Inc.
J.B. Hunt Transport Services, Inc.
John Bean Technologies Corporation
KBR, Inc.
Lockheed Martin Corporation
MasTec, Inc.
Meritor, Inc.
The Middleby Corporation
MRC Global Inc.
Mueller Water Products, Inc.
Navistar International Corporation
Parker-Hannifin Corporation
Powell Industries, Inc.
Terex Corporation
The Boeing Company
The Dun & Bradstreet Corporation
Trinity Industries, Inc.
United Stationers Inc.
W.W. Grainger, Inc.
Wabash National Corporation
Franklin Electric Co., Inc.

Information Technology
Avnet, Inc.
Cardtronics, Inc.
Dell Inc.
Fiserv, Inc.
Global Payments Inc.
Hewlett-Packard Company
Maxwell Technologies, Inc.

Materials
Domtar Corporation
FMC Corporation
LP Building Products
Sherritt International Corporation
The Valspar Corporation

Telecommunication Services
TELUS Corporation
Vonage Holdings Corp.

Utilities
Ameren Corporation
Calpine Corporation
Duke Realty Corporation
FirstEnergy Corp.
National Fuel Gas Company
ONEOK, Inc.
PNM Resources, Inc.
Primary Energy Recycling Corporation
Questar Corporation
The AES Corporation
Westar Energy, Inc.
Company Profile

Meridian Compensation Partners, LLC is an independent executive compensation consulting firm providing trusted counsel to Boards and Management at hundreds of large companies. We consult on executive and Board compensation and their design, amounts and governance. Our many consultants throughout the U.S. and in Canada have decades of experience in pay solutions that are responsive to shareholders, reflect good governance principles and align pay with performance. Our partners average 25 years of executive compensation experience and collectively serve over 450 clients, primarily at the Board level. As a result, our depth of resources, content expertise and Boardroom experience are unparalleled.

Our breadth of services includes:

- Pay philosophy and business strategy alignment
- Total compensation program evaluation and benchmarking
- Short-term incentive plan design
- Long-term Incentive plan design
- Performance measure selection and stress testing
- Employment contracts
- Retirement and deferred compensation
- Risk evaluation
- Informed business judgments on executive pay
- Pay-for-performance analyses
- Governance best practices
- Institutional shareholder and ISS voting guidelines/issues
- Senior management and board evaluations
- Change-in-control and/or severance protections
- Committee charter reviews
- Peer group development
- Peer company performance and design comparisons
- Benefits and perquisites design and prevalence
- Annual meeting preparation
- Senior executive hiring
- Succession Planning
- Outside director pay comparisons
- Clawback and anti-hedging design
- Retention programs and strategies
- Tally sheets

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