Meridian Compensation Partners, LLC

2011 Corporate Governance & Incentive Plan Design Survey

October 2011

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Executive Summary

As companies continue to review their executive compensation programs and related governance policies, a common starting point in any discussion is the reference to market practices. Indeed, any substantial due diligence, whether prepared for senior management or the Compensation Committee, generally includes the perspective of market "best practices." This is not to say that we at Meridian believe decisions and the design of executive compensation should be driven by market practices, but rather all parties should be informed by the practices of other leading companies. Each company's executive compensation program should be tailored to company-specific circumstances and, of course, the business strategy.

The 2011 Corporate Governance & Incentive Design Survey presents Meridian's findings on a variety of topics related to executive compensation and governance issues facing companies today. Results are reflective of 250 large publicly traded companies across a variety of industries ("Meridian 250") with median revenues and market capitalization of $12.8B and $12.8B, respectively. All information was sourced from a company's public disclosures. See Profile of Survey Companies for more information on the survey sample.

Highlights of Meridian's 2011 Corporate Governance & Incentive Design Survey include:

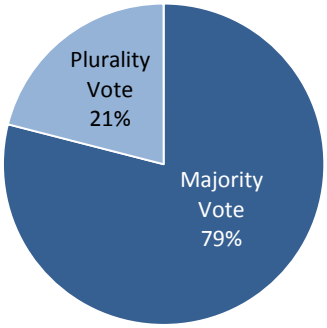
- Majority voting for Director elections and de-classified Board structures are a strong and growing majority practice among these leading companies.
- Approximately one-third of the Meridian 250 currently separates the roles of Chairman of the Board and Chief Executive Officer. However, less than one-quarter of the companies that currently separate the roles have mandated this practice by company policy.
- Boards continue to refine their leadership structure. Lead Directors are now present at nearly 90% of companies who do not have a separate Chairman of the Board and CEO. Lead Directors receive additional fees at three out of every four companies, reflecting their additional responsibilities.
- Greater than 90% of companies maintain executive stock ownership guidelines, reinforcing the alignment between executives and shareholders. Typically these guidelines are expressed as a multiple of the executive's base salary.
- For annual incentive plans, earnings metrics (e.g., EPS, Operating Income) are by far the most widely used across the sample.
- Long-term performance-based vehicles (e.g., performance shares/units) are in use at almost 90% of the Meridian 250. Further, the overall high prevalence of stock options and service-based vesting vehicles (e.g., restricted stock/RSUs) indicates widespread use of the "portfolio approach" to LTI grant practices and design.
- Illustrating the focus on a pay-for-performance culture, performance-based vehicles make up nearly 50% of the annual LTI value granted to senior-most executives. Stock options, which require share price appreciation for any value to be recognized, account for approximately 30% of grant date value, with service-based vesting vehicles (e.g., restricted stock/RSUs) representing the remaining 20%.

Corporate Governance Practices

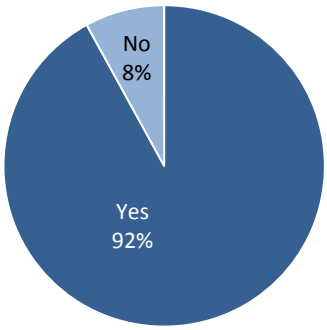
Corporate Governance Practices

Board Structure

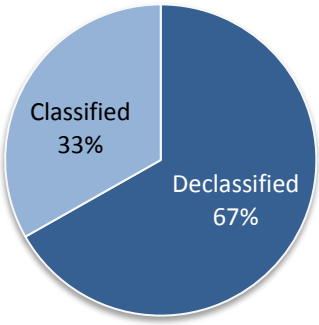
What voting standard does the company employ for outside director elections?



If the Director fails to receive majority shareholder support, is there a mandatory resignation policy in place?



Is the Board's structure classified (i.e., director terms are staggered)?

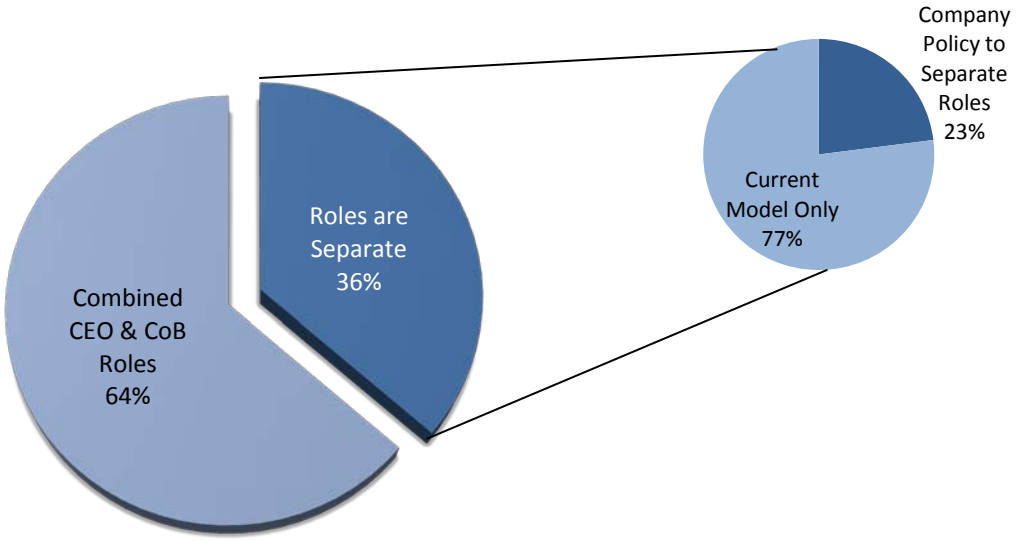


Meridian Comment

Consistent with broad industry trends and institutional shareholder preferences, the majority of the Meridian 250 employ what many observers consider hallmarks of leading corporate governance structures, including a majority voting standard for director elections, a mandatory resignation policy if directors fail to receive majority support, and a declassified Board structure. However, some companies prefer a classified board structure to prevent an activist or single issue shareholder from taking control overnight.

Board Leadership

Does the CEO also serve as Chairman of the Board (CoB)? If not, is it the company's policy to *mandate* the separation of the CEO and CoB role?



If the CEO and CoB roles are separate, what is the CoB's relationship to the Company?

Non-CEO Chairman	Prevalence
Independent	59%
Prior CEO[1]	32%
Founder[1]	12%

[1] Incumbents may be included in both categories.

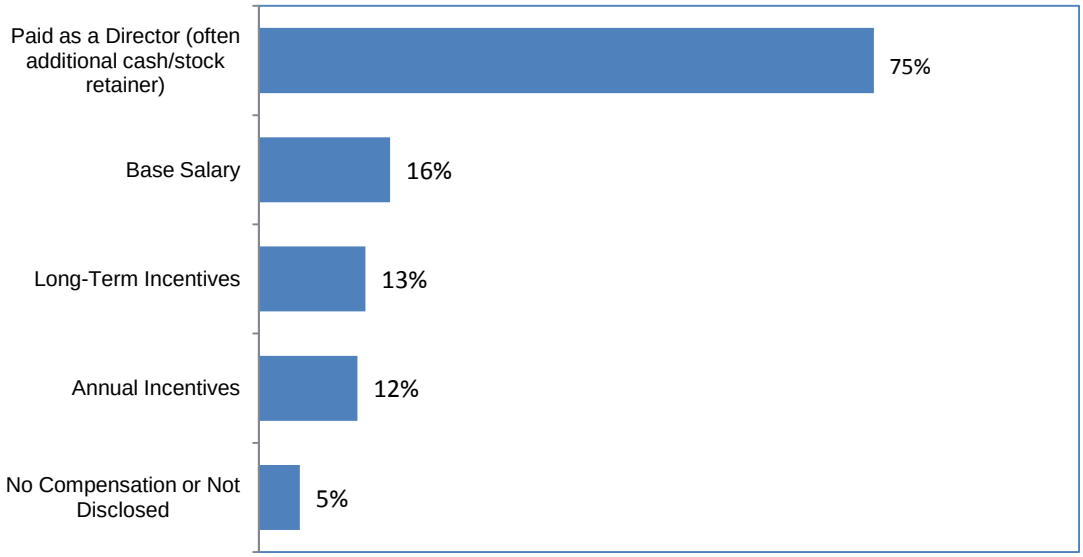
Meridian Comment

Approximately one-third of the Meridian 250 has a leadership model that separates the roles of Chairman of the Board (CoB) and Chief Executive Officer. According to Meridian's research, this prevalence has remained somewhat consistent for several years. Further, at the majority of companies (60%) that separate the roles, the CoB is an independent director with no prior executive relationship with the company.

Interestingly, of the companies that separate the roles of CoB and CEO, only one-quarter of the companies disclose that this leadership structure is the policy of the company. We believe that separating the CoB and CEO role is especially advantageous for companies going through a transition period or where a new CEO has little or no experience as CEO and/or limited board experience. However, the majority still prefer a leadership structure where the roles are combined. This is a governance area that is receiving particular attention, consistent with practices in other developed countries, and we expect further debate in the coming proxy season.

Board Leadership (continued)

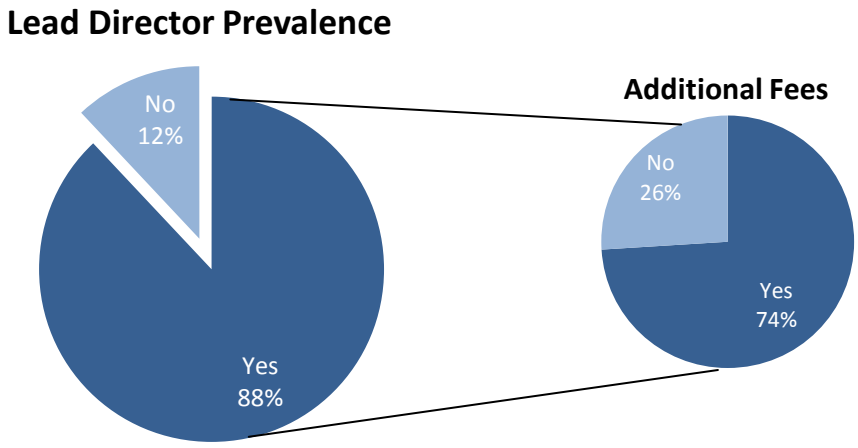
How is the non-CEO CoB compensated?



Meridian Comment

Most often non-CEO CoBs are paid in a comparable compensation structure as their fellow directors, just at a higher level to reflect significantly greater responsibilities. We typically see a premium of $100,000 to $200,000 for a non-CEO CoB when the role's responsibility and involvement warrants significant additional compensation. CoBs who were the former CEO generally are paid substantially higher than these norms, during the transition period.

Is a standing (i.e., non-rotating) Lead Director designated? Is the Lead Director paid additional fees? (Results exclude companies where the CoB and CEO roles are separated.)



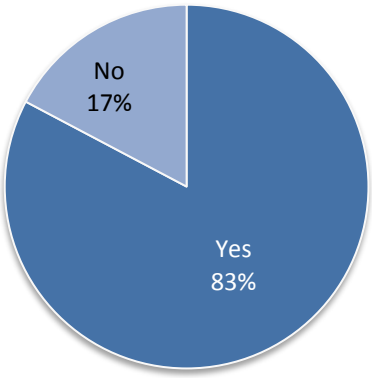
Meridian Comment

The market's establishment of formal Board leadership roles is illustrated through the use of Lead Directors at nearly 90% of the Meridian 250. We believe a Lead Director's continuous service supports the leadership the role is intended to provide, and we expect the role to strengthen over time.

Not surprisingly, a strong majority of the Meridian 250 (74%) provide additional fees to recognize the increased time commitment and responsibility of the role. In our experience, the additional fees range from $10,000 to $30,000 and are typically calibrated with the Audit Committee Chairman's fees.

Disclosure

Did the company provide a supporting narrative in the Say on Pay resolution?



Did the Company provide any of the following in its CD&A?

CD&A Disclosure	Prevalence
Narrative Pay-and-Performance Philosophy	90%
Tabular/Graphical Pay-and-Performance Relationship	42%
Year-Over-Year Performance Comparison	17%
Graphical Pay-and-Performance Representation	12%
Multiyear Performance Comparison	9%

Meridian Comment

Almost all companies in the Meridian 250 (90%) discuss a pay-for-performance philosophy as a foundational part of the executive compensation program.

Though not currently required by SEC disclosure rules, we believe the number of companies that provide tables (or graphs) to illustrate the relationship between the company's performance and pay is a harbinger of the 2012 proxy season. Companies will continue to look for ways to effectively communicate the pay-for-performance elements of their executive compensation program in light of increasing pressure from institutional shareholders and their advisors, as well as the annual Say on Pay vote at most organizations.

Companies in the Meridian 250 passed the inaugural Say on Pay vote with approximately 90% shareholder support. However, we do not believe companies should become complacent in their innovative ways to describe and defend their executive compensation practices.

Company Policies

Company Policies

Executive Stock Ownership Guidelines

Table below displays the stock ownership guidelines for the CEO, the Highest Paid Remaining NEO, and the Lowest Paid NEO.

	CEO		"Highest NEO"		"Lowest NEO"	
	Design Prevalence	Amount (Average)	Design Prevalence	Amount (Average)	Design Prevalence	Amount (Average)
Multiple of Salary	80%	5.4×	80%	3.3×	80%	2.7×
Number of Shares	9%	≈ 210,000	9%	≈ 65,000	9%	≈ 45,000
Hold Until Retirement	3%	≈ 57% net shares granted	2%	≈ 57% net shares granted	2%	≈ 57% net shares granted
None Disclosed	8%	N/A	9%	N/A	9%	N/A

What is the timing requirement to meet the guidelines?

Timing	Percent
5 Years	53%
1-4 Years	5%
6+ Years	13%
Hold Until Met	29%

Hold Until Met Requirement

- As portrayed above, roughly 30% of companies now require an executive to hold a specified number of shares until ownership guidelines are met. Note, this type of design is far less requiring than the guideline structure that requires an executive to hold a specified number of shares until *retirement (minority practice)*.
- A common Hold Until Met feature requires an executive to retain 50% of the net shares received on either stock option exercises or vesting of full-value shares for a period of one to two years.

Does the Company reduce its executive stock ownership guidelines upon nearing retirement?

- Less than 5% of companies with stock ownership guidelines reduce their guidelines upon an executive nearing retirement.

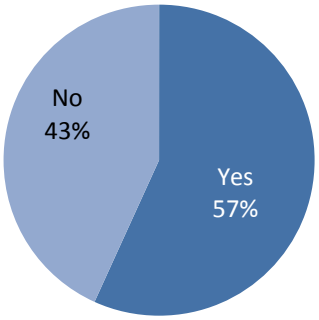
Meridian Comment

The Multiple of Salary approach to executive stock ownership guidelines continues to be the strong majority practice across the Meridian 250. The amount required to be held is also consistent with our experience and the market in general.

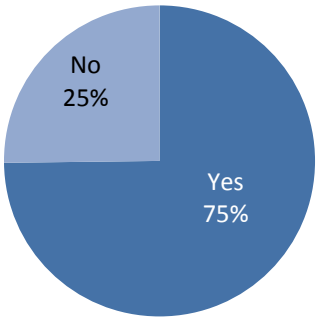
Though the Hold Until Retirement design is increasingly preferred among corporate governance observers, its use remains a distinct minority practice. However, in what may be a nod towards the general concept, companies are increasingly using a Hold Until Met approach. We do not expect many companies to adopt the controversial Hold Until Retirement approach, but we do believe the amount of ownership required may increase as companies re-evaluate appropriate ownership levels.

Anti-Hedging and Recoupment Policies

Does the Company disclose existence of an anti-hedging policy?



Does the Company disclose a recoupment/clawback policy (excluding SOX requirement)?



Meridian Comment

As the charts illustrate, the existence of anti-hedging and recoupment policies are now found at a majority of the Meridian 250. Clawback policies have grown rapidly over the past three to four years.

In anticipation of final Dodd-Frank disclosure requirements, some companies are updating their insider trading policies to incorporate anti-hedging language before the 2012 proxy disclosure. After some research, some companies have found they may have anti-hedging policies in place already, but did not disclose this "positive" disclosure.

While companies await final SEC regulations on the Dodd-Frank mandated recoupment policy, most are weighing the pros and cons of implementing or "strengthening" their existing recoupment policies against waiting for final SEC guidance, likely in early 2012.

Peer Groups

- Of companies that benchmark executive pay levels and design practices, the most common approach is to use one peer group (80%) followed by two peer groups (17%).
- Average size of peer group is 18.
- Nearly 64% of companies have a custom benchmarking peer group that contains between 12 and 20 companies.

Meridian Comment

Nearly 80% of the Meridian 250 has one peer group, typically with 15-20 companies. Companies generally select peer groups based on multiple criteria including: revenues, assets, market capitalization, industry segment, complexity and geographic reach, performance and competitors for talent and investors.

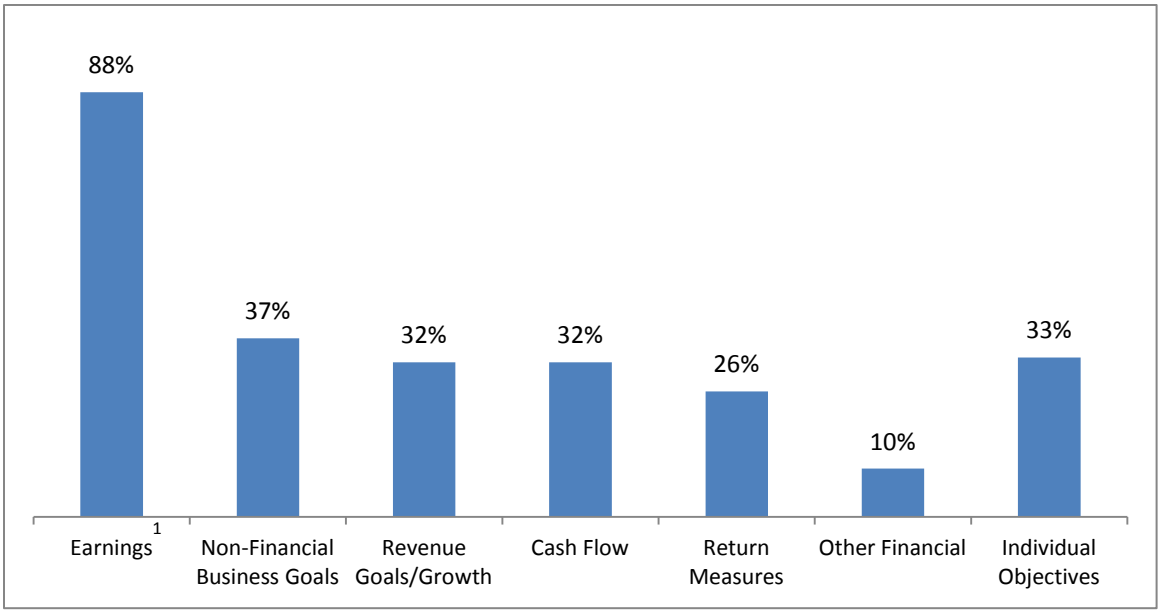
Peer groups are increasingly a focal point of committees and outside observers. A peer group is often used for many benchmarking multiple items (e.g., executive and director pay levels, design practices, run rate and overhang, FAS 123 assumptions and Black-Scholes values). Results of benchmarking may influence a company's pay practices and compensation levels. We believe companies must annually evaluate their peer group for continued appropriateness.

Annual Incentive Plan Design Practices

Annual Incentive Plan Design Practices

Metrics

What types of corporate financial metrics are used in the Meridian 250's annual incentive plans?



[1] Includes EPS, EBIT/EBITDA, Operating Income, Net Income, etc.

How many companies use relative performance in the annual incentive plan?

- Only 10% of the Meridian 250 uses relative performance in the annual incentive plan.
- When relative metrics are used, they are most commonly Earnings and/or Returns.

Meridian Comment

Across annual incentive designs, the use of profit measures is by far the most common category of metrics across the Meridian 250 (88%). Interestingly, all other categories are used fairly consistently across the Meridian 250. We also note the prevalence of non-financial business measures in the annual incentive plan. Non-financial business measures allow companies to focus senior leadership on metrics that align with the success of a company's strategy. We do expect to see increased committee pressure on management to implement revenue metrics into the annual incentive plan as companies prepare for growth.

The use of relative measures in the annual incentive plan (10%) is much less common than long-term incentives. This is more than likely due to difficulty in assessing relative performance using financial goals and the volatility of such performance over one-year horizons.

Leverage

What is the maximum (as a percent of target) in the annual incentive plan?

Maximum (As a Percent of Target)	Percent of Meridian 250
100%-199%	21%
200%	60%
201%-299%	12%
300%+	4%
N/A (e.g., discretionary)	3%

What is the non-zero threshold (as a percent of target) in the annual incentive plan?

Non-Zero Threshold (As a Percent of Target)	Percent of Meridian 250
< 25%	17%
25%-49%	24%
50%-74%	53%
75%-<100%	4%
N/A (e.g., discretionary)	2%

Meridian Comment

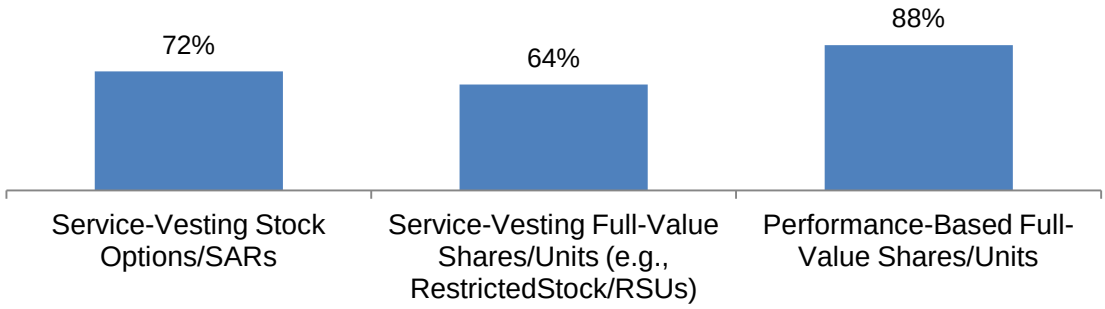
The maximum opportunities of 200% of target and non-zero threshold of 50%-74% of target are consistent with our experience. We have not seen much movement in this area in some time. However, with increased committee focus on goal setting and corresponding payouts, this may be an area to watch for further developments.

Long-Term Incentive Design Practices

Long-Term Incentive Design Practices

Vehicle Use and Mix

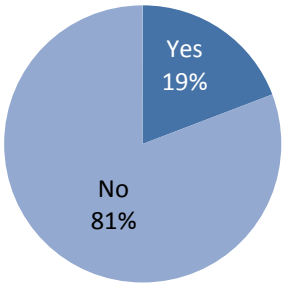
What LTI vehicles does the Company use in its annual LTI mix?



What is the stated annual LTI mix for senior-most executives?

LTI Vehicle	Average LTI Mix
Stock Options/SARs	33%
Service-Vesting Full-Value Shares/Units	21%
Performance-Based Full-Value Shares/Units	46%

Does the stated LTI mix significantly differ between the CEO versus other NEOs?



Meridian Comment

The prevalence of each LTI vehicle indicates a strong and well established use of the "portfolio approach" across the Meridian 250. Additionally, of the Meridian 250, 88% use performance-based vehicles (e.g., 3-year cash or stock-based performance plans) which are overwhelmingly supportive of a pay-for-performance approach to executive compensation.

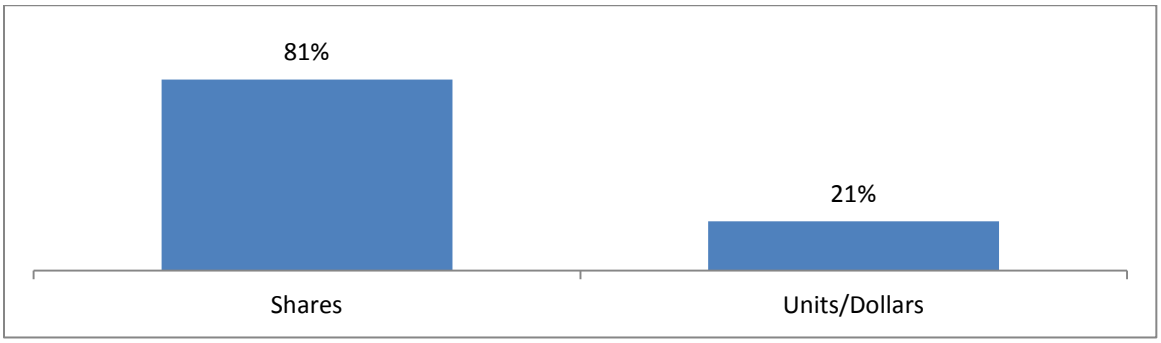
Performance-based vehicles now represent the largest portion of LTI granted on an annual basis. Over the last ten years, not only has the use of performance-based vehicles increased (to more than 3 in every 4 companies), but the portion of total value has strongly increased (nearly one-half the value granted) with a substantial decrease in the relative value and use of stock options.

In combination with stock options that require shareholder value creation, the Meridian 250 now grants nearly 80% of their annual LTI value in performance-focused vehicles.

Performance-Based Full-Value Shares/Units

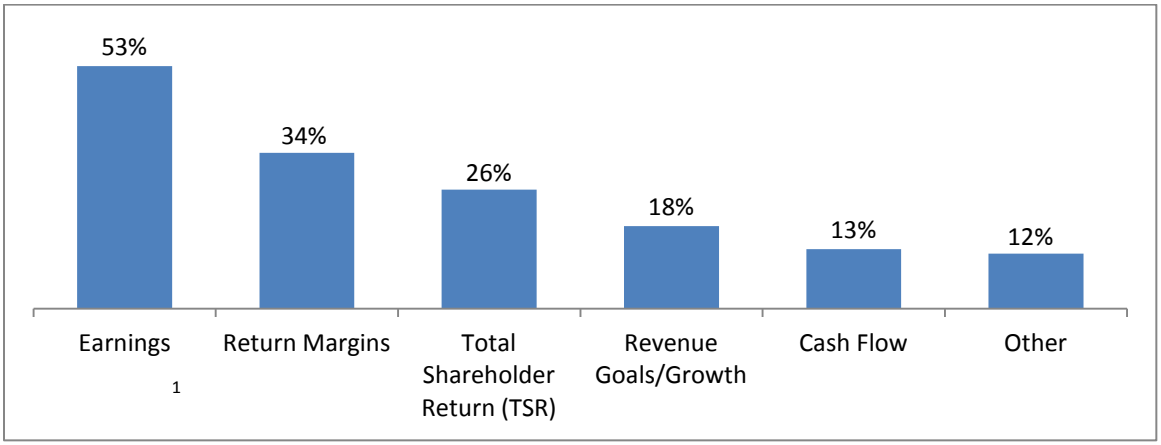
General

Of the companies using performance-vesting full-value shares, is the plan denominated in shares or dollars?



Metrics

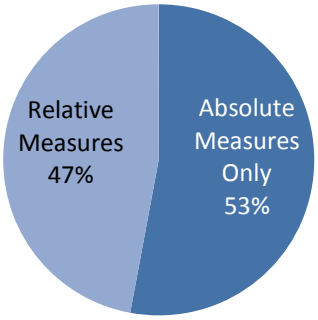
What types of corporate financial metrics are used in the Meridian 250's performance-vesting full-value awards?

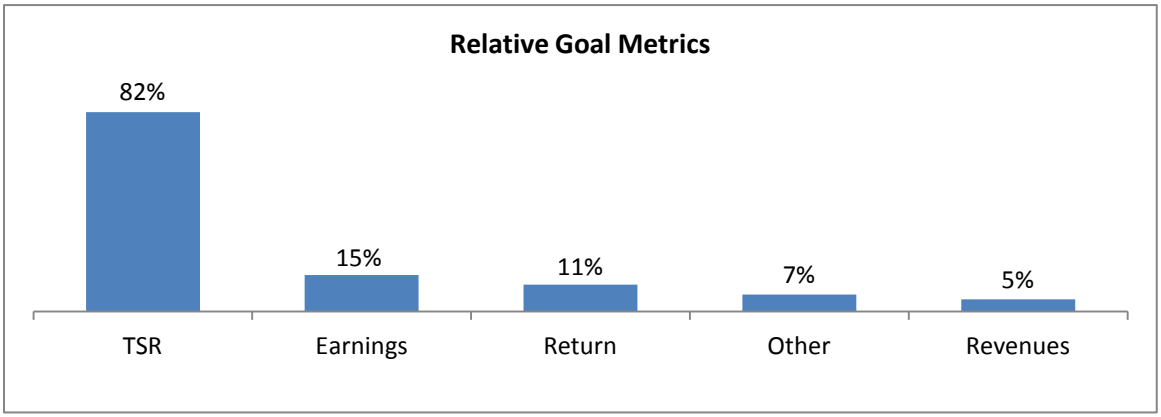


[1] Includes EPS, EBIT/EBITDA, Operating Income, Net Income, etc.

"Other" may include metrics such as: Economic Value Added (EVA), business unit goals, etc.

Does the company use relative or absolute financial goals? If a company has relative goals, what metrics are measured on a relative basis?





Meridian Comment

A strong majority of companies (81%) denominate their performance-based vehicles in shares versus units/dollars. This is in line with our experience as companies prefer the use of shares as a currency over cash for a number of reasons, including shareholder alignment, additional leverage and non-cash expense.

Similar to annual incentive plans, the use of earnings measures is the majority of practice of the Meridian 250. However, the use of Return Measures and/or TSR measures is also strong across the group.

Almost one-half of the Meridian 250 uses **relative performance goals** in their performance-based vehicle. When relative goals are used, TSR is overwhelmingly the most used metric (82%), followed distantly by earnings (15%).

Committees will continue to seek ways to align the company's executive compensation program with shareholders. We expect companies to continue to use relative TSR as a portion of the performance-vesting vehicle to provide shareholder alignment and eliminate the need for annual goal setting vs. absolute standards or peer practices.

Leverage

What is the maximum opportunity of performance-vesting full-value shares/units?

Maximum Opportunity (As a Percent of Target)	Percent of Meridian 250
100% (Target)	7%
101-149%	5%
150%	19%
151-199%	5%
200%	57%
201-299%	6%
300% +	1%

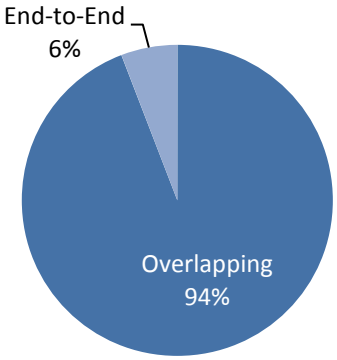
What is the non-zero threshold of performance-vesting of full-value shares/units?

Non-Zero Threshold (As a Percent of Target)	Percent of Meridian 250
0%- <25%	13%
25%	14%
26-49%	6%
50%	54%
51-80%	12%
100%	1%

Meridian Comment

A majority of the Meridian 250 has a maximum opportunity of 200% of target (57%), while the next most common maximum is 150% of target (19%). Conversely, approximately two-thirds of the Meridian 250 either have 50% of target threshold (54%) or a 25% of target threshold (14%).

Are the long-term performance cycles "overlapping" or "end-to-end"?



How long is the performance period (in years)?

- 85% of the companies used a 3-year performance period.

If there is an additional service-vesting requirement after the performance period, how long is it?

- Only 15% of the companies require additional service vesting after the performance period. However, those companies typically have a performance cycle of two years, which requires an additional service requirement of one to two years.

Meridian Comment

Overlapping and three-year performance cycles represent the vast majority of all performance-based long-term vehicles in use (94% and 85%, respectively) across the Meridian 250.

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Meridian Compensation Partners, LLC is one of the largest, independent executive compensation consulting firms in the industry. Founded in 2010, Meridian is wholly owned and operated by its partners, and provides trusted counsel to compensation committees and senior management at hundreds of preeminent large and mid-cap corporations. Averaging more than 20 years of tenure, Meridian's Partners have industry-leading knowledge and experience, along with depth of resources, to provide expert advice and support on executive compensation and governance related matters. Visit us at www.meridiancp.com

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Profile of Survey Companies

Profile of Survey Companies

Methodology

Meridian reviewed the corporate governance and incentive design practices of 250 large publicly traded companies (the "Meridian 250") through the most recently available publicly filed documents (typically proxy statements). Financial highlights of the companies are provided below, followed by a full listing of the companies used in the survey.

	Revenues ($M)	Market Value ($M)	ROIC (3-Year)	ROIC (5-Year)	TSR (3-Year)	TSR (5-Year)
25th Percentile	$6,449	$6,051	6.1%	8.0%	-8.4%	-1.3%
Median	$12,786	$12,796	10.4%	11.4%	-0.5%	5.4%
75th Percentile	$34,390	$31,863	15.8%	17.0%	7.3%	11.6%

Survey Companies (n = 250)

3M Company
Abbott Laboratories
Accenture plc
Actuant Corporation
Acxiom Corporation
The AES Corporation
Aetna Inc.
AGL Resources Inc.
Alcoa Inc.
Alexander & Baldwin, Inc.
Allegheny Technologies Incorporated
Alliance Data Systems Corporation
The Allstate Corporation
Amazon.com, Inc.
American Electric Power Company, Inc.
American Express Company
AmerisourceBergen Corporation
AMR Corporation
Anadarko Petroleum Corporation
Apache Corporation
Apple Inc.
Applied Materials, Inc.
Arch Chemicals, Inc.
Arch Coal, Inc.
Archer-Daniels-Midland Company
AT&T Inc.
Automatic Data Processing, Inc.
Avon Products, Inc.
Baker Hughes Incorporated
Ball Corporation
Bank of America Corporation
Barrick Gold Corporation
Baxter International Inc.
Becton, Dickinson and Company
Bemis Company, Inc.
Best Buy Co., Inc.
The Boeing Company
BorgWarner Inc.
Boston Scientific Corporation
Briggs & Stratton Corporation
Brown-Forman Corporation
Bunge Limited
Campbell Soup Company
Cardinal Health, Inc.
Carnival Corporation
Caterpillar Inc.
CBS Corporation
Celanese Corporation
CenturyLink, Inc.
Chesapeacke Energy Corporation
Chevron Corporation
Chicago Bridge & Iron Company N.V.
CIGNA Corporation
The Clorox Company
ConAgra Foods, Inc.
ConocoPhillips
Consolidated Edison, Inc.
Constellation Energy Group, Inc.
Cooper Tire & Rubber Company
Corning Incorporated
Costco Wholesale Corporation
Coventry Health Care, Inc.
Crane Co.
CSX Corporation

Cummins Inc.
CVS Caremark Corporation
Danaher Corporation
Dean Foods Company
Deere & Company
Dell Inc.
Delta Air Lines, Inc.
Devon Energy Corporation
DIRECTV
Discover Financial Services
Dollar General Corporation
Domtar Corporation
The Dow Chemical Company
The Dun & Bradstreet Corporation
E. I. Du Pont De Nemours and Company
Eastman Kodak Company
Eaton Corporation
eBay Inc.
Eli Lilly and Company
Emerson Electric Co.
Entergy Corporation
The Estée Lauder Companies Inc.
Express Scripts, Inc.
Exxon Mobil Corporation
FedEx Corporation
FirstEnergy Corp.
Flowserve Corporation
FMC Corporation
Ford Motor Company
The Gap, Inc.
General Dynamics Corporation
General Electric Company
General Mills, Inc.
The Goldman Sachs Group, Inc.
Goodrich Corporation
Google Inc.
H. J. Heinz Company
Halliburton Company
Hanesbrands Inc.
The Hartford Financial Services Group, Inc.
Health Net, Inc.
The Hershey Company
Hess Corporation
Hewlett-Packard Company
The Home Depot, Inc.
Honeywell International Inc.
Humana Inc.
IDEX Corporation
IHS Inc.
Ingersoll-Rand plc
Ingram Micro Inc.
Intel Corporation
International Business Machines Corporation
International Paper Company
The Interpublic Group of Companies, Inc.
ITT Corporation
Jabil Circuit, Inc.
Jarden Corporation
Johnson & Johnson
Johnson Controls, Inc.
JPMorgan Chase & Co.
Kellogg Company
Kraft Foods Inc.
The Kroger Co.
Laboratory Corporation of America Holdings
Lear Corporation
Lockheed Martin Corporation
Lowe's Companies, Inc.
Macy's, Inc.
Marathon Oil Corporation
Marriott International, Inc.
Masco Corporation
Mastercard Incorporated
Mattel, Inc.
McDermott International, Inc.
McDonald's Corporation
McKesson Corporation
Mead Johnson Nutrition Company
MeadWestvaco Corporation
Medco Health Solutions, Inc.
Merck & Co., Inc.
Meredith Corporation
MetLife, Inc.
Microsoft Corporation
Monsanto Company
Morgan Stanley
Motorola Mobility Holdings, Inc.
Murphy Oil Corporation
Nalco Holding Company
National Oilwell Varco, Inc.
Navistar International Corporation
NCR Corporation
Newell Rubbermaid Inc.
News Corporation
NiSource, Inc.
Noble Corporation
Nordson Corporation
Nordstrom, Inc.
Northrop Grumman Corporation
NSTAR
Old Dominion Freight Line, Inc.
Omnicom Group Inc.
Oneok, Inc.
Oracle Corporation

Owens & Minor Inc.
Owens Corning
Owens-Illinois, Inc.
P.F. Chang's China Bistro, Inc.
PACCAR Inc.
Papa John's International, Inc.
PepsiCo, Inc.
Perrigo Company
Pfizer Inc.
PG&E Corporation
Philip Morris International Inc.
Pitney Bowes Inc.
PPG Industries, Inc.
Praxair, Inc.
The Procter & Gamble Company
Prudential Financial, Inc.
Public Service Enterprise Group Incorporated
Publix Super Markets, Inc.
Qualcomm Incorporated
Raytheon Company
Republic Services, Inc.
Reynolds American Inc.
Rock-Tenn Company
Rockwell Automation, Inc.
Safeway Inc.
Schlumberger N.V.
Seagate Technology Public Limited Company
Sears Holdings Corporation
The Sherwin-Williams Company
Sonoco Products Company
Sprint Nextel Corporation
SPX Corporation
St. Jude Medical, Inc.
Stanley Black & Decker, Inc.
Staples, Inc.
Starbucks Corporation
Steelcase Inc.
Sunoco, Inc.
Supervalu Inc.
Sysco Corporation
Target Corporation
Tech Data Corporation
Tenet Healthcare Corporation
Tenneco Inc.
Texas Instruments Incorporated
Textron Inc.
Thor Industries, Inc.
Time Warner Inc.
The TJX Companies, Inc.
Tower International, Inc.
Transocean Ltd.
The Travelers Companies, Inc.
Tyco Electronics Ltd.
Tyson Foods, Inc.
United Continental Holdings, Inc.
United Parcel Service, Inc.
United Stationers Inc.
UnitedHealth Group Incorporated
URS Corporation
US Airways Group, Inc.
Valero Energy Corporation
The Valspar Corporation
Verizon Communications Inc.
VF Corporation
Visa Inc.
VMware, Inc.
W.W. Grainger, Inc.
Walgreen Co.
Wal-Mart Stores, Inc.
The Walt Disney Company
Walter Energy, Inc.
Waste Management, Inc.
WellPoint, Inc.
Wells Fargo & Company
Wesco International, Inc.
The Western Union Company
Whole Foods Market, Inc.
Williams - Sonoma, Inc.
The Williams Companies, Inc.
Worthington Industries, Inc.
Xerox Corporation
Yum! Brands, Inc.