MERIDIAN
COMPENSATION PARTNERS, LLC

2016 Corporate Governance & Incentive Design Survey Fall 2016

Contents

Executive Summary

As companies review their executive compensation programs and related corporate governance policies, it can be helpful to understand common market practices and trends that may signal “best practices.”

In order to inform these perspectives, Meridian’s 2016 Corporate Governance & Incentive Design Survey presents our findings on a variety of executive compensation and corporate governance topics facing companies today. Results are reflective of 250 large publicly traded companies across a variety of industries (the “Meridian 250”) with median revenues and market capitalization of $15.3B and $20.1B, respectively.

All information was obtained from publicly disclosed documents. A similar analysis has been conducted annually since 2011, with minimal changes to the sample of companies (over 97% of the companies used in 2016 were also surveyed in 2015). See Profile of Survey Companies for more information on the survey sample.

Highlights of Meridian’s 2016 Corporate Governance & Incentive Design Survey include:

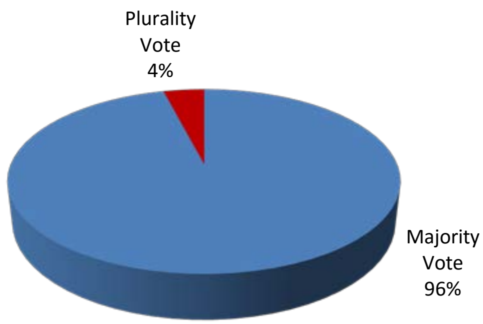
- Combining the roles of CEO and Board Chair continues to be the slight majority practice, with 54% of companies choosing to combine these positions.
- More than one-half (57%) of the Meridian 250 disclose a mandatory retirement age in which a director may no longer stand for re-election. Nearly all such policies (95%) set the retirement age for directors between 72 and 75. The most prevalent and median age is 72.
- Nearly all of the Meridian 250 (95%) begin the Compensation Discussion and Analysis (CD&A) with an executive summary, typically three or more pages in length (66%), providing volitional disclosures in an effort to articulate business strategies and pay program alignment with performance.
- Over one-fourth (28%) of the Meridian 250 include a voluntary disclosure comparing company performance to Named Executive Officer (NEO) pay, with over one-half of these companies focusing on earned (realized) or projected to be earned (realizable) pay, rather than target or reported compensation.
- Nearly two-thirds (65%) of the Meridian 250 disclose shareholder outreach efforts in the CD&A, with a majority of these companies providing details on shareholder feedback and/or actions taken by the company in response to the feedback.
- For annual incentive plans, the most prevalent performance metrics continue to be Operating Income, Revenue, Earnings Per Share (EPS) and Cash Flow.
- Long-term performance-based vehicles (e.g., performance shares or units) are used at 94% of the Meridian 250 and continue to comprise more than 50% of the total long-term incentive (LTI) opportunity granted to the CEO and the other NEOs.
- Relative total shareholder return (TSR) continues to be the most prevalent metric used in performance-based LTI vehicles (57%); however, the predominant practice for companies using a relative TSR metric is to pair it with at least one additional performance metric (77%).

Corporate Governance Practices

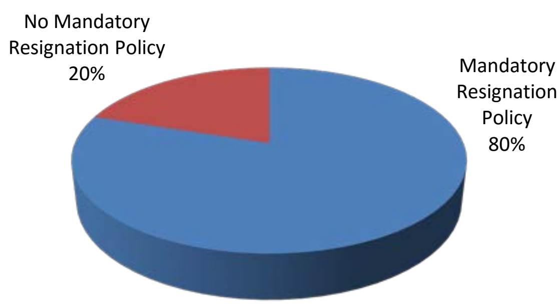
Corporate Governance Practices

Board Structure

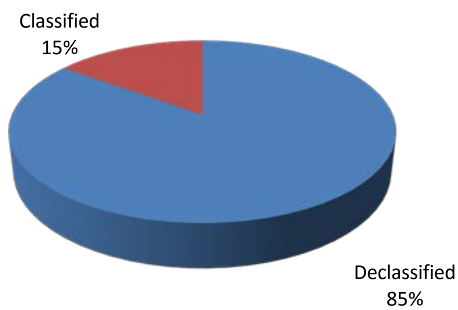
What voting standard does the company employ for uncontested director elections?



Is there a mandatory resignation policy in place if a director fails to receive majority shareholder support? (Results exclude companies that employ a plurality voting standard.)

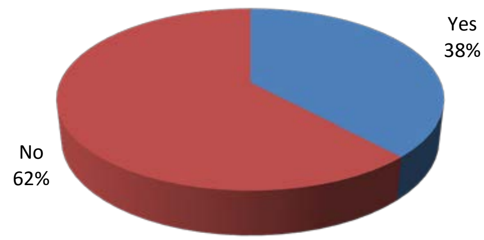


Is the board's structure classified (i.e., director terms are staggered)?



Proxy Access

Does the company disclose the adoption of a proxy access bylaw?



Meridian Comment

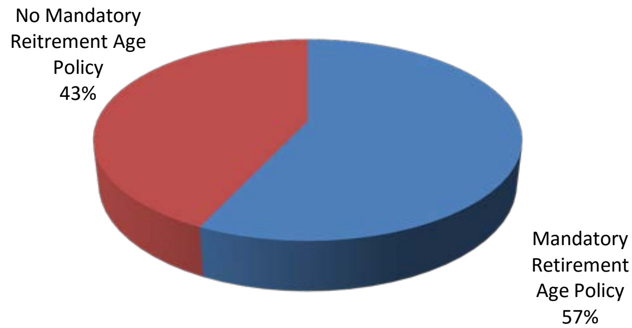
A strong majority of the Meridian 250 employ what many observers consider to be hallmarks of leading corporate governance practices. This includes a majority voting standard for director elections, a mandatory resignation policy if directors fail to receive majority support and a declassified board structure.

Since we began conducting the survey in 2011, the percentage of companies employing a majority voting standard has increased from 79% to 96%. For those companies employing a declassified board structure, the percentage has risen 67% to 85%. However, a small minority of companies (15%) still prefer a classified board structure, likely to prevent an activist or single issue shareholder from taking control of the board.

Proxy access is the latest corporate governance practice to gain traction in the large cap market, largely driven by shareholder-led initiatives. Although still a minority practice among the Meridian 250, the number of companies implementing proxy access bylaws (38%) has risen significantly in the last two years and is expected to continue increasing in prevalence. Many companies are proactively adopting proxy access bylaws in anticipation of shareholder proposals or in response to strong shareholder support of the practice. Most of these adoptions require a shareholder to own more than 3% of the company for at least three years to take advantage of proxy access.

Mandatory Retirement and Director Tenure

Does the company disclose a mandatory retirement age policy for directors (i.e., an age at which directors cannot stand for re-election at the next annual meeting)?



At what age do companies prohibit a director from standing for re-election? (Results only include companies with a mandatory retirement age policy.)

Age	Prevalence
70	3%
71	1%
72	57%
73	5%
74	9%
75	24%
>75	1%

What is the tenure of the Meridian 250 independent directors?

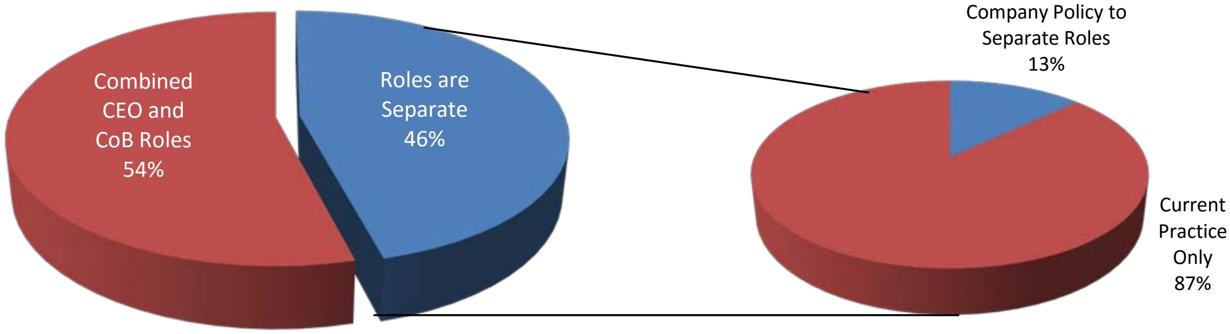
Tenure	Prevalence
0-5 years	42%
6-9 years	23%
> 9 years	35%

Meridian Comment

A majority (57%) of the Meridian 250 disclose a mandatory retirement policy, up from 40% in 2013. Growing interest in the link between director tenure and independence by governance activists has likely driven the increase over the last three years. It is unclear, however, whether the increase is due to companies implementing new policies or disclosing existing ones for the first time. Of the companies with mandatory retirement policies, 95% have selected an age between 72 and 75. We expect board refreshment to be a focal point for many large institutional investors.

Board Leadership

Does the CEO also serve as Board Chair (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 Board Chair[1]	Prevalence
Independent	63%
Prior CEO	27%
Current Employee (i.e., Executive Chair)	19%
Founder/Founding Family[2]	9%

[1] Incumbents may be included in multiple categories.

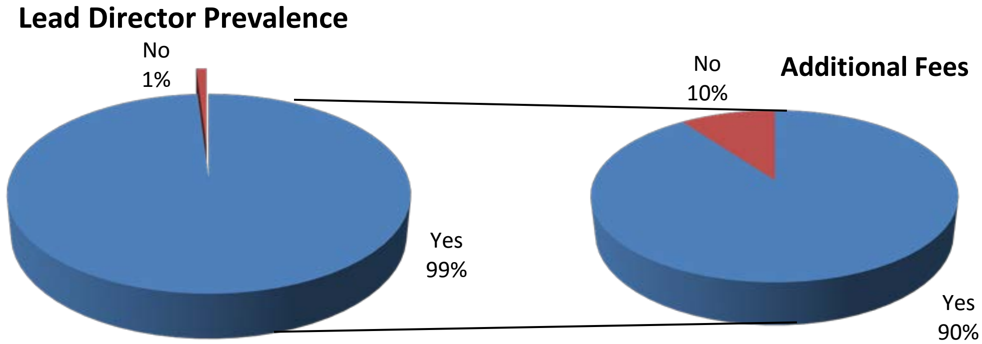
[2] Founding family includes 2nd or 3rd generation members of the original founder.

Meridian Comment

Slightly over one-half of the Meridian 250 (54%) prefer a leadership structure where the CoB and CEO roles are combined, with one voice speaking for the company. Separating these roles can be advantageous, however, for companies going through a transition period or where a new CEO has little experience in the role and/or limited board experience.

While 46% of companies separate the roles, a great majority of these companies (87%) do not have a policy that mandates such separation. In addition, a majority of the companies that separate the roles have elected a CoB who is an independent director with no prior executive relationship with the company (63%).

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



Meridian Comment

It is a near universal practice (99%) to designate a Lead Director if the roles of CoB and CEO are combined. The prevalence of a Lead Director has steadily increased from 88% in 2011, indicating that the establishment of formal board leadership roles has become a best practice. A non-rotating Lead Director role can provide considerable board leadership in the absence of a separate CoB.

Nearly all of the Meridian 250 that designate a Lead Director provide additional fees to recognize the increased time commitment and responsibility of the role (90%). In our experience, the additional fees range from $25,000 to $35,000 and are typically calibrated with, or somewhat higher than, the Audit Committee Chair's fees.

Proxy Disclosure

Proxy Disclosure

Executive Summary Disclosures

Is an executive summary included at the beginning of the proxy statement and/or at the front of the CD&A?

Proxy Disclosure	Prevalence
Executive Summary of the CD&A	95%
Proxy Summary[1]	57%

[1] Refers to a summary at the beginning of the proxy statement highlighting the key information throughout the disclosure, including all management and shareholder proposals.

What is the length of the executive summary at the beginning of the CD&A?

Length of CD&A Executive Summary	Prevalence
No CD&A Executive Summary	5%
1-2 Pages in Length	29%
3-4 Pages in Length	40%
5 or More Pages in Length	26%

Meridian Comment

Nearly all of the Meridian 250 provide some form of voluntary disclosure in their proxy statement. The most prevalent is an executive summary to the CD&A (95%), which has emerged as a best practice to articulate the details of compensation programs. Executive summaries typically include an overview of a company's executive compensation program, recent changes to corporate governance or executive pay practices and volitional graphs or charts highlighting NEO pay levels and/or company performance. The increasing prevalence of supplemental disclosures in recent years has resulted in longer executive summaries, often stretching three or more pages in length (66%).

A proxy summary is now provided by over one-half of the Meridian 250 (57%) and has nearly doubled in prevalence in the last three years (up from 29% in 2013). Proxy summaries may include a glimpse of the company's business strategy, important pay messages, provide data on financial performance or outline key vote information.

Approximately 94% of the Meridian 250 held a Say on Pay vote at their most recent shareholder meeting. Only 2% of the Meridian 250 failed their Say on Pay vote in 2016, with another 4% only receiving between 50%-70% shareholder support. In a continued effort to achieve high levels of shareholder support (currently averaging well over 90%), the Meridian 250 continue to provide comprehensive disclosures to describe and defend their executive compensation practices.

Shareholder Outreach

Did the company provide information on shareholder engagement in the proxy statement?

Shareholder Outreach Disclosures	Prevalence
No reference to shareholder outreach in the proxy	35%
Disclosed shareholder outreach, but did not expand on shareholder feedback or specific actions taken by the company	23%
Disclosed shareholder outreach, including shareholder feedback and/or actions taken as a result of the feedback	42%

Meridian Comment

Although shareholder outreach has historically been a common practice, companies are increasingly disclosing their shareholder engagement process in their proxy statements, highlighting efforts to communicate directly with their larger institutional investors on executive compensation and corporate governance topics throughout the year. Forty-two percent (42%) of the Meridian 250 provided details on the feedback received by shareholders and/or the specific actions the company has taken to address shareholder concerns.

Explaining the communication efforts with institutional investors demonstrates a company's responsiveness to shareholders and can provide a strong rationale for compensation program decisions. As such, we anticipate more companies will discuss their approach to shareholder engagement in future proxy statements, including details on how shareholder feedback helped drive compensation and corporate governance decisions.

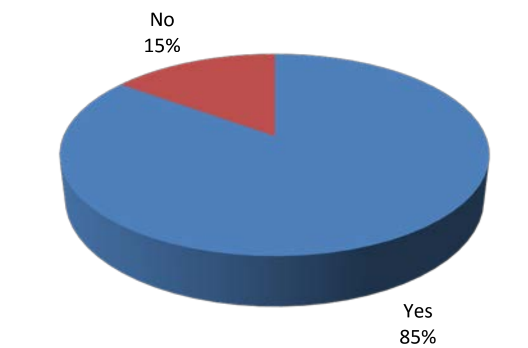
Performance Disclosure

A common practice of the Meridian 250 is to provide a disclosure regarding company performance. This is distinguished from a comparison of pay and performance, for which prevalence data is provided on the following page. Performance disclosures fall into two categories:

- **Absolute Performance**—a disclosure solely depicting the company's financial performance or stock price (i.e., no relative comparison).
- **Relative Performance**—a disclosure comparing the company's financial performance or stock price to the financial performance or stock price of other companies.

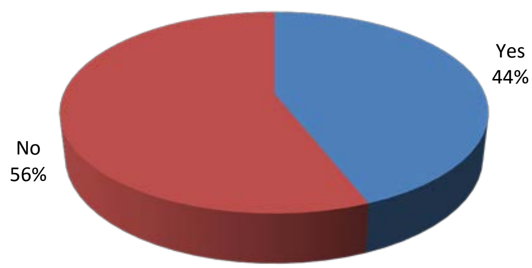
Absolute Performance

Does the company provide a disclosure regarding absolute company performance?



Relative Performance

Does the company provide a disclosure regarding relative company performance?



Meridian Comment

A strong majority of the Meridian 250 (85%) provide absolute company performance disclosures highlighting recent financial results and business achievements as a way to connect a company's progress with compensation decisions. Most of these absolute performance disclosures (76%) focus on a performance period between one and three years.

Relative performance disclosures are still a minority practice (44%), but have steadily increased in prevalence in recent years. These disclosures typically cover a longer period of time than absolute performance disclosures, with a majority (61%) covering a period between three and five years. Furthermore, relative performance is most often compared to one or more of the following groups: a broad industry index (66%), the compensation benchmarking peer group (50%) or an industry-specific index (31%).

Pay and Performance Disclosure

Over one-fourth of the Meridian 250 (28%) provide additional disclosures comparing NEO pay to company performance in an effort to show alignment.

Does the company compare performance to one of the following forms of pay?

Pay Definition	Prevalence[1]
Realized or Realizable Pay	53%
Summary Compensation Table Pay (Excluding Change in Pension Value/Non-Qualified Deferred Compensation Earnings and/or All Other Compensation)	27%
Total Compensation from Summary Compensation Table	23%
Target Pay	23%

[1] Sum of prevalence percentages exceeds 100% due to companies that show multiple forms of pay in their pay and performance disclosures.

Meridian Comment

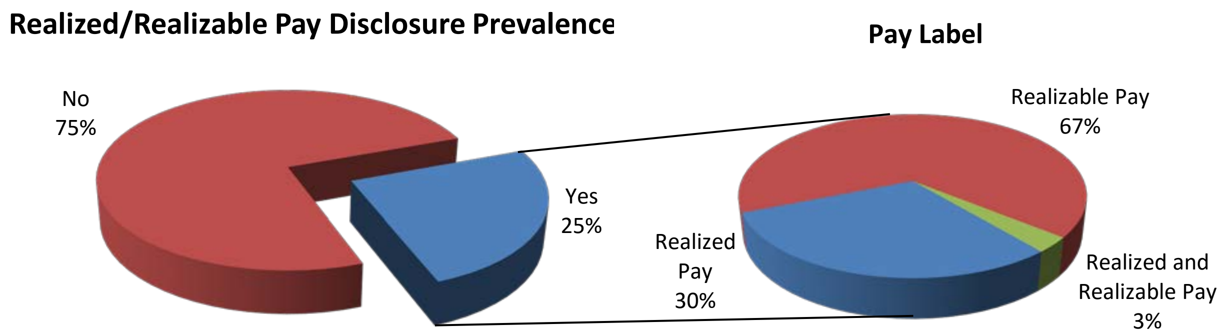
While the Securities and Exchange Commission (SEC) has not yet issued final rules requiring companies to disclose the relationship between executive pay and company performance, 28% of the Meridian 250 voluntarily chose to provide some form of a pay and performance disclosure. This is likely in light of pressures from institutional shareholders and their advisors, and the desire to positively influence Say on Pay vote outcomes. While disclosures vary widely, realized/realizable pay continues to be the most prevalent pay definition used by the Meridian 250.

In April 2015, the SEC released the proposed rule that will require public companies to disclose the relationship between executive compensation "actually paid" and the financial performance of the company, as mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). A year and a half later, the SEC still has not indicated when it is likely to issue final rules on the pay-for-performance disclosure requirement. However, we do not anticipate that this disclosure requirement will necessarily replace voluntary pay and performance disclosures. We expect that many companies will continue to make these voluntary disclosures as a supplement to the required disclosure, further articulating their pay and performance relationship.

Realized/Realizable Pay Disclosure

One-fourth of the Meridian 250 (25%) provide voluntary disclosures with alternative measurements of pay based on earned (realized) or projected (realizable) compensation, up from 20% in 2015. Note that these pay disclosures differ from the pay and performance disclosures highlighted on the previous page.

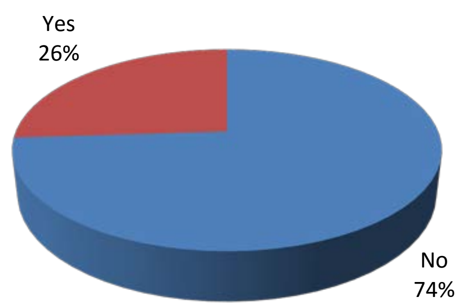
Does the company provide a realized or realizable pay disclosure? If so, how is pay labeled?



Whose pay is included in the realized or realizable pay disclosure?

NEO Pay Included in Disclosure	Prevalence
CEO Only	86%
All Named Executive Officers Depicted Separately	6%
CEO and Average of Other Named Executive Officers	6%
CEO and CFO	2%

Is realized or realizable pay compared to pay at other companies?



Meridian Comment

Among the Meridian 250, the realized/realizable pay disclosures take various forms and may include comparisons to target pay or Summary Compensation Table pay (76%) and/or executive pay relative to other companies (26%).

The SEC proposed rule on pay and performance would mandate that companies compare company performance to compensation "actually paid" to the CEO and other NEOs (i.e., a form of realized pay). However, we expect both realized and realizable pay disclosures to continue to grow in prevalence, as companies supplement the required disclosure to further distinguish between an executive's target compensation opportunity and pay that has been earned or is projected to be earned.

Company Policies

Company Policies

Executive Equity Holdings

Stock Ownership Guidelines

Nearly all of the Meridian 250 (96%) impose stock ownership guidelines on their NEOs. The tables below display the guidelines for the CEO, the Highest Paid NEO (other than the CEO) and the Lowest Paid NEO.

Stock Ownership Guidelines Structure	Prevalence
Multiple of Salary	88%
Number of Shares	6%
Combination of Multiple of Salary and Number of Shares[1]	2%
None Disclosed	4%

[1] Guidelines that are expressed in a multiple of salary and a number of shares most often require executives to achieve the lesser of a multiple of salary or a specific number of shares

For companies using a Multiple of Salary structure, what is the average and the most prevalent multiple of salary among the Meridian 250?

Multiple of Salary Level	CEO	Highest Paid NEO	Lowest Paid NEO
Average Multiple of Salary	6.0×	3.4×	3.0×
Most Prevalent Multiple of Salary	6.0×	3.0×	3.0×

Which of the following are defined as "stock" for purposes of achieving stock ownership guideline requirements? (Prevalence only includes companies that disclose a definition of "stock.")

Vehicle	Prevalence
Actual Stock Owned	100%
Unvested Restricted Stock/RSUs	69%
Shares Held in Retirement/Savings Accounts	62%
Unvested Deferred Shares	41%
Vested Stock Options	17%
Unearned Performance Shares/Units	13%

What is the timing requirement to meet ownership guidelines?

Timing	Prevalence
5 Years	66%
1-4 Years	5%
Holding Requirement Only[1]	29%

[1] Holding requirement in lieu of specific timing requirement (see next page for further details).

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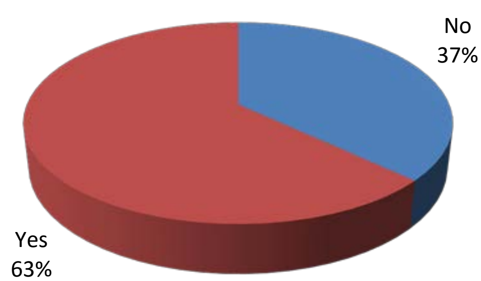
Holding Requirements

The holding requirement structures are defined as:

- **Hold Until Met**—requires an executive to retain a specified percentage of shares received from vested share-based awards or exercised options until ownership guidelines are achieved.
- **Holding Requirement Always in Place**—requires an executive to retain a specified percentage of shares received from vested share-based awards or exercised options for a specific period of time regardless of whether ownership guidelines are achieved (e.g., hold for one year post-vesting).
- **Hold Only If In Non-Compliance**—requires an executive to retain a specified percentage of shares received from vested share-based awards or exercised options if the ownership guidelines are not met within the allotted time period or if an executive falls out of compliance.
- **Hold Until Retirement**—requires an executive to retain a specified percentage of shares received from vested share-based awards or exercised options until employment ends.

Does the company disclose the use of a stock holding requirement in addition to or in lieu of a required stock ownership level?



How is the stock holding requirement structured?

Holding Requirement Structure	Prevalence Among the Meridian 250	Prevalence Among Companies with a Holding Requirement[1]
Hold Until Met	48%	77%
Holding Requirement Always in Place	8%	13%
Hold Only If In Non-Compliance	8%	12%
Hold Until Retirement	5%	8%
[1] Sum of prevalence percentages exceeds 100% since companies may have multiple holding requirements		

Hold Until Met Requirement

The most common stock holding requirement is the Hold Until Met design. This table illustrates the percentages of “net of tax” shares that must be held by an executive with a Hold Until Met requirement.

Percent Required to be Held	Prevalence
100% of Net Shares	39%
75% of Net Shares	12%
50% of Net Shares	40%
Other	9%

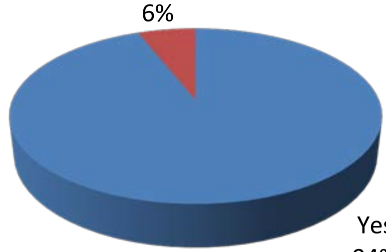
Meridian Comment

The Multiple of Salary approach to executive stock ownership guidelines continues to be the predominant practice across the Meridian 250. The multiple of salary that is required to be held by the CEO has increased modestly since 2011, from 5.4× to 6.0×. The Multiple of Salary that is required to be held for the Highest Paid NEO and the Lowest Paid NEO has remained relatively constant over the past five years.

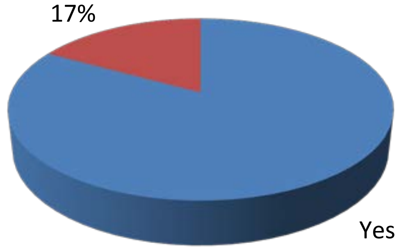
Nearly two-thirds (63%) of the Meridian 250 disclose the use of holding requirements for NEOs. We have seen a steady rise in holding requirement disclosures in recent years, up from 51% in 2013. The Hold Until Retirement design arguably is the preferred practice among corporate governance observers, yet its use remains a small minority practice. Alternatively, the use of a Hold Until Met requirement continues to increase in prevalence. Among companies disclosing a holding requirement, a Hold Until Met policy is used by over three-fourths of the companies (77%).

Anti-Hedging and Anti-Pledging Policies

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



Does the company disclose the existence of an anti-pledging policy?



Meridian Comment

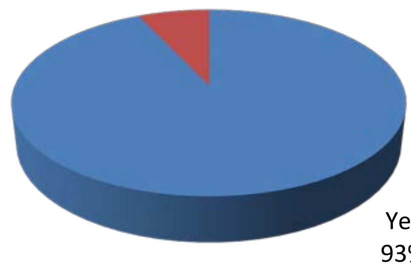
The disclosure of an anti-hedging policy is nearly universal (94%) among the Meridian 250 and has risen from 57% prevalence five years prior. Based on our experience, the prevalence of these disclosures has risen sharply due to companies either: (i) updating their insider trading policies to incorporate anti-hedging language or (ii) disclosing their previously implemented policies for the first time.

In February 2015, the SEC released the proposed rule that will require companies to disclose their anti-hedging policy, if a policy is in place. Although the final rule has not yet been issued, the anticipation of this Dodd-Frank mandate as well as pressure from shareholder advisory groups have been the primary catalysts for the increase in prevalence of anti-hedging policies. The SEC proposed rule does not require companies to implement anti-hedging policies; however, these policies are now considered a governance best practice.

A strong majority (83%) of the Meridian 250 now also disclose that an anti-pledging policy is in place, up from 66% in 2014. Of these companies, 83% prohibit all pledging of shares, while the remaining 17% permit pledging of shares subject to approval by the board and/or management or have other restrictions in place.

Recoupment (Clawback) Policies

Does the company disclose the existence of a recoupment/clawback policy (excluding Sarbanes-Oxley (SOX) requirement)?



Clawbacks are triggered by which of the following?

Triggering Events	Prevalence[1]
Ethical Misconduct Leading to a Financial Restatement	56%
Financial Restatement (regardless of cause), Without Requirement of Ethical Misconduct	39%
Ethical Misconduct (includes criminal, fraudulent and/or illegal misconduct), Without Requirement of Financial Restatement	27%
Violation of Restrictive Covenant(s) (includes non-compete, non-solicitation, non-disclosure, non-disparagement, etc.)	19%
Other	2%

[1] Sum of prevalence exceeds 100% since a company's clawback may be triggered by more than one event

Who is covered under the company's clawback policy?

Roles	Prevalence
Current Key Executives (e.g., section 16 officers)	57%
All Incentive (annual and/or equity) Plan Participants	21%
Current and Former Key Executives (e.g., section 16 officers)	13%
All NEOs (disclosure does not specify whether a larger population is covered)	6%
No Disclosure Specifying the Employees Included in the Policy	3%

Which of the following elements of compensation are covered under the company's clawback policy?

Compensation Element	Prevalence
Cash Incentives	96%
Equity Incentives (generally or by listing specific equity vehicles)	93%

Does the Board have discretion to determine whether to recoup compensation once a clawback event is triggered?

Disclosed Policy	Prevalence
Disclosure States Board has Discretion to Determine Whether to Recoup Compensation	65%
Disclosure States Clawback is Mandatory if an Event Triggers the Policy	5%
Disclosure Does Not State Whether the Recoupment is Mandatory if an Event Triggers the Policy	30%

Meridian Comment

The prevalence of recoupment or clawback policy disclosures has continued to rise in recent years. Clawback policies are now disclosed by 93% of the Meridian 250, an increase from 75% in 2011. In addition, disclosure of company clawback policies has become more robust, with companies providing detailed information on clawback triggers, covered employees and applicable compensation elements.

In July 2015, the SEC released a proposed rule on mandatory clawbacks, as mandated by Dodd-Frank, which is more rigorous than the typical clawback policy maintained by the Meridian 250. The typical clawback policy permits but does not require companies to recoup compensation upon a triggering event. In contrast, the SEC's proposed rule would require companies to claw back excess incentive-based compensation upon a triggering event. Further, the SEC's proposed rule would cover incentive-based compensation that measures the achievement of financial metrics or share price goals, including total shareholder return. Current clawback policies tend to solely cover financial metrics in incentive compensation.

While there is currently a wide range of clawback policies among the Meridian 250, companies will need to conform to the new requirements once the SEC finalizes its proposed rule.

Peer Groups

How many custom "benchmarking" peer groups does the Company use for the NEO population?

Number of Peer Groups	Prevalence
One Custom Peer Group	85%
Two Custom Peer Groups	13%
Three Custom Peer Groups	2%

Meridian Comment

Nearly all of the Meridian 250 (96%) disclose the use of at least one custom benchmarking peer group. Companies generally select peer groups based on multiple criteria including: revenues, assets, market capitalization, industry segment, complexity, geographic reach, performance, competitors for talent and investors. Two-thirds of the companies that use at least one peer group have a custom benchmarking peer group comprised of between 14 and 22 companies, with the average peer group size being 18 companies.

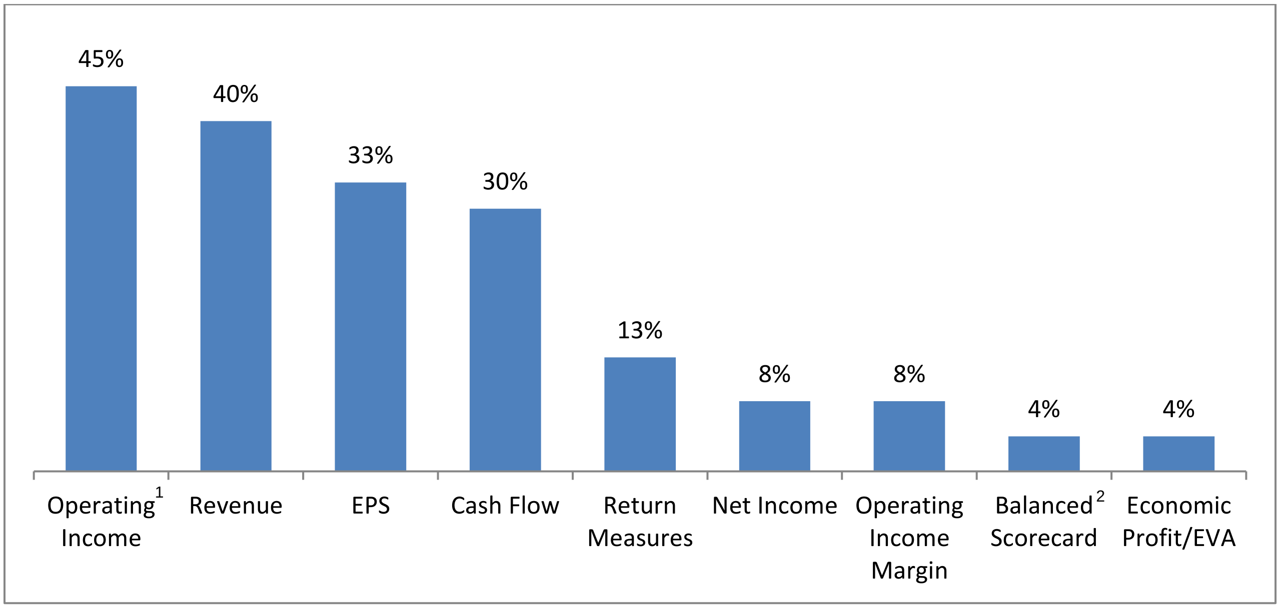
Peer groups are often used for several benchmarking purposes including executive and director pay levels, incentive plan design practices and run-rate and overhang analyses. In recent years, committees and outside observers have increased their focus on peer groups due to the influence benchmarking studies may have on a company's pay practices and compensation levels. We recommend that companies annually evaluate their peer group(s) for continued appropriateness, with an eye on the policies and perspectives of shareholder advisory groups such as ISS and Glass Lewis.

Annual Incentive Plan Design Practices

Annual Incentive Plan Design Practices

Financial Metrics

What corporate financial metrics are used for determining annual incentive plan payouts?



[1] Includes EBIT, EBITDA, Operating Income, Pre-Tax Income, etc.
[2] Represents the prevalence of companies with five or more financial metrics in their annual incentive plan

Operational and Individual Metrics

A substantial number of companies also incorporate operational/strategic goals and individual performance objectives in their annual incentive plans, typically as supplements to the financial metrics.

Are non-financial metrics used to determine annual incentive plan payouts?

Non-Financial Metrics	Prevalence
Operational/Strategic Corporate Goals	36%
Individual Performance Goals[1]	25%
Individual Performance Modifiers[1]	11%

[1] Performance goals that are established separately for each executive

Meridian Comment

Consistent with the 2015 results, the most prevalent annual incentive plan metrics used by the Meridian 250 are Operating Income, Revenue, EPS and Cash Flow. The percentage of companies using each financial measure generally remained constant from 2015, with Operating Income being the only metric that exhibited a slight increase (i.e., from 40% in 2015 to 45% in 2016).

Overall, an earnings-based measure (i.e., Operating Income, EPS or Net Income) is the most prevalent type of metric used among the Meridian 250, with over three-fourths of the companies (79%) including at least one earnings-based measure in their annual incentive plan in 2016.

Performance Curves

If the company uses any of the following metrics, what are the threshold and maximum performance goals (as a percentage of target)?

Financial Metrics	Threshold Performance Goal as a Percent of Target (Median Values)	Maximum Performance Goal as a Percent of Target (Median Values)
EPS/Net Income	90%	110%
Operating Income	89%	110%
Revenue	95%	104%
Return	77%	112%
Cash Flow	83%	116%

Meridian Comment

Threshold and maximum performance goals as a percentage of target remained relatively constant from 2015. In setting threshold and maximum performance goals, the Meridian 250 typically develop a tighter performance range for revenue goals than for other metrics. While market results are informative, the structure of a performance curve is often more strongly influenced by other perspectives, including performance expectations, and industry and company-specific factors.

Payout Curves (Leverage)

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

Maximum Payout Opportunity	Prevalence
100%-199% of Target	13%
200% of Target	67%
201%-299% of Target	13%
300%+ of Target	7%

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

Threshold Payout	Threshold Prevalence	Non-Zero Threshold Prevalence
0% of Target[1]	23%	*N/A*
1%-24% of Target	17%	22%
25%-49% of Target	27%	36%
50% of Target	29%	37%
> 50% of Target	4%	5%
[1] Payouts start at $0 for threshold level performance		

Meridian Comment

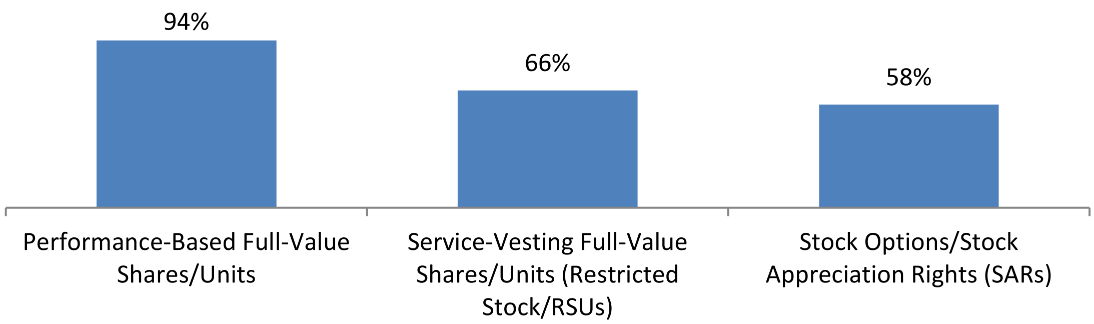
Consistent with results from the past five years, the most prevalent threshold and maximum payouts are 50% and 200% of target, respectively. However, nearly one-fourth of the Meridian 250 (23%) disclose setting the annual incentive plan threshold payout at $0 (a “First Dollar Plan”). First Dollar Plans often award no payout for achieving the threshold performance goal, but provide interpolated payouts on a straight line basis starting at $1 for performance that exceeds threshold.

Long-Term Incentive Design Practices

Long-Term Incentive Design Practices

Vehicle Use and Mix

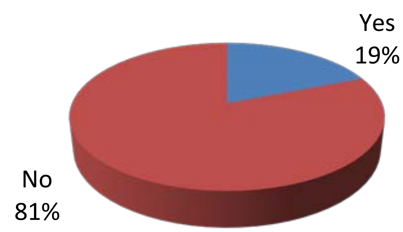
What LTI vehicles do the Meridian 250 use in their LTI mix?



What is the stated LTI mix for the NEOs (based on value)?

LTI Vehicle	Average LTI Mix	
	CEO	Other NEOs
Performance-Based Full-Value Shares/Units	57%	55%
Service-Vesting Full-Value Shares/Units	21%	24%
Stock Options/SARs	22%	21%

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



Meridian Comment

Consistent with the results in recent years, the prevalence of each LTI vehicle category indicates strong use of a "portfolio approach." Nearly one-half (48%) of the Meridian 250 use two LTI vehicles and one-third (33%) use three or more vehicles.

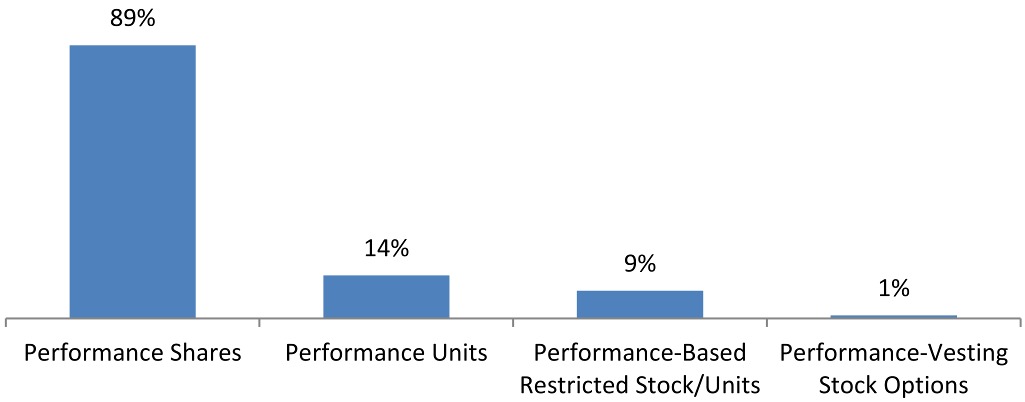
Nearly all companies (94%) use a performance-based vehicle, likely in support of a pay-for-performance approach to executive pay. In addition, service-vesting full-value shares (i.e., restricted stock and restricted stock units) (66%) continue to be more prevalent among the Meridian 250 than stock options/SARs (58%).

Since 2012, at least one-half of total LTI value has been granted through performance-based vehicles. The relative value granted through stock options/SARs (21%) and service-vesting full-value shares (24%) remained relatively constant from prior year. Although stock options/SARs have been decreasing in terms of total LTI value, a majority of the Meridian 250 still continue to grant these vehicles.

Performance-Based Long-Term Incentives

Performance-Based Vehicle Use

What performance vehicles do the Meridian 250 use in their LTI mix? (Total exceeds 100% since some companies using more than one type of performance award)



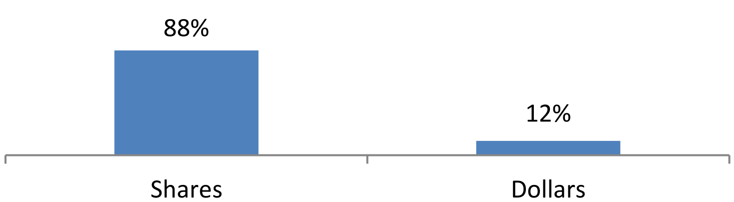
The performance-based vehicles are defined as:

- **Performance Shares**—a performance-based award with the same value as a share of company stock that provides a range of potential payouts depending on achievement against goals.
- **Performance Units**—a performance-based award that assigns a notional value (e.g., $1) to each unit that is not related to the value of a share of company common stock, provides for a range of potential payouts depending on the achievement against goals and is typically paid out in cash.
- **Performance-Based Restricted Stock/Units**—a performance-contingent equity award with no upside payout opportunity (i.e., maximum payout that can be earned is 100% of target).
- **Performance-Vesting Stock Options**—a performance-based stock option award that vests contingent on performance and may offer a range of potential payouts depending on achievement against goals.

Note: *The remainder of this section refers solely to performance-based full value share/unit awards (i.e., not performance-vesting stock options).*

Denomination

Are the performance-based awards denominated in shares or dollars?



Meridian Comment

A substantial majority of the Meridian 250 (88%) denominate their performance-based vehicles in shares instead of dollars. Companies prefer the use of shares as a currency over cash for a number of reasons including shareholder alignment, additional leverage, compliance with ownership guidelines and non-cash expense.

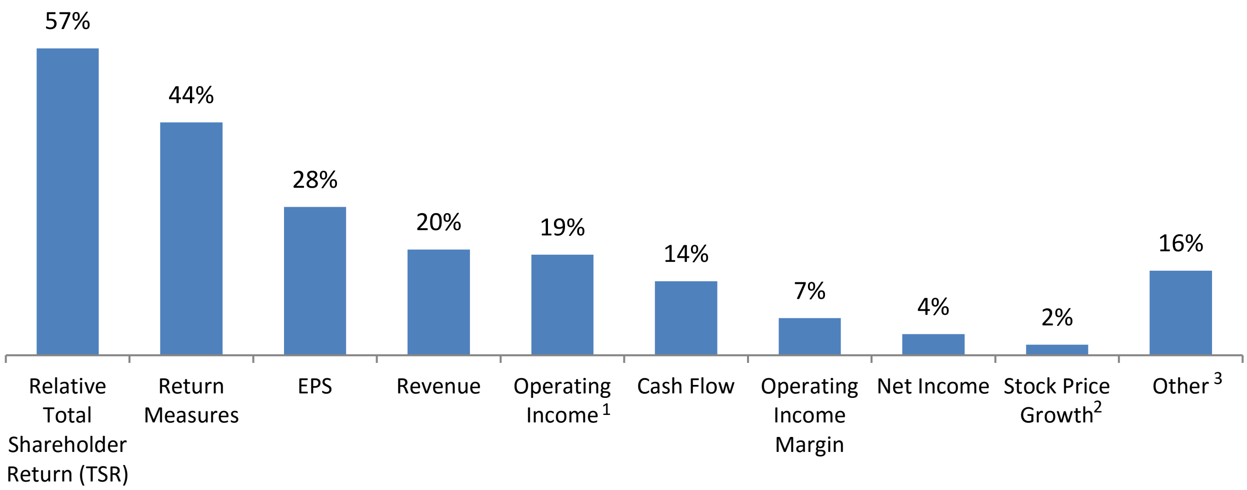
Goal Setting

To determine performance-based award payouts, how does the company set its goals?

Goal Setting Process	Prevalence
Multi-Year Goals (e.g., 3-Year Cumulative TSR)	86%
1-Year Goals With Additional Service Vesting	5%
Multiple 1-Year Goals Over Performance Period with Goals Set at the Beginning of the Performance Period	5%
Multiple 1-Year Goals Over Performance Period with Goals Set Annually	4%

Metrics

What types of corporate financial metrics are used for determining performance-based award payouts?



1 Includes EBIT, EBITDA, Operating Income, Pre-Tax Income, etc.
2 Stock Price Growth includes absolute TSR performance metrics
3 "Other" includes metrics such as: Economic Value Added (EVA), Economic Profit, strategic goals, balanced scorecard, etc.

Meridian Comment

Consistent with prior years, the prevalence of companies using relative TSR as a metric (57%) for determining performance-based award payouts remains higher than the overall prevalence of companies using at least one earnings-based metric (i.e., EPS, Operating Income or Net Income) (47%).

Performance Curves

If the company uses any of the following metrics, what are the threshold and maximum performance goals (as a percentage of target)?

Financial Metrics	Threshold Performance Goal as a Percent of Target (Median Values)	Maximum Performance Goal as a Percent of Target (Median Values)
EPS/Net Income	91%	107%
Operating Income	90%	110%
Revenue	96%	104%
Return	83%	115%
Cash Flow	81%	120%

Performance Periods

How long is the performance period (in years)?

Performance Period	Prevalence
1 Year	5%
2 Years	3%
3 Years	90%
> 3 Years	2%

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

Additional Service Vesting	Prevalence
No Additional Service Vesting Requirement	89%
1 Year	4%
2 Years	4%
> 2 Years	3%

Meridian Comment

In setting threshold and maximum goals as a percentage of target, the Meridian 250 tend to develop a tighter performance range for revenue goals than for other metrics, with the likely reason being they have less variability. While market results are informative, the structure of a performance curve is influenced by other perspectives, including performance expectations, industry and factors specific to the company.

Only 11% of the Meridian 250 require additional service vesting after the performance period. These companies typically have a performance period of one or two years and stipulate an additional service requirement of one to three years.

Payout Curves (Leverage)

What is the maximum payout opportunity for leveraged performance-based awards (i.e., not performance-based restricted stock/units)?

Maximum Payout Opportunity	Prevalence
101%-149% of Target	4%
150% of Target	16%
151%-199% of Target	4%
200% of Target	68%
201%-299% of Target	6%
300% + of Target	2%

What is the threshold payout for leveraged performance-based awards (i.e., not performance-based restricted stock/units)?

Threshold Payout	Threshold Prevalence	Non-Zero Threshold Prevalence
0% of Target[1]	13%	*N/A*
1%-24% of Target	15%	17%
25% of Target	15%	18%
26%-49% of Target	11%	13%
50% of Target	43%	49%
> 50% of Target	3%	3%

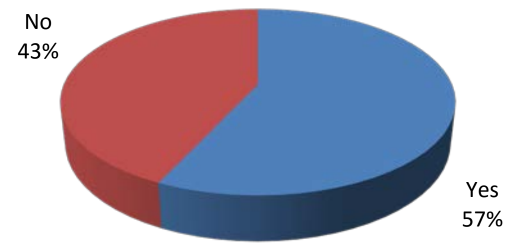
[1] Payouts start at $0 for threshold level performance

Meridian Comment

The most prevalent approach among the Meridian 250 is to set a maximum opportunity of 200% of target (66%) and a threshold payout level at 50% of target (43%). Setting a maximum opportunity above 200% of target is not a typical practice and is only observed at a small minority of the Meridian 250 (8%). Although a 50% of target threshold payout is the most common practice, slightly over one-half of the companies (54%) set a threshold opportunity below 50% of target.

Relative TSR Performance Metrics

Does the company use relative TSR as a metric for determining performance-based award payouts (results exclude the use of solely absolute TSR metrics)?



If relative TSR is used, are additional metrics used for determining the long-term performance award payouts?

Long-Term Performance Metrics	Prevalence
Relative TSR is the Sole Performance Metric	23%
Relative TSR is One of Multiple Performance Metrics	77%

If relative TSR is used, what is performance assessed against?

Relative TSR Comparator Group	Prevalence[1]
General Market Index	34%
Compensation Benchmarking Peer Group	26%
Performance Peer Group[2]	24%
Industry Specific Index	18%

[1] Sum of prevalence percentages exceeds 100% due to companies that assess performance against more than one peer group/index

[2] Represents peer groups that include at least some variation in companies from the compensation benchmarking peer group (i.e., not simply a subset of the compensation benchmarking peer group)

If relative TSR is used, is it used as a performance modifier or a weighted performance metric?

Relative TSR Measure Design	Prevalence
TSR is used as a modifier	21%
TSR is used as a weighted performance metric	79%

Relative TSR Performance Goals

If relative TSR is used, what is the target performance level as a percentile rank relative to the comparator group (excludes relative TSR modifiers)?

Target Performance Level	Prevalence
50th Percentile	74%
51st-60th Percentile	23%
Above 60th Percentile	3%

If relative TSR is used, what is the maximum performance level as a percentile rank relative to the comparator group (excludes relative TSR modifiers)?

Maximum Performance Level	Prevalence
Below 75th Percentile	4%
75th Percentile	33%
76th-89th Percentile	21%
90th Percentile	20%
Above 90th Percentile	22%

If relative TSR is used, what is the threshold performance level as a percentile rank relative to the comparator group (excludes relative TSR modifiers)?

Threshold Performance Level	Prevalence
Below 25th Percentile	10%
25th Percentile	47%
26th-30th Percentile	21%
Above 30th Percentile	22%

Meridian Comment

Over one-half (57%) of the Meridian 250 use a relative TSR metric, and of those companies, over three-fourths (77%) pair it with at least one additional performance metric. The most prevalent practice is to assess TSR against a general market index (34%), although comparing company TSR results to compensation benchmarking groups (26%), performance peer groups (24%) or industry-specific indexes (18%) are all reasonably common market practices as well.

For companies that use a relative TSR measure, approximately three-fourths (74%) set target performance at the 50th percentile of the comparator group. The most prevalent threshold and maximum performance levels are the 25th and 75th percentiles, respectively. However, 43% of the companies set a maximum performance goal at or above the 90th percentile, requiring superior performance relative to the comparator group to achieve the maximum level payout.

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. All figures shown are as of the end of fiscal year 2015.

	Revenues ($M)	Market Value ($M)	Employees	ROIC (3-Year)	Annualized TSR (3-Year)
25th Percentile	$7,197	$9,028	14,200	6.5%	4.2%
Median	$15,252	$20,125	38,379	10.6%	14.0%
75th Percentile	$35,438	$51,702	89,486	15.5%	21.7%

Survey Companies (n = 250)

3M Company
Abbott Laboratories
Accenture plc
Actuant Corporation
Acxiom Corporation
Adobe Systems Incorporated
The AES Corporation
Aetna Inc.
AGL Resources Inc.
Alaska Air Group, 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
Anadarko Petroleum Corporation
Anthem, Inc.
Apache Corporation
Apple Inc.
Applied Materials, Inc.
Archer-Daniels-Midland Company
AT&T Inc.
Automatic Data Processing, 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
Centene Corporation
CenturyLink, Inc.
Chevron Corporation
Chicago Bridge & Iron Company N.V.
Cigna Corporation
The Clorox Company
The Coca-Cola Company
Colgate-Palmolive Company
Comcast Corporation
ConAgra Foods, Inc.
ConocoPhillips
Consolidated Edison, Inc.
Cooper Tire & Rubber Company
Corning Incorporated
Costco Wholesale Corporation
Crane Co.
CSX Corporation
Cummins Inc.
CVS Health Corporation
Danaher Corporation
Dean Foods Company
Deere & Company
Delta Air Lines, Inc.
Devon Energy Corporation
Discover Financial Services
Dollar General Corporation
Domino's Pizza, Inc.
Domtar Corporation
The Dow Chemical Company
The Dun & Bradstreet Corporation
E. I. du Pont de Nemours and Company
Eaton Corporation plc
eBay Inc.
Ecolab Inc.
Eli Lilly and Company
EMC Corporation
Emerson Electric Co.

Entergy Corporation
EOG Resources, Inc.
Essendant Inc.
The Estée Lauder Companies Inc.
Eversource Energy
Exelon Corporation
Express Scripts Holding Company
Exxon Mobil Corporation
Facebook, Inc.
FedEx Corporation
FirstEnergy Corp.
Flowserve Corporation
Fluor Corporation
FMC Corporation
Ford Motor Company
The Gap, Inc.
General Dynamics Corporation
General Electric Company
General Mills, Inc.
The Goldman Sachs Group, Inc.
H.B. Fuller Company
Halliburton Company
Hanesbrands Inc.
Harley-Davidson, Inc.
The Hartford Financial Services Group, Inc.
Hasbro, Inc.
The Hershey Company
Hess Corporation
The Home Depot, Inc.
Honeywell International Inc.
HP 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
Johnson & Johnson
Johnson Controls, Inc.
JPMorgan Chase & Co.
Kellogg Company
Kohl's Corporation
The Kraft Heinz Company
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
Merck & Co., Inc.
Meredith Corporation
MetLife, Inc.
Microsoft Corporation
Mondelēz International, Inc.
Monsanto Company
Morgan Stanley
Motorola Solutions, Inc.
Murphy Oil Corporation
National Oilwell Varco, Inc.
NCR Corporation
Newell Rubbermaid Inc.
News Corporation
NIKE, Inc.
NiSource Inc.
Noble Corporation plc
Nordson Corporation
Nordstrom, Inc.
Northrop Grumman Corporation
Old Dominion Freight Line, Inc.
Omnicom Group Inc.
ONEOK, Inc.
Oracle Corporation
Owens & Minor Inc.
Owens Corning
Owens-Illinois, Inc.
PACCAR Inc
Papa John's International, Inc.
PepsiCo, Inc.
Perrigo Company plc
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
Quest Diagnostics Incorporated
Raytheon Company
Republic Services, Inc.
Reynolds American Inc.
Rite Aid Corporation
Rock-Tenn Company
Rockwell Automation, Inc.
Schlumberger N.V.
Seagate Technology plc
Sealed Air Corporation
The Sherwin-Williams Company
Sonoco Products Company
Southwest Airlines Co.
Sprint Corporation
SPX Corporation
St. Jude Medical, Inc.
Stanley Black & Decker, Inc.
Staples, Inc.
Starbucks Corporation
Steelcase Inc.
SUPERVALU INC.
Sysco Corporation
Target Corporation
Tech Data Corporation
Tenet Healthcare Corporation
Tenneco Inc.
Tesoro Corporation
Texas Instruments Incorporated
Textron Inc.

The TJX Companies, Inc.
Thor Industries, Inc.
Time Warner Inc.
Tower International, Inc.
Transocean Ltd.
The Travelers Companies, Inc.
Tyco International plc
Tyson Foods, Inc.
Union Pacific Corporation
United Continental Holdings, Inc.
United Parcel Service, Inc.
UnitedHealth Group Incorporated
V.F. Corporation
Valero Energy Corporation
The Valspar Corporation
Verizon Communications Inc.
Visa Inc.
VMware, Inc.
W.W. Grainger, Inc.
Walgreens Boots Alliance, Inc.
Wal-Mart Stores, Inc.
The Walt Disney Company
Waste Management, Inc.
Wells Fargo & Company
WESCO International, Inc.
The Western Union Company
Whirlpool Corporation
Whole Foods Market, Inc.
The Williams Companies, Inc.
Williams-Sonoma, Inc.
Worthington Industries, Inc.
Xerox Corporation
Yahoo! Inc.
YUM! Brands, Inc.

Meridian Compensation Partners 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 corporate 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 corporate governance principles and align pay with performance. Our partners average 25 years of executive compensation experience and collectively serve well over 500 clients. Over 85% of our engagements are 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
- Corporate 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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