MERIDIAN
COMPENSATION PARTNERS, LLC

Key Findings
2012/2013 Study of

Executive Severance Arrangements

About Meridian Compensation Partners, LLC

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

Meridian consultants advise Boards of Directors and Senior Management on the full range of executive compensation issues that confront them. Whether the subject is compensation philosophy, pay for performance, incentive plan designs, retention, shareholder initiatives, mergers and acquisitions or Board governance, we have the resources, experience, expertise and judgment to help. We guide Compensation Committees as they make difficult but informed decisions on executive pay.

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Report Scope and Study Group Characteristics

Meridian Compensation Partners' 2012/2013 Study of Executive Severance Arrangements is intended to provide current information and data on severance practices of large U.S.-listed public companies ***not in the context of a change in control***. For information on severance benefits payable in the context of a change in control, please refer to or request a copy of Meridian Compensation Partners *2011-2012 Study of Executive Change-in-Control Arrangements*.[1]

Data for fiscal 2011 executive severance practices is derived primarily from **2012 definitive proxy statements** filed by 160 public companies (the "Study Group").

Study Group Characteristics

The companies in the Study Group are constituent companies of the Standard & Poor's 500® Index (S&P 500®) and represent a cross-section of the Index. As such, we believe that the results of the Study fairly represent executive severance practices among all constituent companies of the S&P 500. Revenue and market capitalization statistics for the Study Group are displayed below.

	FY 2011 Revenues ($ Millions)		Market Capitalization December 31, 2011 ($ Millions)	
	Study Group	S&P 500	Study Group	S&P 500
25th Percentile	$5,895	$3,995	$6,837	$5,988
Median	$12,004	$8,136	$13,308	$10,941
75th Percentile	$24,026	$17,431	$28,906	$22,226

Report Scope

This Study reports on the prevalence among Study Group companies of executive severance benefits that cover named executive officers (NEOs). In addition, the Study reports on the prevalence of the following types of executive severance benefits payable to NEOs upon a qualifying termination of employment:

- Cash severance benefits;
- Payment of current year bonus;
- Vesting and settlement of long-term incentive compensation;
- Continuation of health care benefits; and
- Provision of additional benefits.

The Study also reports on the types and prevalence of terminations of employment that trigger one or more of the foregoing. The Study does not take into account or report on benefits that may be payable to an executive officer upon death, disability or retirement. Nor does it capture potential enhancements that may be negotiated upon actual termination.

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[1] Available at www.meridiancp.com or by emailing JHerzberg@meridiancp.com.

When meaningful, the Study shows separate prevalence statistics for each NEO. When prevalence statistics are shown for the entire NEO group or a subset of the NEO group, those statistics represent an approximate average of the prevalence statistics for the entire NEO group or subset of that group, as applicable. ***Unless otherwise indicated, statistics presented in this Study are based on the number of companies in the Study Group that maintain executive severance arrangements providing for the payment of cash severance benefits upon a qualifying termination of employment that is not in connection with a change in control.***

Study Group companies that do not maintain executive severance arrangements may nonetheless negotiate, on an ad hoc basis, a severance package for a departing executive. The range of severance benefits provided under ad hoc severance packages varies widely. The statistics developed under this Study do **not** take into account the prevalence of such severance packages or their terms.

Overview of Executive Severance Arrangements

Executive severance arrangements refer to any arrangement that provides for the payment of severance benefits to an executive officer upon a qualifying termination of employment that is not in connection with or contingent upon a change in control.

Rationale for Executive Severance Arrangements

The business rationale for providing executive severance benefits is threefold: (i) to attract and retain executives by providing a level of protection against involuntary job loss; (ii) to provide an appropriate level of benefits to enable executives to transition to new employment; and (iii) to secure restrictive covenants such as non-compete, non-solicitation, etc. When severance arrangements are prevalent in an industry, they also become a competitive component of compensation.

Forms of General Severance Arrangements

Executive severance arrangements covering cash severance typically take the form of either: (i) an executive severance plan or policy that provides executive severance benefits to executives; or (ii) individual employment contracts or severance agreements. Generally, executive severance arrangements provide cash severance benefits to covered executives. However, not all executive severance benefits are necessarily provided under a single arrangement or document. For example, it is common for a company's equity incentive plan or applicable award agreements to provide for the treatment of outstanding equity awards upon termination of employment.

Trigger for Executive Severance Benefits

Generally, executive severance benefits are triggered upon an executive's termination of employment without "cause." Substantially less often, executive severance benefits may be triggered upon an executive's voluntary termination of employment for "good reason." Even rarer would be a trigger for poor performance short of cause (often for a lower benefit level).

Severance arrangements can cover the same executives for decades. Given that, companies and Boards need to retain flexibility to modify compensation and benefits, and alter reporting relationships and job content over time without triggering the payment of executive severance benefits.

Types of Executive Severance Benefits

The most common executive severance benefits provided to NEOs are listed below:

- Cash severance benefits;
- Payment of current year bonus;
- Vesting and settlement of long-term incentive compensation;
- Continuation of health care benefits; and
- Provision of personal benefits.

Restricted Covenants and Release/Waivers

Often the payment of severance benefits is subject to restrictive covenants, the execution of a release and waiver of claims or both. Common restrictive covenants include non-compete, non-solicitation, non-disclosure and non-disparagement provisions. Releases and waivers typically prohibit a departing executive from suing the former employer for employment related causes of actions, including actions under the Age Discrimination in Employment Act.

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Key Findings

Below is a summary of our high level findings. Additional details can be found in the following sections.

- Approximately two-thirds of Study Group companies pay cash severance to NEOs upon an involuntary termination of employment without “cause.” Significantly less prevalent is the payment of cash severance upon a voluntary termination due to “good reason.”
- The most prevalent level of cash severance is 2× “pay.” The majority of companies define “pay” as the sum of base salary and annual bonus. The most prevalent definition of “annual bonus” is current year target bonus.
- The majority of companies pay cash severance in the form of a lump sum.
- A majority of companies that pay cash severance also provide the following severance benefits:

  — Pro-rata payment of current year bonus (typically based on current year actual performance);

  — Health care benefits generally continued during the severance period; and

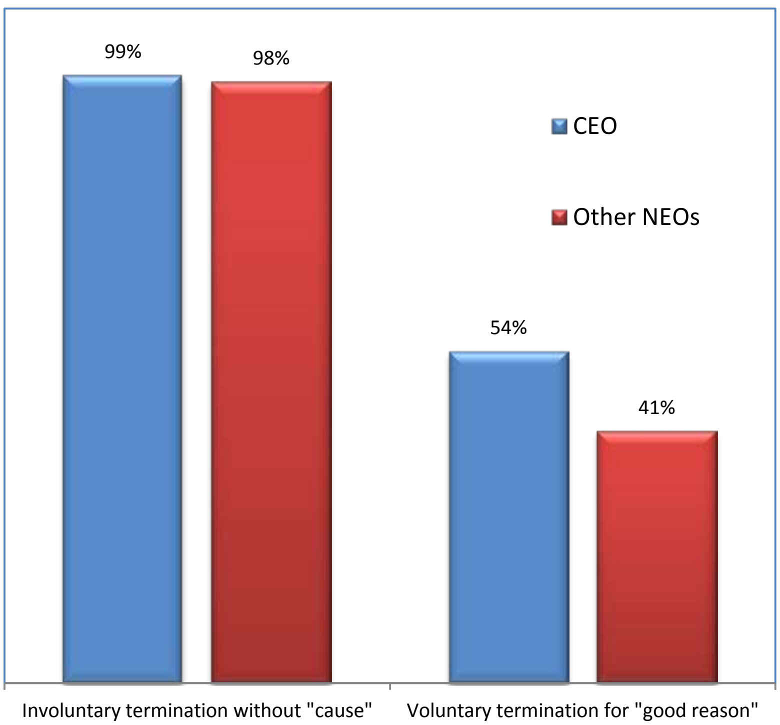
  — Personal benefits (the most prevalent of which is outplacement services).
- Among Study Group companies that grant long-term incentive awards (i.e., stock options, restricted stock/restricted stock units, performance shares or performance cash), the majority practice is for such awards to be **forfeited** upon an executive officer’s termination of employment **except in the case of restricted shares/restricted stock units**.

Prevalence of Payment Triggers and Related Definitions

Typically, executive severance benefits are triggered upon an executive's involuntary termination of employment without cause. A less prevalent trigger of executive severance benefits is an executive's voluntary termination of employment for good reason. This Study refers to these payment triggers both collectively and individually as a "qualifying termination of employment."

Where a severance agreement provides for the payment of benefits upon a voluntary termination for good reason, the agreement always provides that payments are also triggered upon an involuntary termination without cause.

Prevalence of Payment Triggers (of Companies That Provide Cash Severance)



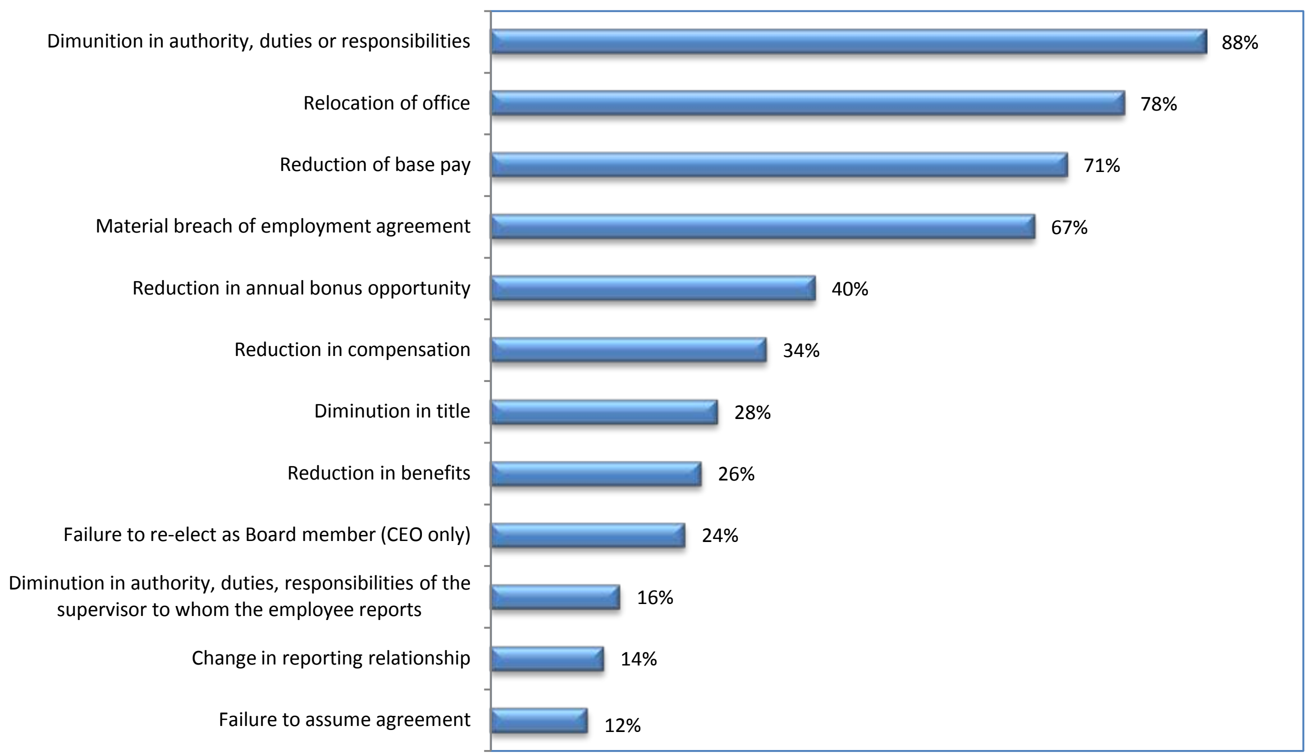
Definitions of Good Reason

If executive severance benefits are triggered upon a voluntary termination of employment for good reason, the underlying severance agreement will define the types of events constituting good reason ("Good Reason Event"). However, the presence of a Good Reason Event alone will not automatically result in or be deemed a termination of employment or result in the payment of executive severance benefits. Rather, an actual termination of employment by the executive must occur to trigger the payment of executive severance benefits. Further, in some executive severance arrangements, an impacted executive will be required to provide advance written notice of a good reason termination and the employer must be given the opportunity to "cure" the event giving rise to good reason. Additionally, under some executive severance arrangements, a termination for good reason will trigger severance benefits only if it occurs within a specified period following the Good Reason Event.

Prevalence of Good Reason Definitions

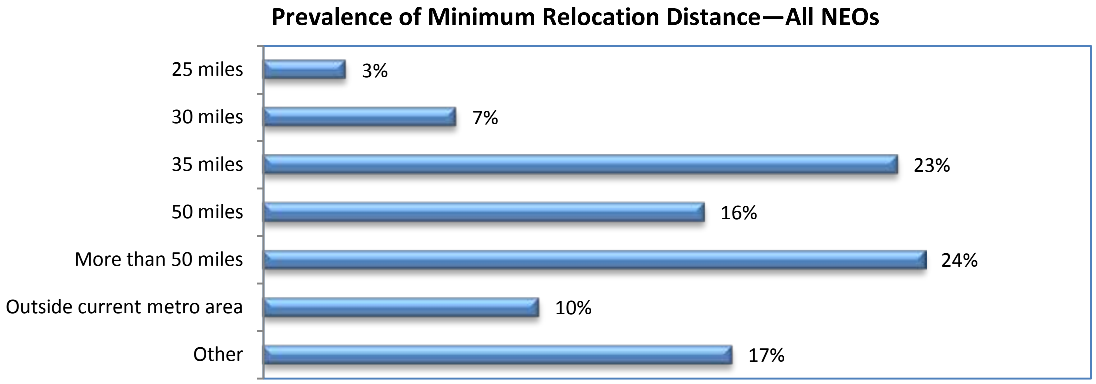
Definitions of good reason vary widely. However, the most prevalent definitions of good reason are concentrated among a limited number of Good Reason Events. The most prevalent definitions of good reason are: (i) diminution in authority, duties or responsibilities; (ii) relocation from current office location; (iii) reduction in base pay; and (iv) material breach of employment agreement.

Prevalence of Good Reason Definitions—All NEOs



Relocation of Office—Prevalence of Minimum Relocation Distances

Generally, when a good reason definition includes "relocation of office," it specifies the minimum distance that the relocation must be from the executive's current office location to constitute a good reason event. Companies use various definitions to describe this minimum distance as shown in the chart below.



Prevalence of Advance Notice of Good Reason Termination

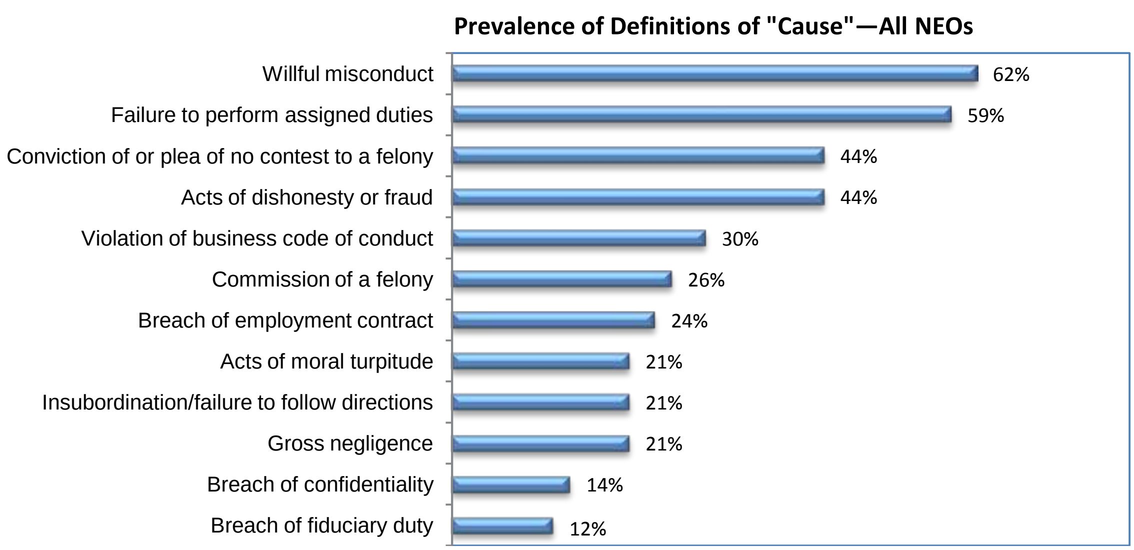
Nearly all companies (91%) that provide severance benefits upon a CEO's good reason termination require the CEO to provide advance written notice of such termination. Less prevalent but still a majority practice, 67% of companies that provide severance benefits upon an NEO's good reason termination (other than the CEO) require the NEO to provide advance written notice of such termination. The advance notice period for approximately 60% of companies is either 30 days or 90 days (with prevalence evenly split between the 2 periods).

Prevalence of Opportunity to Cure

Of the companies that require NEOs to provide advance notice of a good reason termination, nearly all have an opportunity to cure the conduct giving rise to good reason within a specified cure period. The most prevalent cure period is 30 days (62% of companies).

Definitions of "Cause"

If an executive's involuntary termination without "cause" triggers the payment of severance benefits, the underlying severance agreement will define the types of executive conduct that could give rise to a "for cause" termination. The most prevalent definitions of cause are: (i) willful misconduct; (ii) failure to perform assigned duties; (iii) acts of dishonesty or fraud; and (iv) conviction of a felony or plea of no contest to a felony.



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Cash Severance Benefits

Approximately two-thirds of Study Group companies pay cash severance benefits to their NEOs upon a qualifying termination of employment. Typically, cash severance is based on a fixed multiple of an executive officer's "pay" and is payable in a lump sum or salary continuation. The term "pay" most often refers to an executive officer's base salary and annual bonus. The definition of annual bonus varies widely.

Determination of Cash Severance Benefit

Of those companies that pay cash severance, 74% of the companies determine cash severance by reference to a **fixed multiple** of an executive officer's compensation. A minority practice (18% of companies) is for cash severance benefits to be determined by a formula based on years of service.

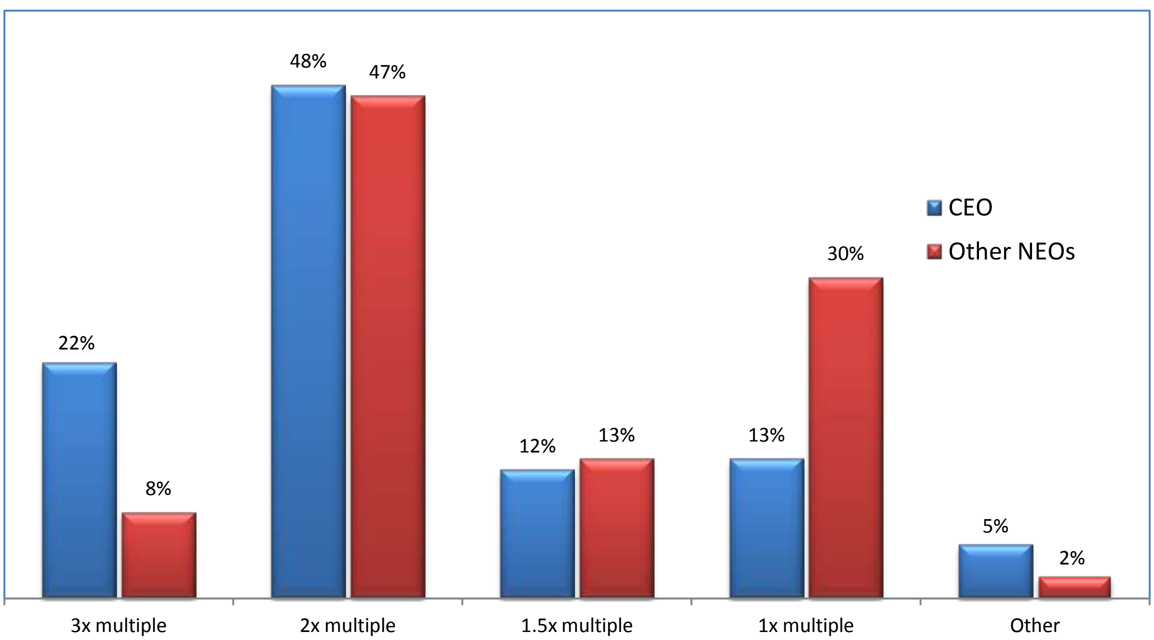
Severance Based on Fixed Multiple of Pay

When companies determine cash severance by reference to a fixed multiple of pay, they use various severance multiples and various definitions of pay.

Prevalence of Cash Severance Multiples

The most prevalent cash severance multiple for all NEOs is 2×. The same is true for CEOs, though 22% of companies provided a 3× multiple for that position (vs. only 8% for other NEOs).

Prevalence of Cash Severance Multiples



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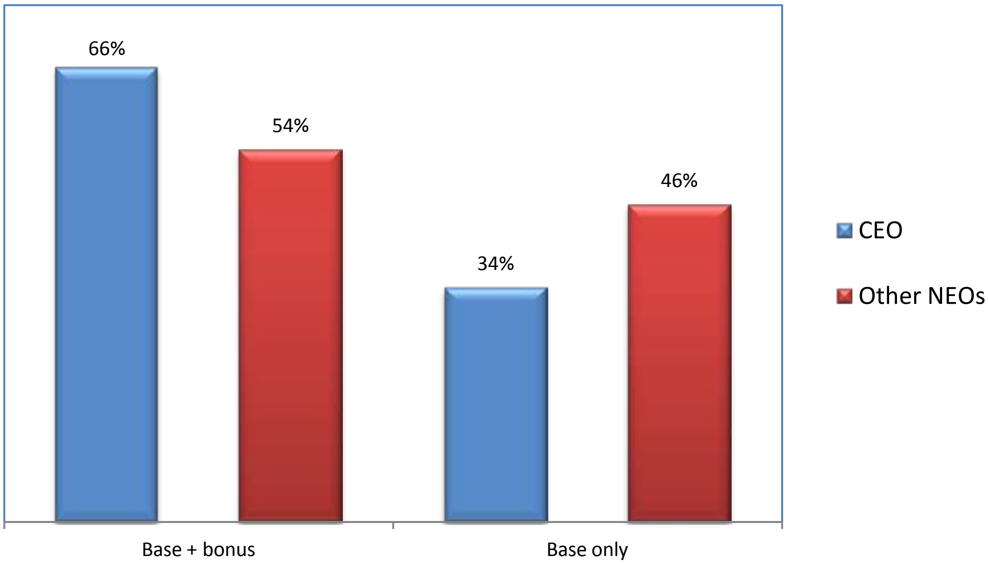
Definition of "Pay" Used to Determine Cash Severance Benefits

For CEOs, nearly two-thirds of companies define pay as the sum of a CEO's base salary and annual bonus. For other NEOs, a majority of companies define pay in this manner.

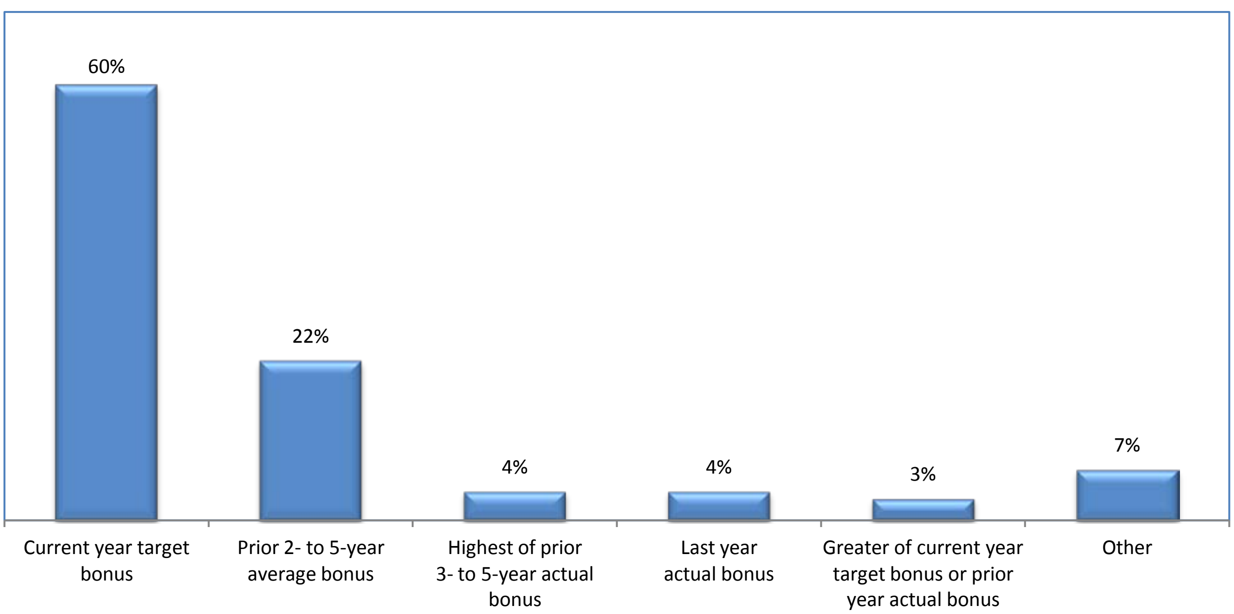
Prevalence of Definitions of Pay



Definition of "Annual Bonus" When Included in "Pay"

Where "annual bonus" is included in the definition of pay, 60% of companies define annual bonus based on current year target bonus and 40% of companies define annual bonus based, in whole or in part, on prior year(s) bonus payments. Of those companies defining annual bonus by reference to prior bonus, the most prevalent practice is to define prior bonus history as the average bonus actually paid to an executive officer over a multiyear period (typically, this is a 3-year period).

Prevalence of Definitions of Pay



Cash Severance Based on Years of Service Formula

Approximately 18% of companies use a years-of-service-based formula to determine an executive officer's cash severance benefits. Of these companies, 58% base severance solely on an executive officer's years of service and 42% base severance on a combination of an executive officer's years of service and fixed multiple of pay.

- When cash severance is based solely on years of service, every company except one provides two weeks of base salary for each year of service. Generally, service-based cash severance is provided under a company's broad-based severance plan, not under an executive severance arrangement. Except for long-tenured executives (e.g., 20+ years), broad-based severance plans often do not deliver a meaningful level of severance benefits to a departing executive officer.
- When cash severance is based on a combination of years of service and fixed multiple of pay, every company uses their own formula. Examples of these formulas are described below:

  — Six months base salary plus 1 week for every year of service up to a maximum of 52 weeks of severance.

  — One year base salary plus 1 month for every year of service up to the lesser of 24 months or the number of months until the CEO turns age 62.

  — One year base salary for less than 1 year of service; 18 months base salary for more than 1 but less than 5 years of service; and 24 months base salary for greater than 5 years of service.

  — 1.6 months per year of service in excess of 7.5 years up to a maximum of 12 months plus one year base salary.

  — One month base salary for each 6 years of service up to a maximum of 18 months plus one year base salary.

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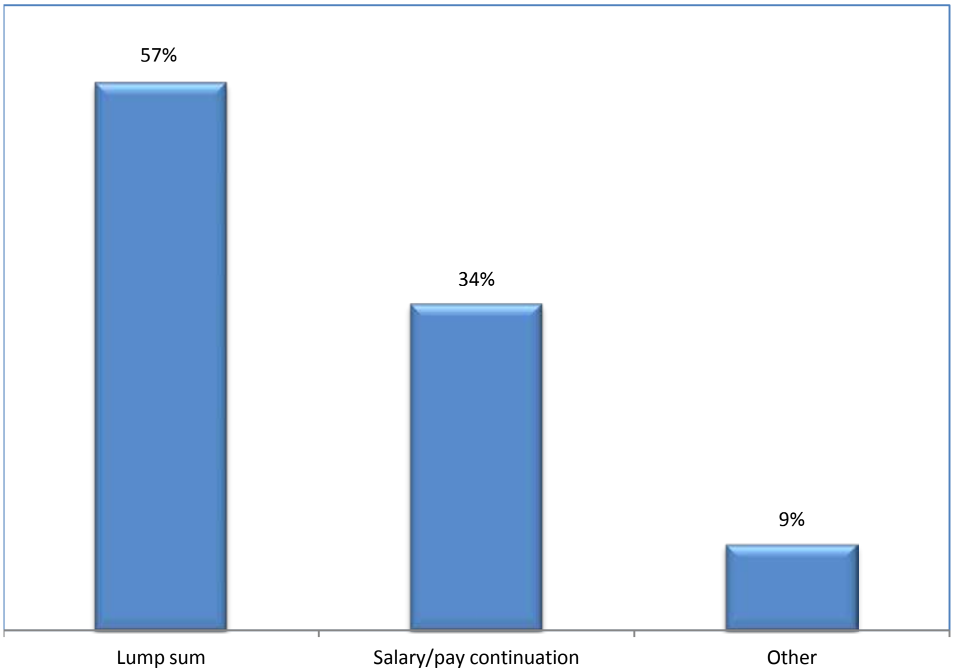
Form of Payment

The majority practice is to pay cash severance benefits in the form of a lump sum. The payment of cash severance benefits in the form of salary or pay continuation is a minority practice.

Prevalence of Forms of Payment for Cash Severance Benefit—All NEOs



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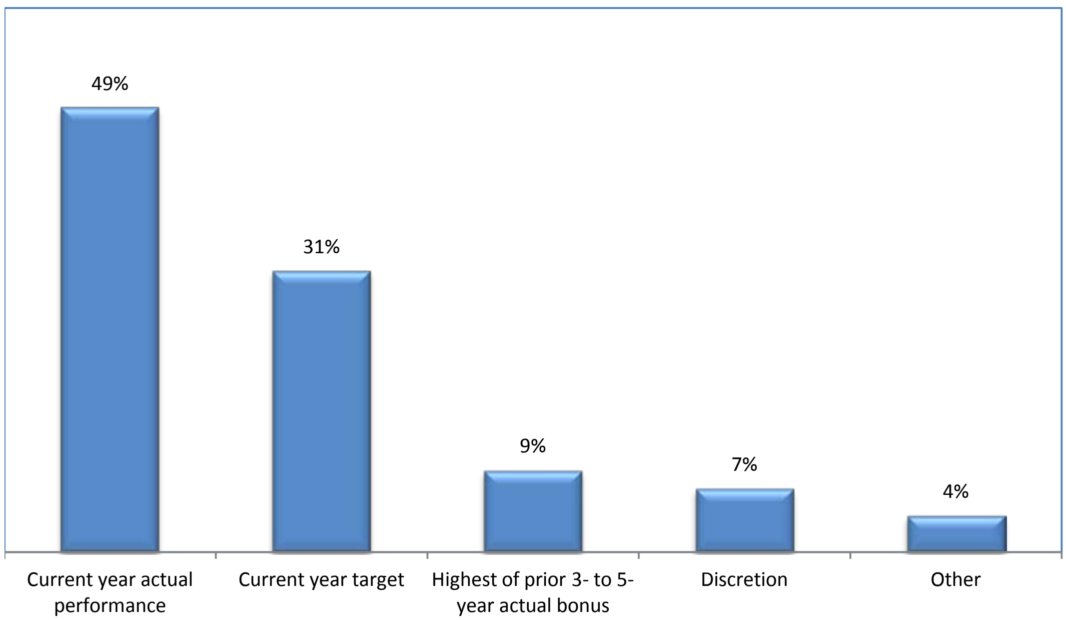
Payment of Current Year Bonus

In addition to cash severance benefits, approximately 57% of companies provide for the payment of a bonus for the year in which an executive officer incurs a qualifying termination of employment. It is nearly a universal practice to pay the bonus on a pro rata basis to reflect the portion of the year the executive provided services prior to termination.

Typically, the bonus payment is based on current year actual performance or current year target.

Prevalence of Methods for Determining Bonus Payment—All NEOs



Treatment of Long-Term Incentive Awards

Overview

We have examined the treatment of the following types of long-term incentive grants in connection with a qualifying termination of employment:

- Stock options (subject to time-based vesting);
- Restricted stock/restricted stock units (subject to time-based vesting);
- Performance shares (including share units); and
- Performance cash.

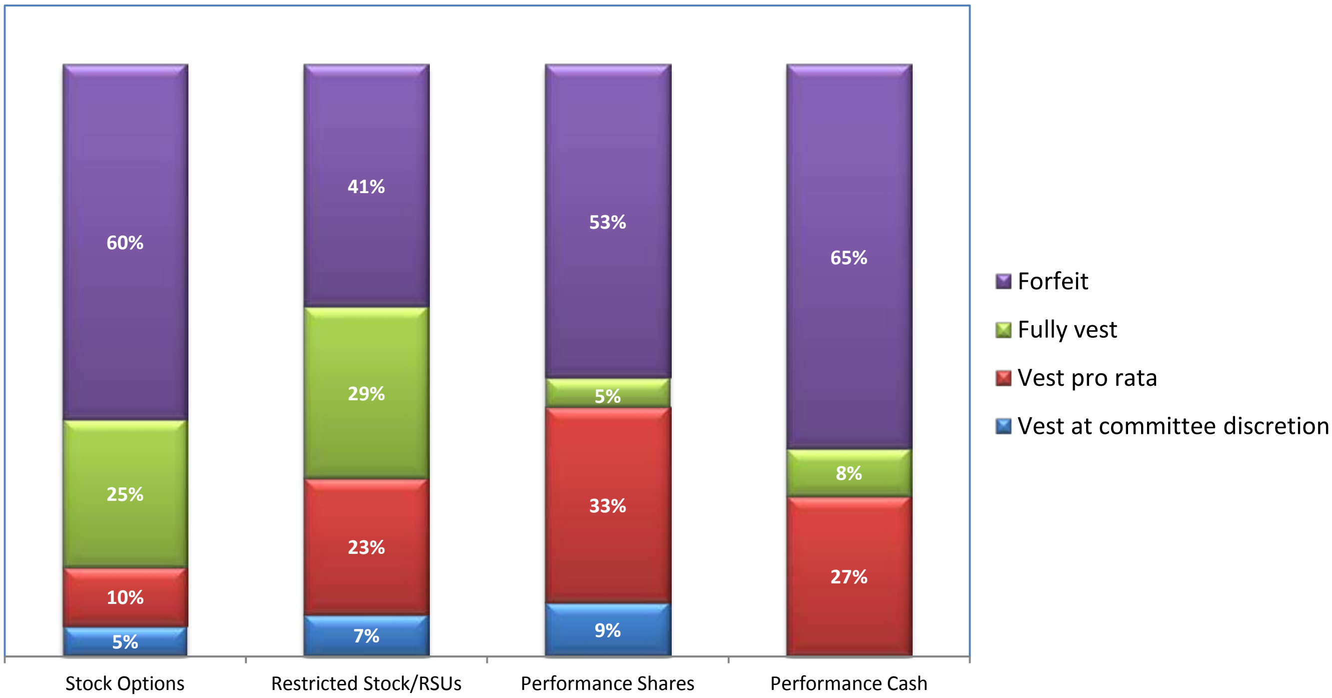
A “performance share” refers to a share-denominated, performance-based award that derives its value by reference to the value of a share of common stock. This means one performance share (or share unit) is equal in value to one share of company stock. Generally, performance shares are granted at “target” (i.e., the number of shares that would be earned if target performance was achieved). However, the number of performance shares earned and distributed may be greater than or less than the target grant based on achieved performance against pre-set multiyear performance goals.

Performance cash refers to a dollar-denominated performance-based award. Like performance shares, performance cash awards are generally granted at “target.” Also like performance shares, the amount of cash earned and settled may be greater than or less than the target award based on achieved performance against pre-set multiyear performance goals.

Prevalence of Vesting and Payout of Long-Term Incentive Awards

The following chart summarizes the treatment of outstanding non-vested LTI awards upon an executive officer's termination of employment. The majority practice is for outstanding non-vested LTI awards to be **forfeited, except in the case of restricted share/restricted stock units**. However, as noted on the following pages, companies may negotiate severance packages with an outgoing executive officer that include the full or partial vesting of LTI awards that would otherwise be forfeited upon termination.

Impact of Termination of Employment on Non-Vested LTI Awards—All NEOs

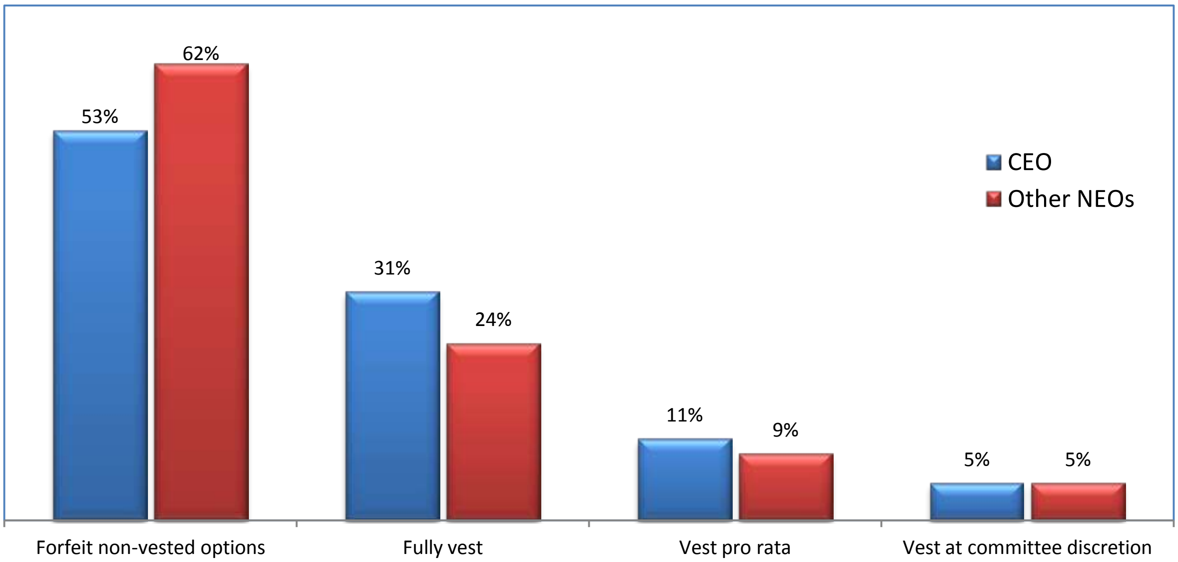


A detailed analysis of the impact of a termination of employment on each of the foregoing types of LTI awards is set forth on the following pages.

Stock Options (subject to time-based vesting)

The majority practice is for non-vested stock options to be forfeited upon an executive officer's voluntary or involuntary termination of employment. It is a minority practice to fully vest or pro rata vest non-vested stock options upon a qualifying termination of employment. However, this is an area that may be negotiated upon a severance event, especially if the options are significantly "in the money" and/or the options are nearing a vesting date (or the vesting date is during the severance period).

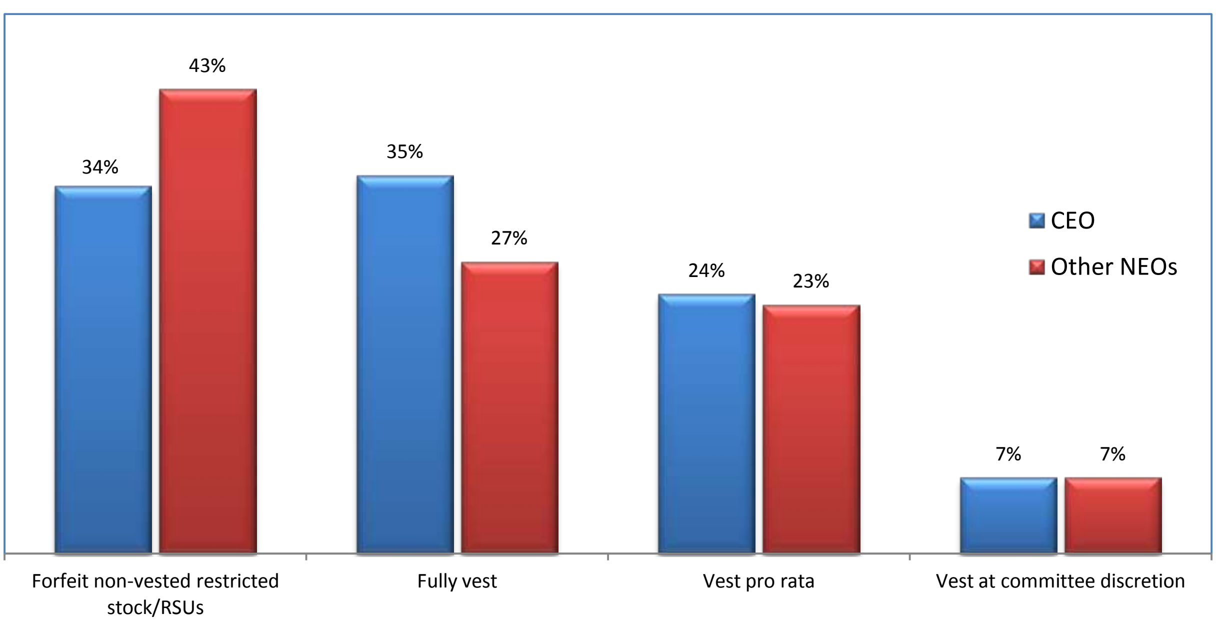
Impact of a Termination of Employment on Non-Vested Stock Options



Restricted Stock/Restricted Stock Units (subject to time-based vesting)

Unlike the treatment of stock options, it is a minority practice for non-vested restricted stock/restricted stock units (RSUs) to be forfeited upon an executive officer's voluntary or involuntary termination of employment. It is a majority practice to fully vest or pro rata vest non-vested restricted stock/RSUs upon a qualifying termination of employment of an NEO. Similar to stock options, if the executive is near a vesting date on restricted stock or RSUs at the time of termination, the potential loss of value may be subject to negotiation.

Impact of a Termination of Employment on Non-Vested RS/RSUs



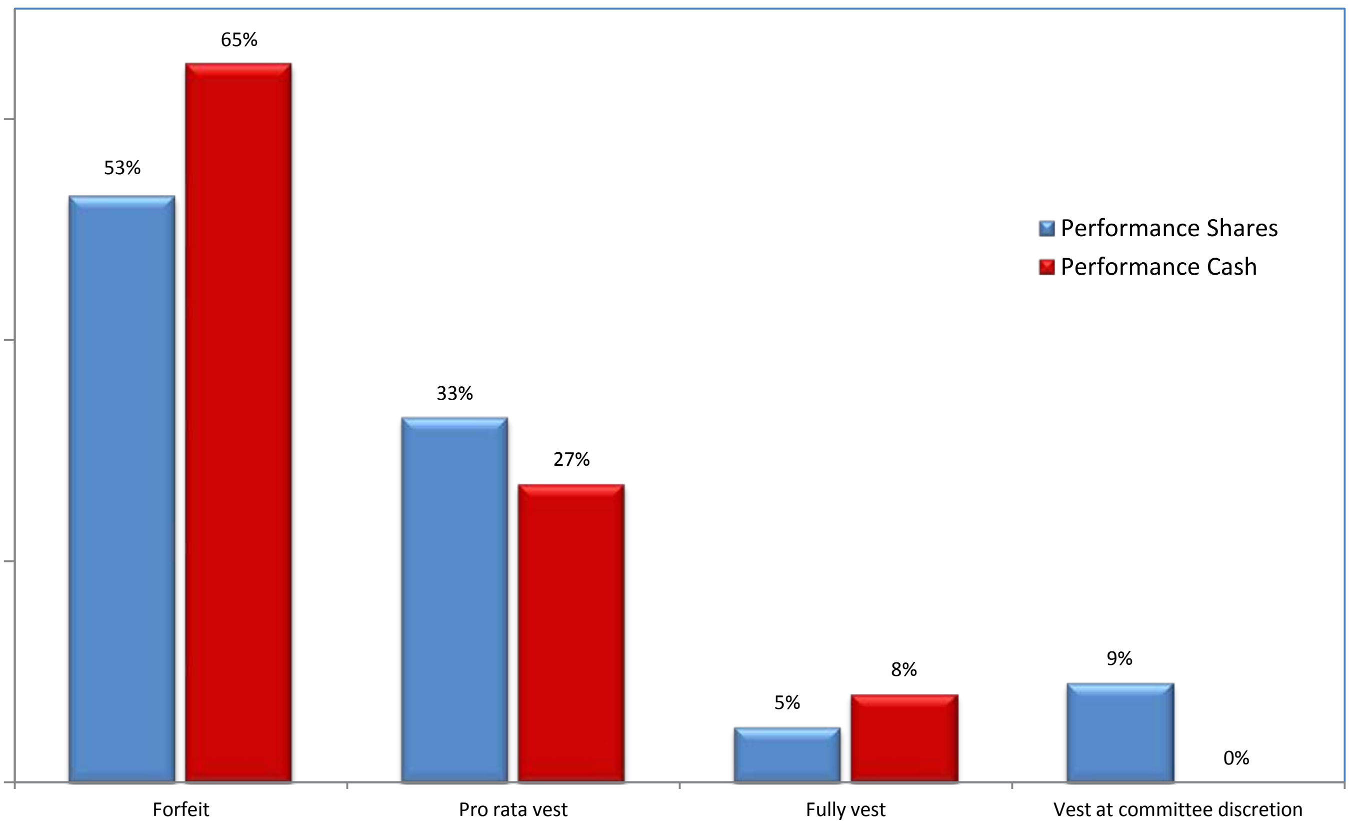
Performance Shares/Performance Cash

We examined the impact of a termination of employment upon the status of non-vested performance shares and performance cash awards ("performance-based awards"). Where a termination of employment accelerates the vesting of performance-based awards, we also examined the following items: (i) the basis for determining the amount of the performance-based award earned; and (ii) whether the payment of an earned performance-based award is made in full or pro rata to reflect the portion of the performance period that has elapsed through the date of the qualifying termination of employment. Unlike with options and restricted shares (RSUs), we did not find a meaningful difference in treatment of performance shares granted to CEOs and to the other NEOs.

Impact of a Termination of Employment on the Status of Performance-Based Awards

The majority practice is not to accelerate vesting of performance-based awards upon a voluntary or involuntary termination of employment. It is a minority practice to pro rata vest or fully vest such awards upon a qualifying termination of employment.

Impact of Termination of Employment on Performance-Based Awards—All NEOs



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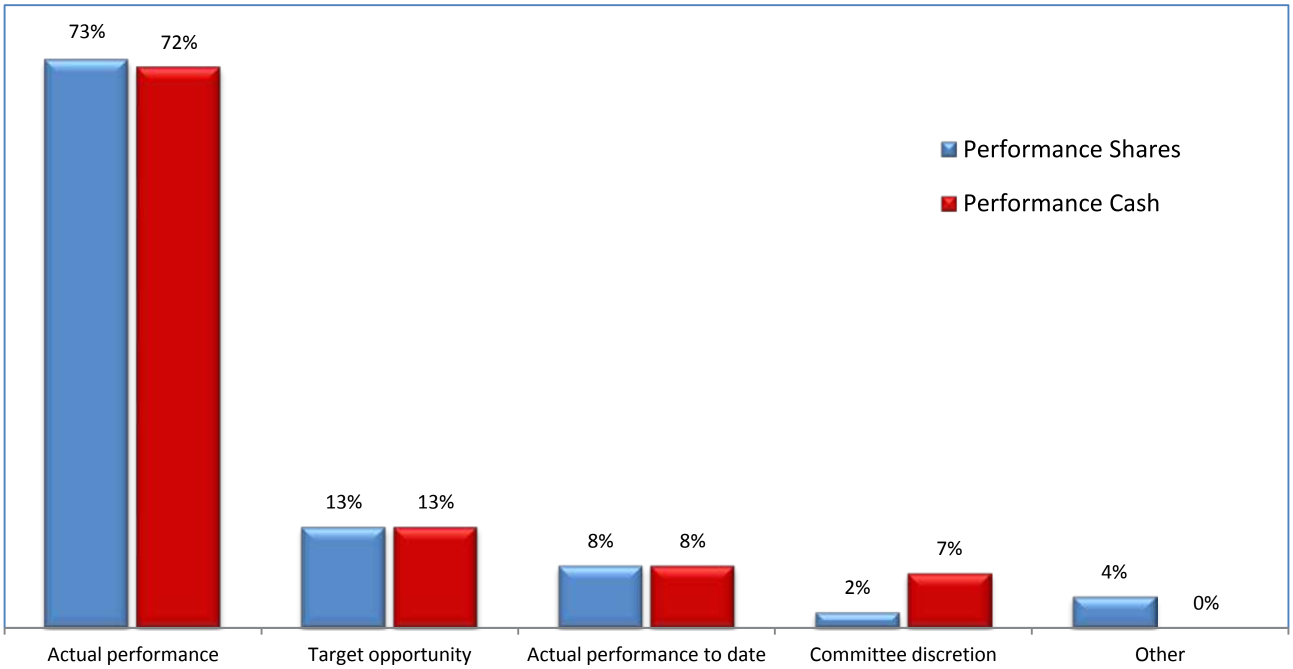
Amount of Performance-Based Award That Vests Upon a Qualifying Termination of Employment

In cases where performance-based awards vest upon a qualifying termination of employment, generally the amount that vests is based on actual performance through the entire performance period.

Determination of Amount of Performance-Based Award that Vests Upon a Qualifying Termination of Employment—All NEOs



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Continuation of Health Care Benefits

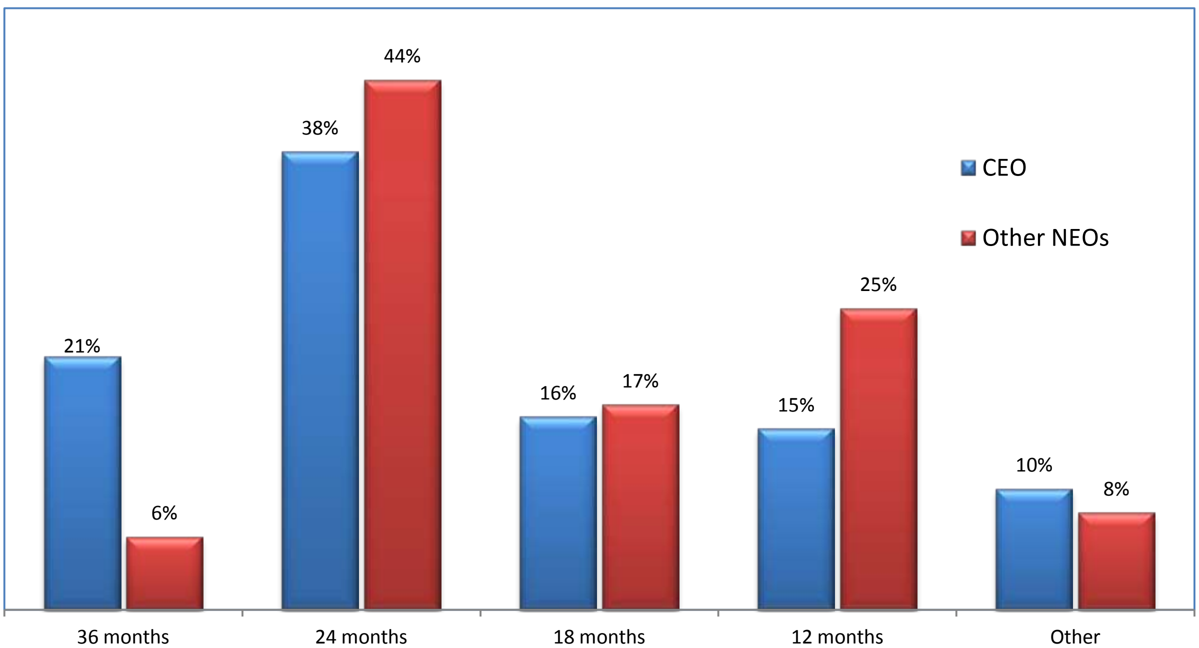
The continuation of health care benefits (or the lump-sum payment of health care premiums) is a common feature of executive severance arrangements. Some executive severance arrangements require that continuation of health care benefits cease if and when an NEO becomes eligible for health care benefits with a new employer.

Prevalence and Duration of Continuation of Health Care Benefits

Approximately 74% of companies provide for the continuation of health care benefits for CEOs and other NEOs upon a qualifying termination of employment.

Generally, health care benefits are continued for a period that tends to match an executive officer's severance multiple.

Prevalence of Continuation Periods



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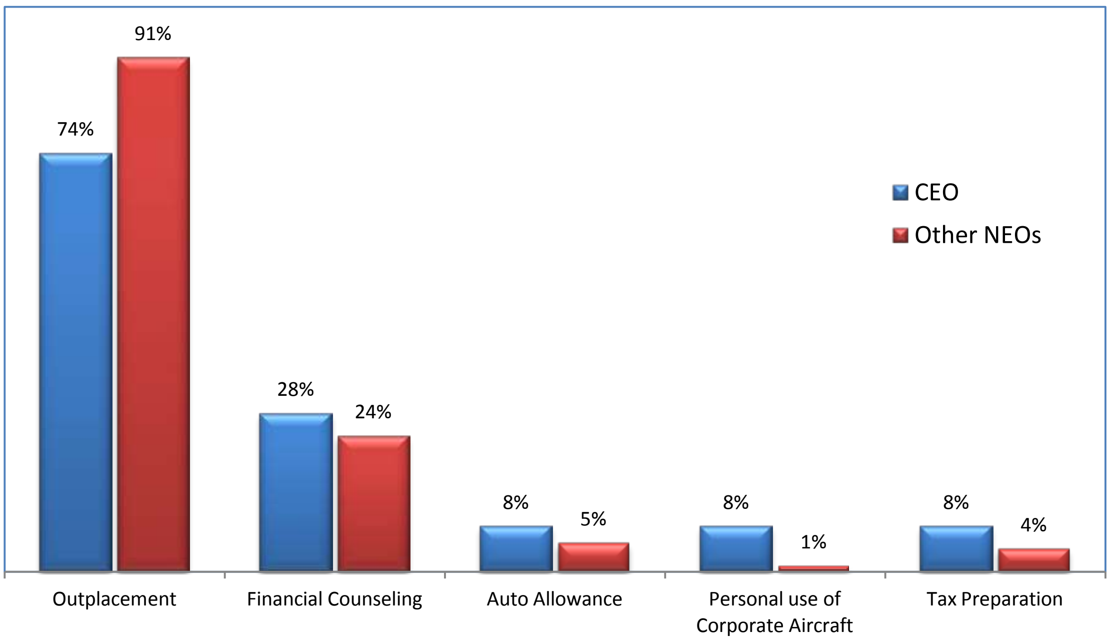
Personal Benefits

Approximately half of companies provide personal benefits to executive officers upon a qualifying termination of employment. Of the personal benefits provided by the Study Group companies, the most common are outplacement services and financial counseling.

Prevalence of Personal Benefits



Typically, personal benefits are capped at a specified dollar amount and for a specified duration.

Appendix—List of S&P 500 Companies in Study Group

The Study Group is composed of the following companies.

Abbott Laboratories
Abercrombie & Fitch
Adobe Systems Inc
Advanced Micro Devices
Altria Group Inc
Ameren Corp
American Electric Power Co
American Express Co
Anadarko Petroleum Corp
Apache Corp
Archer-Daniels-Midland Co
Assurant Inc
Autodesk Inc
Autozone Inc
Bank of America Corp
Bank of New York Mellon Corp
Baxter International Inc
Bed Bath & Beyond Inc
Brunswick Corp
Campbell Soup Co
Capital One Financial Corp
Caterpillar Inc
CB Richard Ellis Group Inc
Centerpoint Energy Inc
Chesapeake Energy Corp
Chevron Corp
Cigna Corp
Clorox Co
Coca-Cola Co
Colgate-Palmolive Co
Conagra Foods Inc
Constellation Brands
Constellation Energy Grp Inc
Corning Inc
Costco Wholesale Corp
Coventry Health Care Inc
CSX Corp
Cummins Inc
CVS Caremark Corp
Darden Restaurants Inc
Deere & Co
Devon Energy Corp
Dillards Inc
Discover Financial Svcs Inc
Dow Chemical
DTE Energy Co
Duke Energy Corp
Eastman Chemical Co
Eastman Kodak Co
Eaton Corp
Edison International
Eli Lilly and Company
El Paso Corp
Ensco Plc
EOG Resources Inc
Equifax Inc
EW Scripps
Exelon Corp
Family Dollar Stores
FirstEnergy Corp
Ford Motor Co
Fortune Brands Inc
Gannett Co
General Dynamics Corp
General Electric Co
General Mills Inc
Genuine Parts Co
Genworth Financial Inc
Google Inc
Grainger (W W) Inc
Halliburton Co
Hartford Financial Services
Home Depot Inc
Host Hotels & Resorts Inc
Humana Inc
Illinois Tool Works
Ingersoll-Rand plc
Interpublic Group of Cos
Jabil Circuit Inc
Kellogg Co
Kimberly-Clark Corp
KLA-Tencor Corp
Kohl's Corp
Kraft Foods Inc
Lennar Corp
Lockheed Martin Corp
Lowe's Companies Inc
LSI Corp
Macy's Inc
Masco Corp
McCormick & Co Inc
McDonald's Corp
McGraw-Hill Companies
McKesson Corp
MeadWestvaco Corp
Medco Health Solutions Inc
Merck & Co
MetLife Inc
Molson Coors Brewing Co
Monsanto Co
Monster Worldwide Inc
Moody's Corp

Mylan Inc
Nabors Industries Ltd
New York Times Co
Newell Rubbermaid Inc
NiSource Inc
Noble Corp
Noble Energy Inc
Northern Trust Corp
Novellus Systems Inc
Nucor Corp
Nvidia Corp
Occidental Petroleum Corp
OfficeMax Inc
Omnicom Group
Paccar Inc
Penney (J C) Co
Pepco Holdings Inc
PepsiCo Inc
Pfizer Inc
PG&E Corp
Pinnacle West Capital Corp
PNC Financial Svcs Group Inc
Procter & Gamble Co
Prudential Financial Inc
Public Service Entrp Grp Inc
Questar Corp
Ralph Lauren Corp
Range Resources Corp
Raytheon Co
Reynolds American Inc
Rowan Cos Inc
R.R. Donnelley & Sons Co
Sara Lee Corp
Schlumberger Ltd
Sempra Energy
Sigma-Aldrich Corp
Southern Co
Spectra Energy Corp
Sprint Nextel Corp
Stanley Black & Decker Inc
State Street Corp
Target Corp
Tellabs Inc
Terex Corp
Total System Services Inc
Transocean Ltd
Tyco International Ltd
U S Bancorp
UnitedHealth Group Inc
Verizon Communications Inc
Walgreen Co
Watson Pharmaceuticals Inc
Weatherford Intl Ltd
Wells Fargo & Co
Whirlpool Corp
Windstream Corp
Wyndham Worldwide Corp
Yum Brands 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
- Realizable pay analysis
- Pay-for-performance analyses
- Governance best practices
- Institutional shareholder and ISS voting guidelines/issues
- 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
- Outside director pay comparisons
- Clawback and anti-hedging design
- Retention programs and strategies
- Tally sheets

We have offices in the following locations.

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