MERIDIAN
COMPENSATION PARTNERS, LLC

2015 Corporate Governance & Incentive Design Survey

Fall 2015

Contents

Executive Summary

As companies review their executive compensation programs and related corporate governance policies, reference to common market practices often forms the basis for assessing competitiveness. In addition, conducting due diligence generally includes the perspective of market "best practices."

In order to inform those perspectives, this 2015 Corporate Governance & Incentive Design Survey presents Meridian's findings on a variety of topics related to executive compensation and corporate 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 $16.1B and $22.1B, 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 (all but 5 of the companies used in 2015 were also surveyed in 2014). See Profile of Survey Companies for more information on the survey sample.

Highlights of Meridian's 2015 Corporate Governance & Incentive Design Survey include:

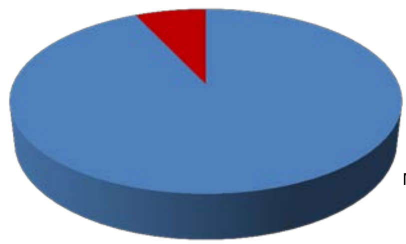
- Combining the roles of CEO and Chairman of the Board continues to be the slight majority practice, with 56% of companies choosing to combine these roles.
- The prevalence of executive summaries in proxy statements (50%) and the Compensation Discussion and Analysis (CD&A) (92%) continue to rise among the Meridian 250, as companies seek to provide reader-friendly disclosures with clear descriptions of business strategies and pay program alignment with performance.
- Twenty-five percent of the Meridian 250 include a voluntary disclosure comparing company performance to Named Executive Officer (NEO) pay, and 20% include a disclosure focusing on pay that was actually earned (realized) or is projected to be earned (realizable).
- For annual incentive plans, the most prevalent performance metrics continue to be Operating Income, Revenue, Earnings Per Share (EPS) and Cash Flow goals.
- Long-term performance-based vehicles (e.g., performance shares or units) are used at 93% of the Meridian 250. Further, the prevalence of stock options and service-based vesting vehicles (e.g., restricted stock or restricted stock units (RSUs)) remains relatively constant, indicating a widespread use of the "portfolio approach" to long-term incentive (LTI) grant practices/design.
- Performance-based vehicles continue to comprise more than one-half of the LTI opportunity granted to the CEO (56%) and the other NEOs (53%)
- Total shareholder return (TSR) is the most common metric used in performance-based LTI vehicles (58%), slightly higher than the combined prevalence of earnings-based metrics (e.g., EPS, Operating Income and Net Income) (48%).
- More than one-half of the Meridian 250 are now disclosing a mandatory retirement age in which a director may no longer stand for re-election (57% in 2015 versus 47% in 2014); 93% of these retirement ages for directors are between ages 72 and 75. The median and most common age is 72.

Corporate Governance Practices

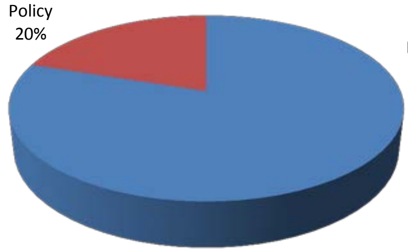
Corporate Governance Practices

Board Structure

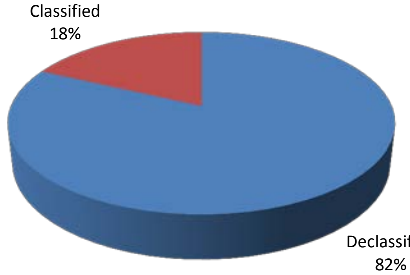
What voting standard does the company employ for uncontested director elections?



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)?

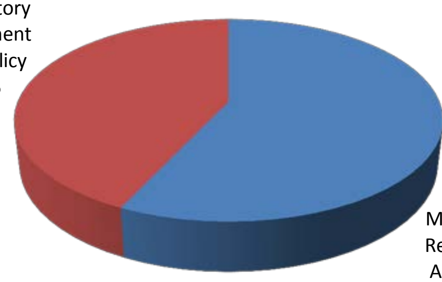


Meridian Comment

A strong majority of the Meridian 250 employ what many observers consider to be hallmarks of leading corporate governance structures. 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 14%, up to 93% in 2015. Over the same time period, the number of companies employing a declassified board structure has risen 15%, up to 82% in 2015. Although a declassified board structure is the prevalent practice, a small minority of companies still prefer a classified board structure (18%), likely to prevent an activist or single issue shareholder from rapidly taking control of the board.

Mandatory Retirement

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	4%
71	1%
72	57%
73	4%
74	7%
75	25%
>75	2%

What is the tenure of the company's independent/outside directors?

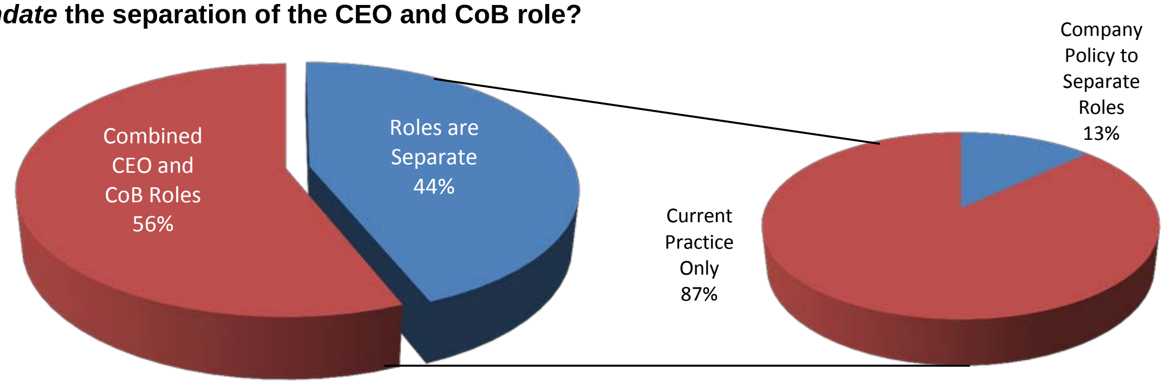
Tenure	Prevalence
0 – 5 years	40%
6 – 9 years	25%
> 9 years	35%

Meridian Comment

A majority (57%) of the Meridian 250 now disclose a mandatory retirement policy, up from 47% last year and 40% in 2013. Growing interest in the link between director tenure and independence by governance activists is the likely driver of the sharp increase over the last two 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, 93% have selected an age between 72 and 75.

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[1]	Prevalence
Independent	59%
Prior CEO	32%
Founder	9%
Founding Family[2]	5%
Prior Employee Other Than CEO	10%
Current Employee	8%

[1] Incumbents may be included in multiple categories.

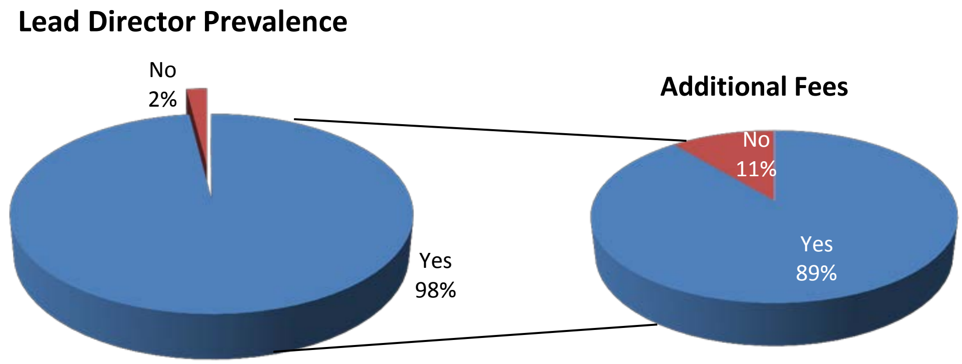
[2] Founding family includes 2^{nd} or 3^{rd} generation members of the original founder.

Meridian Comment

Slightly over one-half of the Meridian 250 (56%) prefer a leadership structure where the CoB and CEO roles are combined, with one voice speaking for the company. Although the more prevalent practice among the Meridian 250 is to combine the role of CoB and CEO, separating these roles can be 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.

While 44% of companies separate the roles, a strong majority of these companies (87%) do not have a policy that mandates such separation. Furthermore, a majority of the companies that separate the roles have elected a CoB that is an independent director with no prior executive relationship with the company (59%).

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

Nearly all of the Meridian 250 (98%) use a Lead Director if the roles of CoB and CEO are combined. The use of a Lead Director has steadily increased in each of the past five years, from 88% in 2011, illustrating 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.

Most of the Meridian 250 that designate a Lead Director provide additional fees to recognize the increased time commitment and responsibility of the role (89%). In our experience, the additional fees range from $20,000 to $30,000 and are typically calibrated with, or somewhat higher than, the Audit Committee Chair's fees.

Proxy Disclosure

Proxy Disclosure

Proxy Structure

Does the proxy statement include any of the following supplemental items?

Proxy Disclosure	Prevalence
Executive Summary of the CD&A	92%
Supporting Narrative in Say on Pay Resolution	72%
Proxy Summary[1]	50%

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

Meridian Comment

Voluntary proxy statement disclosures continue to increase in prevalence and nearly all of the Meridian 250 include these supplemental disclosures in some form. The most prevalent voluntary disclosure is an executive summary to the CD&A (92%), which has emerged as a best practice to articulate the details of compensation programs. The increasing prevalence of supplemental disclosures in recent years has resulted in longer CD&As. From 2010 to 2015, the average length has increased 21%, from 14 pages to 17 pages.

The inclusion of a proxy summary, now provided by one-half of the Meridian 250 (50%), is a growing trend with prevalence up 21% since 2013. Proxy summaries may include a glimpse of the important pay messages, provide data on financial performance or outline key vote information.

Approximately 95% of the Meridian 250 held a Say on Pay vote at the most recent shareholder meeting. Consistent with 2014, almost 75% of these companies include a narrative to their Say on Pay resolution that provides a rationale for shareholders to support the proxy proposal. Only 1% of the Meridian 250 failed a Say on Pay vote in 2015, with another 5% only receiving between 50%–70% support, the so-called “yellow card” status. Thus, despite high levels of shareholder support (averaging well over 90%), the Meridian 250 continue to provide comprehensive disclosures to describe and defend their executive compensation practices.

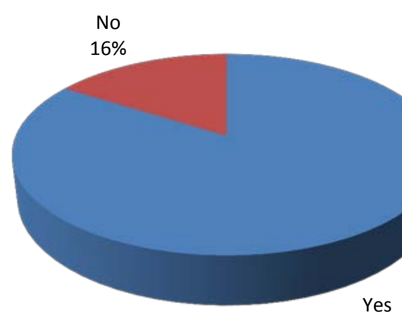
Performance Disclosure

A now common practice of the Meridian 250 is to provide a disclosure regarding company performance. This category of disclosure 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 (i.e., no relative comparison).
- **Relative Performance**—a disclosure comparing the company's financial performance to the financial performance of other companies.

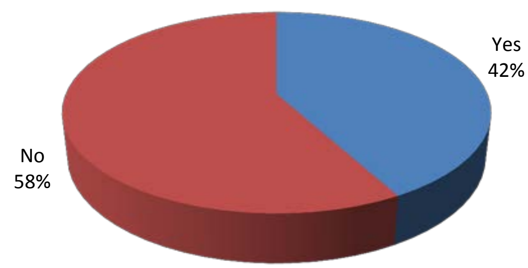
Absolute Performance

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 (84%) 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 (85%) focus on a performance period between one and three years.

Relative performance disclosures are still a minority practice (42%), 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 (60%) 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 (74%), the compensation benchmarking peer group (42%) or a specific industry index (37%).

Pay and Performance Disclosure

One-fourth of the Meridian 250 (25%) 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]
Realizable Pay	32%
Realized Pay	26%
Summary Compensation Table Pay (Excluding Change in Pension Value/Non-Qualified Deferred Compensation Earnings and/or All Other Compensation)	23%
Total Compensation from Summary Compensation Table	16%
Target Pay	18%

[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, one-fourth of the Meridian 250 (25%) voluntarily choose to provide this type of disclosure. Companies continue to search for opportunities to more clearly communicate the pay-for-performance elements of their executive compensation programs in light of pressures from institutional shareholders and their advisors, and the desire to positively influence Say on Pay vote outcomes.

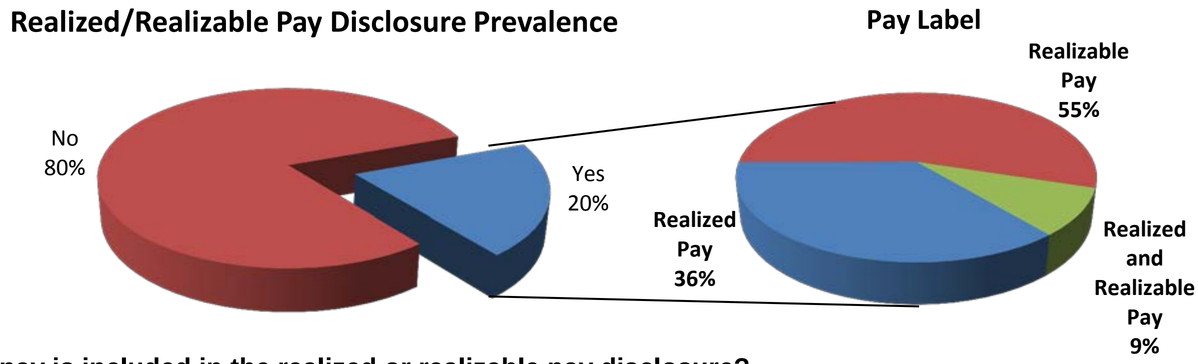
Pay and performance disclosures vary widely among the Meridian 250. Similar to 2014, realizable pay and realized pay were the two most common pay definitions used by the Meridian 250.

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”). The SEC 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-for-performance disclosures. We expect that many companies will continue to make these voluntary disclosures to supplement the required disclosure, further articulating their pay and performance relationship.

Realized/Realizable Pay Disclosure

A minority, but increasing percentage, of the Meridian 250 (20%) provide voluntary disclosures with alternative measurements of pay based on earned (realized) or projected (realizable) compensation. Nearly two-thirds (66%) of these disclosures compare realized and/or realizable pay to company performance.

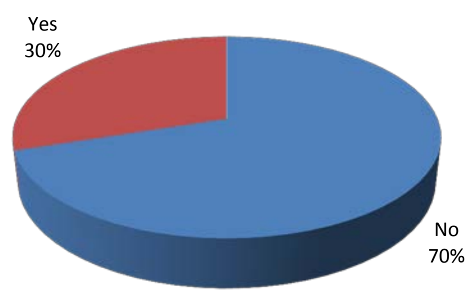
Does the company provide a realized or realizable pay disclosure? If so, how is pay labeled?



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

NEO Pay Included in Disclosure	Prevalence
CEO Only	82%
All Named Executive Officers Depicted Separately	10%
CEO and Average of Other Named Executive Officers	4%
Average of All NEOs	2%
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 compare realized or realizable pay to: (i) company performance (66%), (ii) target pay or Summary Compensation Table pay (72%) or (iii) executive pay relative to other companies (30%). When realized/realizable pay is compared relative to pay at other companies, the most prevalent group chosen is the compensation benchmarking peer group (87%).

The SEC proposed rule on pay and performance would mandate that companies compare company performance to compensation "actually paid" (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 (97%) impose stock ownership guidelines on their NEOs. The table below displays the guidelines for the CEO, the Highest Paid NEO (other than the CEO) and the Lowest Paid NEO.

	Design Prevalence	Amount/Average		
		CEO	"Highest Paid NEO"	"Lowest Paid NEO"
Multiple of Salary	88%	5.9×	3.4×	2.9×
Number of Shares	8%	N/A	N/A	N/A
Hold Until Retirement	1%	N/A	N/A	N/A
None Disclosed	3%	N/A	N/A	N/A

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	64%
Shares Held in Retirement/Savings Accounts	63%
Unvested Deferred Shares	37%
Vested Stock Options	17%
Unearned Performance Shares/Units	15%

What is the timing requirement to meet ownership guidelines (only applicable to companies using a multiple of salary or number of shares approach)?

Timing	Prevalence
5 Years	68%
1-4 Years	5%
Holding Requirement Only[1]	27%
[1] Holding requirement in lieu of specific timing requirement (see next page for further details).	

Holding Requirements

If the company discloses a holding requirement, how is it structured?

Holding Requirement Structure	Prevalence
Hold Until Met	69%
Hold Until Retirement	18%
Hold Only If In Non-Compliance	13%

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.
- **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.
- **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 Met Requirement

A common Hold Until Met feature requires an executive to retain a certain percentage of the "net of tax" shares received on either stock option exercises or vesting of full-value shares. This table illustrates the most common percentages of "net of tax" shares that must be held.

Percent of Net Shares	Percent
100%	37%
75%	13%
50%	42%
Other	8%

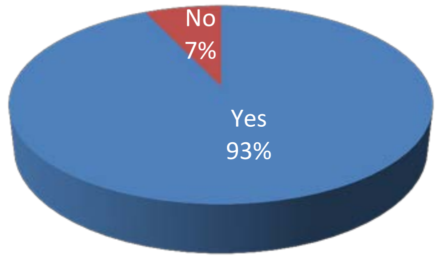
Meridian Comment

The Multiple of Salary approach to executive stock ownership guidelines continues to be the strong majority 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 5.9×. 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.

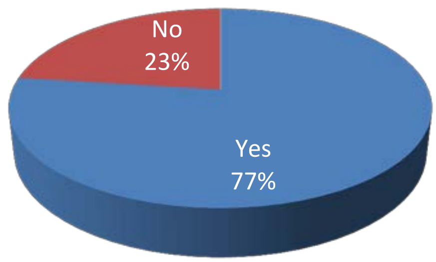
Nearly two-thirds (64%) of the Meridian 250 disclose the use of holding requirements for NEOs. We have seen a steady rise in holding requirement disclosures in recent years, up from 51% in 2013. The Hold Until Retirement design arguably is the preferred practice among corporate governance observers, yet its use remains a distinct 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 two-thirds of the companies (69%), an increase of approximately 8% from two years prior.

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

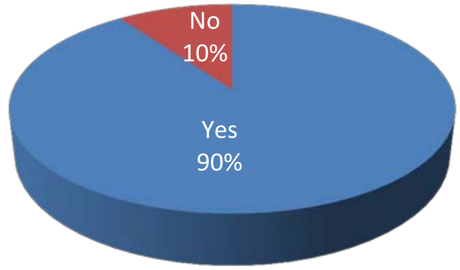
The disclosure of anti-hedging policies among the Meridian 250 continues to increase in prevalence each year and has risen 36% since 2011. Based on our experience, the prevalence of these disclosures has risen sharply due to companies either: (i) updating their insider trading policies to incorporate 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 an anti-hedging policy; however, these policies have emerged as a governance best practice, and we anticipate anti-hedging policies will continue to increase in prevalence.

A strong majority (77%) of the Meridian 250 now also disclose that an anti-pledging policy is in place, up 11% from 2014. Of these companies, 81% prohibit all pledging of shares, while the remaining 19% 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	Percent
Ethical Misconduct Leading to a Financial Restatement	36%
Financial Restatement Only	24%
Financial Restatement or Ethical Misconduct	14%
Ethical Misconduct Leading to Financial Restatement or Violation of Restrictive Covenants	6%
Ethical Misconduct Only	6%
Financial Restatement, Ethical Misconduct or Violation of Restrictive Covenants	7%
Financial Restatement or Violation of Restrictive Covenants	3%
Ethical Misconduct or Violation of Restrictive Covenants	3%
Violation of Restrictive Covenants Only	1%

Who is covered under the company's clawback policy?

Roles	Percent
Current Key Executives Only (e.g., Section 16 Officers)	55%
All Incentive (Annual and/or Equity) Plan Participants	16%
Current and Former Key Executives (e.g., Section 16 Officers)	15%
All Employees	5%
Disclosure States All NEOs are Covered Without Specifying Whether a Larger Population is Covered	4%
Current Named Executive Officers Only	2%
Other	3%

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

Compensation Element	Percent
Cash Incentives	93%
Equity Incentives (without specifically listing equity vehicles)	85%
Equity vehicles specifically listed in the proxy disclosure:	
Performance Shares/Units	9%
Restricted Stock/Units	6%
Vested Options	5%
Unvested Options	4%

Meridian Comment

The prevalence of recoupment or clawback policy disclosures has continued to rise in recent years. Clawback policies are now disclosed by 90% 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 clawback 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	Percent
One Custom Peer Group	85%
Two Custom Peer Groups	14%
Three or More Custom Peer Groups	1%

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. Approximately 60% of companies have a custom benchmarking peer group comprised of between 14 and 22 companies, with the average peer group size being 19 companies.

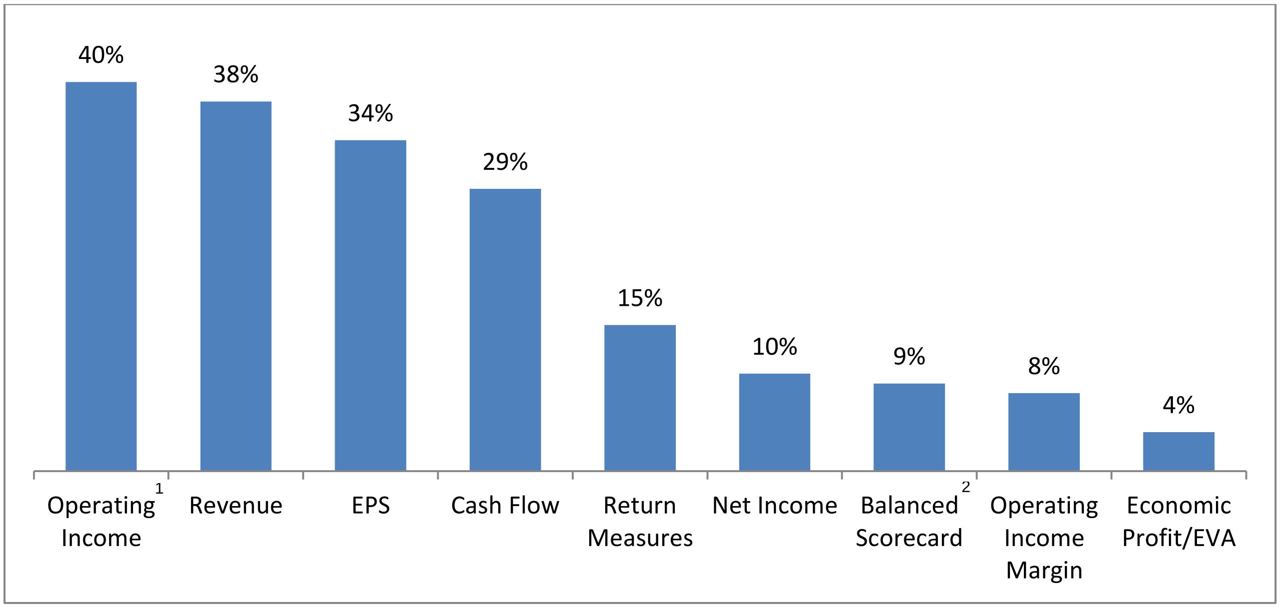
Peer groups are often used for several benchmarking purposes including executive and director pay levels, incentive plan design practices, run rate and overhang analyses. In recent years, committees and outside observers have increased their focus on peer groups due to the influence benchmarking studies may have on a company's pay practices and compensation levels. We recommended 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

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 metrics in their annual incentive plan.

***Note**: A substantial number of companies also incorporate individual performance objectives in their annual incentive plans.*

Meridian Comment

Consistent with 2014 results, the most prevalent annual incentive plan metrics used by the Meridian 250 are Operating Income, Revenue, EPS and Cash Flow. The use of cash flow and return measures remained relatively constant from 2014, whereas Operating Income, Revenue and EPS measures all increased in prevalence over the prior year.

Overall, an earnings-based measure (i.e., Operating Income, EPS and Net Income) is the most prevalent type of metric used among the Meridian 250, with over three-fourths of the Meridian 250 (77%) including at least one earnings-based measure in their annual incentive plan in 2015.

Performance Curves

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

	Maximum Performance Goal as a Percent of Target (Median Values)	Threshold Performance Goal as a Percent of Target (Median Values)
EPS/Net Income	110%	90%
Operating Income	115%	85%
Revenue	104%	95%
Return	115%	85%
Cash Flow	118%	80%

Meridian Comment

Maximum and threshold performance goals as a percentage of target remained relatively constant from 2014. In setting maximum and threshold 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 influenced by other important perspectives, including performance expectations, industry and factors specific to the company.

Payout Curves (Leverage)

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

Maximum (As a Percent of Target)	Percent of Meridian 250
100%-199%	10%
200%	68%
201%-299%	14%
300%+	8%

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

Non-Zero Threshold (As a Percent of Target)	Percent of Meridian 250
< 25%	21%
25%-49%	33%
50%	41%
51%-74%	4%
≥ 75%	1%

Meridian Comment

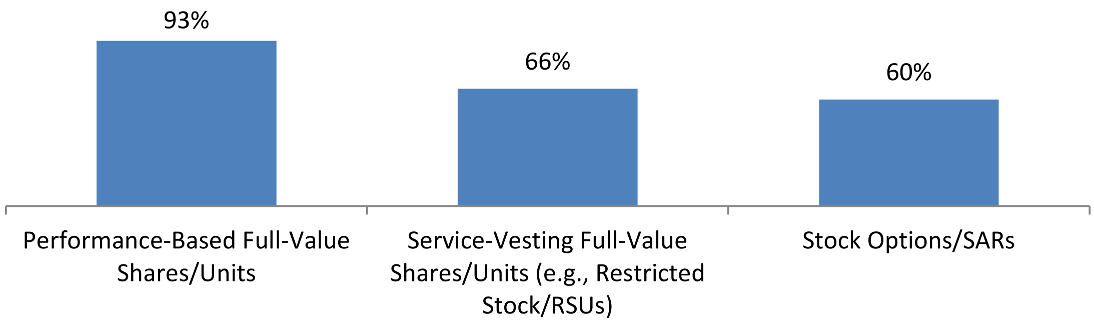
Consistent with results from the past five years, the most prevalent maximum and non-zero threshold payouts are 200% and 50% of target, respectively. However, over one-half of the Meridian 250 (54%) set threshold payouts below 50% of target.

Long-Term Incentive Design Practices

Long-Term Incentive Design Practices

Vehicle Use and Mix

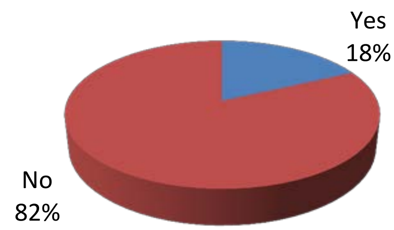
What LTI vehicles does the company use in its regular LTI mix?



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

LTI Vehicle	Average LTI Mix	
	CEO	Other NEOs
Performance-Based Full-Value Shares/Units	56%	53%
Service-Vesting Full-Value Shares/Units	22%	25%
Stock Options/SARs	22%	22%

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



Meridian Comment

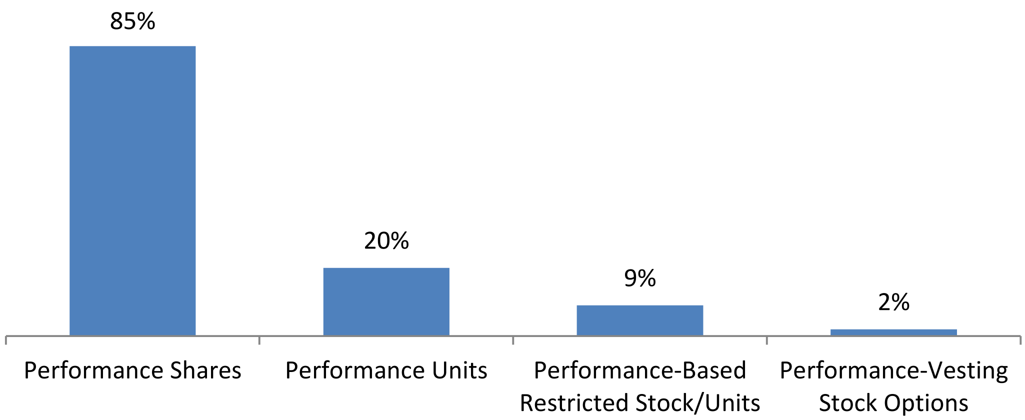
Consistent with the results in recent years, the prevalence of each LTI vehicle category indicates strong use of a "portfolio approach." Nearly half (46%) of the Meridian 250 use two LTI vehicles and another 38% use three or more vehicles. Nearly all companies (93%) use a performance-based vehicle, likely in support of a pay-for-performance approach to executive pay. In addition, and following a trend seen over the past few years, service-vesting full-value shares (i.e., restricted stock and restricted stock units) (66%) are now more prevalent among the Meridian 250 than stock options/SARs (60%).

Since 2012, at least half of the total LTI value has been granted through performance-based vehicles. The relative value granted through stock options/SARs continues to decline (22%), while service-vesting full-value shares increased to one-fourth of the total LTI value granted (25%). Although stock options/SARs are decreasing in terms of total LTI value, a majority of the Meridian 250 still continue to grant these vehicles, with the use of stock options/SARs declining by only 12% in the last five years.

Performance-Based Long-Term Incentives

Performance-Based Vehicle Use

What performance vehicles does the company use in its regular LTI mix?



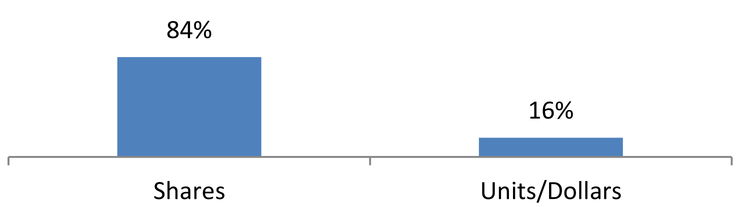
The performance-based vehicles are defined as:

- **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 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

Of the companies using performance-based awards, are the plans denominated in shares or units/dollars?



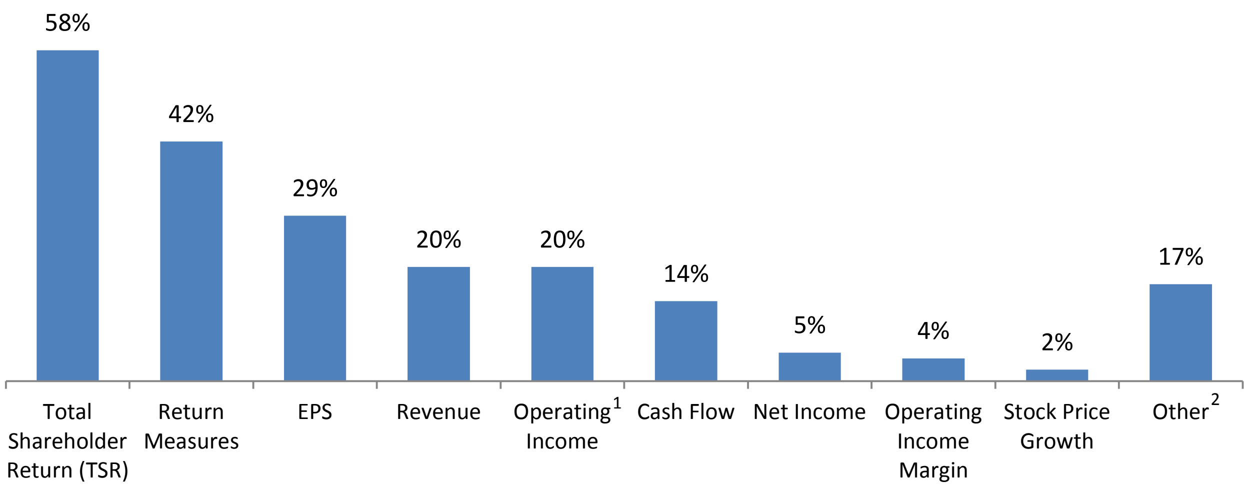
Goal Setting

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

	Prevalence
Multi-Year Goals (e.g., 3-Year Cumulative TSR)	82%
Multiple 1-Year Goals Over Performance Period	12%
1-Year Goals With Additional Vesting	6%

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] "Other" includes metrics such as: Economic Value Added (EVA), business unit goals, balanced scorecard, etc.

Meridian Comment

A substantial majority of the Meridian 250 (84%) 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.

Consistent with last year, the prevalence of companies granting TSR metrics (58%) in their performance-based awards remains higher than the overall prevalence of companies using at least one earnings-based metric (i.e., EPS, Operating Income and Net Income) (48%).

Performance Curves

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

	Maximum Performance Goal as a Percent of Target (Median Values)	Threshold Performance Goal as a Percent of Target (Median Values)
EPS/Net Income	109%	90%
Operating Income	119%	83%
Revenue	104%	96%
Return	115%	85%
Cash Flow	120%	80%

Performance Periods

How long is the performance period (in years)?

Eighty-eight percent (88%) of the Meridian 250 use a three-year performance period, while only 6% use a one-year performance period.

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

Only 13% of the Meridian 250 require additional service vesting after the performance period. Those companies typically have a performance cycle of one or two years and require an additional service requirement of one to three years.

Meridian Comment

In setting maximum and threshold 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 important perspectives, including performance expectations, industry and factors specific to the company.

Payout Curves (Leverage)

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

Maximum Opportunity (As a Percent of Target)	Percent of Meridian 250
100% (Target)	2%
101%-149%	3%
150%	18%
151%-199%	5%
200%	66%
201%-299%	4%
300% +	2%

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

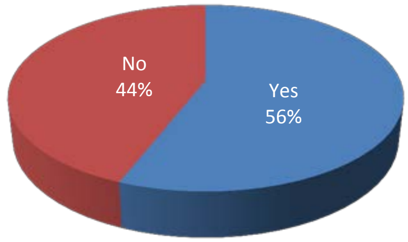
Non-Zero Threshold (As a Percent of Target)	Percent of Meridian 250
> 25%	16%
25%	18%
26%-49%	13%
50%	49%
51%-99%	4%

Meridian Comment

The most common approach among the Meridian 250 is to set a maximum opportunity of 200% of target (66%). Setting a maximum opportunity above 200% of target is not a typical practice and is only observed at small minority of the Meridian 250 (6%). Nearly half of the Meridian 250 set a 50% of target threshold opportunity (49%), but almost as many companies set the threshold opportunity below 50% of target (47%).

Relative TSR Performance Goals

Does the company use a relative TSR metric in its performance-based award (excludes absolute TSR metrics)?



If relative TSR is used, are additional performance measures also used in the company's long-term performance award(s)?

	Prevalence
Relative TSR is the sole performance measure	26%
Relative TSR is one of multiple performance measures	74%

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

Peer Group/Index	Prevalence[1]
Market Index	48%
Compensation Benchmarking Peer Group	31%
Performance Peer Group[2]	18%
Subset of Compensation Benchmarking Peer Group	5%

[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).

Meridian Comment

Over half (56%) of the Meridian 250 use a relative TSR metric, and of those companies, nearly three-fourths (74%) pair the relative TSR measure with one or more additional performance measures. The most common practice is to assess TSR against either a market index (48%) or the compensation benchmarking peer group (31%). Furthermore, of the Meridian 250 that assess relative TSR performance against a performance peer group (18%), the average size of the peer group is 17 companies.

As committees continue to seek ways to align executive compensation programs with performance and shareholder interests, it seems likely that relative TSR will remain a primary measure to provide shareholder alignment while eliminating the need for goal setting in an uncertain economic environment.

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 2014.

	Revenues ($M)	Market Value ($M)	Employees	ROIC (3-Year)	TSR (3-Year)
25th Percentile	$7,562	$9,212	14,000	7.1%	12.4%
Median	$16,130	$22,111	33,900	10.5%	20.4%
75th Percentile	$37,069	$52,670	79,075	15.9%	29.4%

Survey Companies (n = 250)

Abbott Laboratories
Accenture plc
Actuant Corporation
Acxiom Corporation
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
Alpha Natural Resources, Inc.
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.
Arch Coal, Inc.
Archer-Daniels-Midland Company
AT&T Inc.
Automatic Data Processing, Inc.
Baker Hughes Incorporated
Ball Corporation
Bank of America Corporation
Barrick Gold Corporation
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
Colgate-Palmolive Company
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
DIRECTV
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.
Google Inc.
H.B. Fuller Company
Halliburton Company
Hanesbrands Inc.
The Hartford Financial Services Group, Inc.
Hasbro, 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
Jarden Corporation
Johnson & Johnson
Johnson Controls, Inc.
JPMorgan Chase & Co.
Kellogg Company
Kohl's Corporation
Kraft Foods Group, 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
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
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.
Precision Castparts Corp.
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.
United Continental Holdings, Inc.
United Parcel Service, Inc.
UnitedHealth Group Incorporated
Valero Energy Corporation
The Valspar Corporation
Verizon Communications Inc.
VF Corporation
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
Whole Foods Market, Inc.
The Williams Companies, Inc.
Williams-Sonoma, Inc.
Worthington Industries, Inc.
Xerox Corporation
Yahoo! Inc.
YUM! Brands, Inc.

Meridian 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 500 clients, primarily at the board level. As a result, our depth of resources, content expertise and boardroom experience are unparalleled.

Our breadth of services includes:

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

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