CAP Report
CAP Compensation Advisory Partners Sept 26, 2011

Executive Change-in-Control and Severance Report

OCTOBER 2011

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CAP Report

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Introduction

Compensation Advisory Partners' 2011 Executive Change-in-Control and Severance Report provides:

- A comprehensive review of current senior executive (Named Executive Officers) CIC and severance practices among two datasets, based on proxy statement disclosures and incentive plan documents:

  1. Dow Jones Industrial Average Component Companies ("Dow 30")

Dow 30 Companies (n=30)	Revenues	Market Cap. as of 12/31/2010	Number of Employees
	($MM)	($MM)	(000s)
75th Percentile	$113,315	$172,691	260
Median	$62,036	$111,583	127
25th Percentile	$38,557	$60,008	83

  2. "Mid-Sized" companies reflecting 20 Fortune 1000 companies with revenues closest to $2.75B ("Mid-Sized Companies")

Mid-Sized Companies (n=20)	Revenues	Market Cap. as of 12/31/2010	Number of Employees
	($MM)	($MM)	(000s)
75th Percentile	$3,006	$6,931	9
Median	$2,753	$4,155	6
25th Percentile	$2,584	$1,765	4

- A review of changes to senior executive (Named Executive Officers) CIC and severance practices from 2007 – 2010 among the Dow 30 (market leading / trend setting companies)
- Observations regarding our findings, recent trends and near-term outlook

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Note

As we find access to timely and targeted advice/data key to an informed and deliberate decision-making process, CAP regularly publishes research and articles focused on executive and director compensation, and related corporate governance issues, designated as a "CAPFlash." To sign up, please visit our website at www.capartners.com.

Additional information on Compensation Advisory Partners can be found in the Company Profile section of the Appendix (page 33).

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Executive Summary

In 2007, the SEC required public companies to provide proxy-based disclosure of the potential value of severance and change-in-control ("CIC") payments to proxy-level named executive officers ("NEOs"). Since then, senior executive severance and CIC programs have been subject to increased/intense scrutiny by shareholders, shareholder advisors, institutional investors, and, more recently, legislators.

As a result, many companies have revised their severance and CIC policies to provide less generous payments upon CIC and/or termination, and others have eliminated these programs or scaled back eligibility. Still, "golden parachute" payments remain a high-profile element of pay packages. Benchmarking existing plans against other companies can help validate existing benefits or indentify opportunities to adjust arrangements.

- CAP's study found that 60% of the Dow 30 and 85% of our Mid-Sized company dataset currently provide CIC-related cash severance benefits to NEOs through a formal program or individual contracts, and nearly 90% of the companies reviewed provide CIC/severance-related benefits when long-term and annual incentive plan provisions are included.

- Cash severance multiples for NEOs have not changed significantly for Dow 30 companies over the past three years, and CEO cash severance formulas are comparable among larger and smaller sized companies studied. Among the Dow 30, double trigger equity vesting upon a CIC (requiring a termination of employment *and* a CIC) has increased in prevalence from 50% (in 2007) to 70% in 2010, and double trigger provisions are equally prevalent among our sample of Mid-Sized companies. While excise tax gross-ups have become a minority practice among the Dow companies, they are still prevalent among Mid-Sized companies.

A more comprehensive description of notable findings from CAP's senior executive (NEO) CIC- and severance-related research are included on the next page.

The Appendix provides additional detail on and discussion of:

- The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), and related provisions including Say on Pay votes and Say on Golden Parachute votes

- Institutional Shareholder Services (ISS) and its related policies

- Fidelity and its related policies

Outlook

We have witnessed changes to CIC- and severance related benefit provisions at a somewhat accelerated pace over the last 12-24 months and expect the general market trend of benefit reduction to continue. We also expect the policies and practices of smaller market capitalization. companies to migrate towards those of larger companies, following the lead of companies such as the Dow 30, and resulting in new "best practices" in this arena overall.

Purpose of CIC Arrangements

Companies enter into severance and CIC arrangements with the intention of maximizing shareholder value. These arrangements were originally established as a tool to encourage management continuity and also negotiation without the distraction of personal considerations. However, over time, many external critics have come to view them as a management windfall for executives.

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Element of Pay	NOTABLE FINDINGS	
	Dow 30	**Mid-Sized Companies**
Cash Severance (CIC)	**Prevalence** • **CEO**: 57% (17 of 30 cos.); consistent with 2007 • **NEOs**: 57% (17 of 30 cos.); consistent with 2007	**Prevalence** • **CEO**: 85% (17 of 20 cos.) • **NEOs**: 85% (17 of 20 cos.)
	Multiples – Most Prevalent • **CEO**: 47% use ≥2.99x (unchanged since 2007) • **NEOs**: 30% use ≥2.99x; 29% (5 of 17 cos.) use 2x and "Other" (nearly unchanged since 2007)	**Multiples– Most Prevalent** • **CEO**: ≥2.99x is the most prevalent multiple (50%) **NEOs**: 2x is the most prevalent multiple (50%)
	Formula – Most Prevalent • **CEO**: 71% calculate payment using "base + bonus" (down from 76% in 2007) • **NEOs**: 71% calculate payment using "base + bonus" (down from 76% in 2007)	**Formula– Most Prevalent** • **CEO**: 70% calculate payment using "base + bonus" • **NEOs**: 70% calculate payment using "base + bonus"
	Definition of Bonus – Most Prevalent • **CEO**: 83% incorporate the target bonus value (up from 69% in 2007) • **NEOs**: 83% incorporate the target bonus value (up from 69% in 2007)	**Definition of Bonus – Most Prevalent** • **CEO**: 50% incorporate the target bonus value • **NEOs**: 43% incorporate the target bonus value
	Bonus Payment in Year of Termination– Most Prevalent • **CEO**: 29% use target; 24% use actual; 47% do not contractually commit to providing a bonus (consistent with 2007) • **NEOs**: 35% use target; 12% use actual; 53% do not contractually commit to providing a bonus (consistent with 2007)	**Bonus Payment in Year of Termination– Most Prevalent** • **CEO**: 45% use target; 25% use actual; 30% do not contractually commit to providing a bonus • **NEOs**: 35% use target; 30% use actual; 35% do not contractually commit to providing a bonus
Treatment of Equity (CIC)	**Acceleration – Prevalence** • **CEO / NEOs**: 80% (24 of 30 cos.); consistent with 2007 **Trigger – Most Prevalent** • Nearly 70% use double-trigger vesting of equity (up from 50% in 2007)	**Acceleration - Prevalence** • **CEO / NEOs**: 100% (20 of 20 cos.) **Triger – Most Prevalent** • 75% use double-trigger equity vesting
Tax Gross-Ups	**Prevalence** • **CEO**: 81% of companies do not provide any form of tax gross-up on CIC payments (up from 65% in 2007) • **NEOs**: 84% of companies do not provide any form of tax gross-up on CIC payments (up from 65% in 2007) • All but one company providing some form of a tax gross-up to the CEO and/or NEOs have "grandfathered" this benefit for current executives and committed to prospectively not offering the benefit to future participants	**Prevalence** • **CEO**: 50% provide excise tax gross-up and 30% of companies do not provide any form of tax gross-up on CIC payments • **NEOs**: 50% provide excise tax gross-up and 35% of companies do not provide any form of tax gross-up on CIC payments • 1/3 of the companies providing some form of a tax gross-up to the CEO and/or NEOs have "grandfathered" this benefit for current executives and committed prospectively to not offering the benefit to future participants
Cash Severance Multiples (Non-CIC)	**Multiples – Most Prevalent** • **CEO**: 57% have a multiple of 2x – 2.99x (down from 63% in 2007) • **NEOs**: 42% have a multiple of 2x – 2.99x (generally consistent with 2007)	**Multiples – Most Prevalent** • **CEO**: 29% use 2x - ≥2.99x; 24% use 1x - <1.99x • **NEOs**: 35% use 1x – <1.99x

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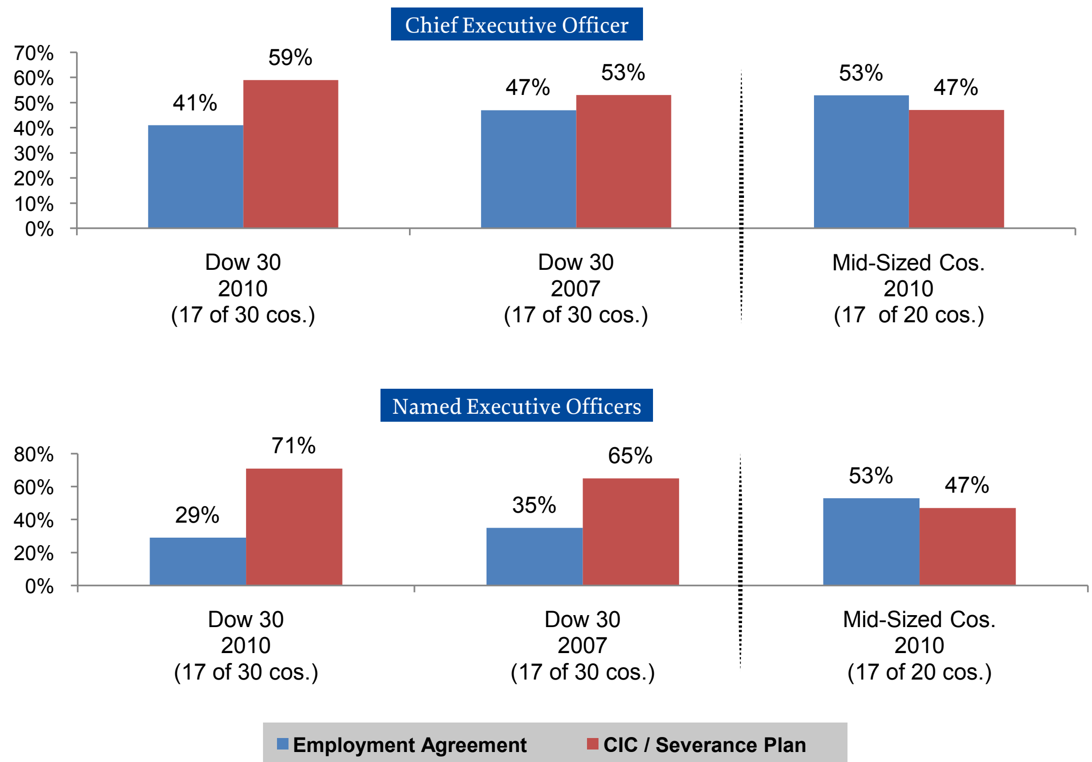
Governing Documents & Covenants

❖ Non-compete, non-solicitation / interference, confidentiality, release of claims

Cash Benefit Covered through CIC Plan or Employment Agreement

Senior executive severance and/or CIC benefits are typically covered under CIC Severance plans or individual employment agreements. Companies may provide additional benefits in annual incentive, long-term incentive and retirement plans. The chart below shows the prevalence of companies providing enhanced cash-based CIC benefits to executives through an employment agreement or CIC / severance plan.



CAP Comment: *While eighty-five percent (17 of 20) of the Mid-Sized companies provide cash severance to NEOs through a formal program or individual agreement(s), prevalence is lower among Dow 30 companies, fifty-seven percent (17 of 30).*

CAP Comment: *Adopting a CIC / severance plan allows for greater flexibility to modify the program in light of changing market conditions. Over the near-term, we expect the prevalence of such plans to remain somewhat steady, though continued change in the provisions is expected.*

Note

In many cases, the CIC / severance plan is provided to executives only and should not be interpreted as broad-based corporate practice.

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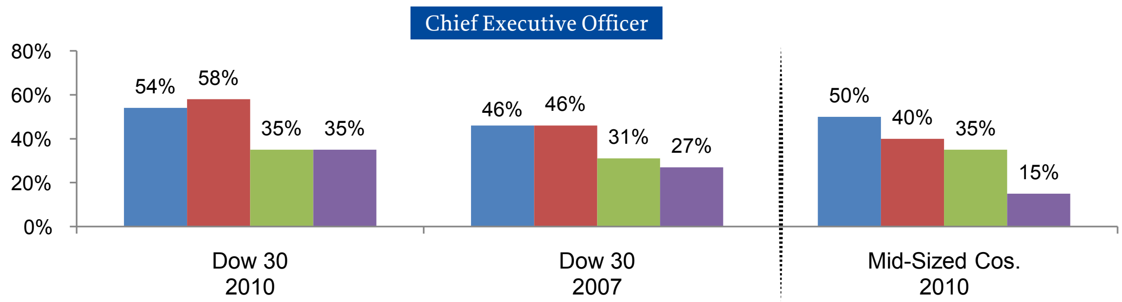
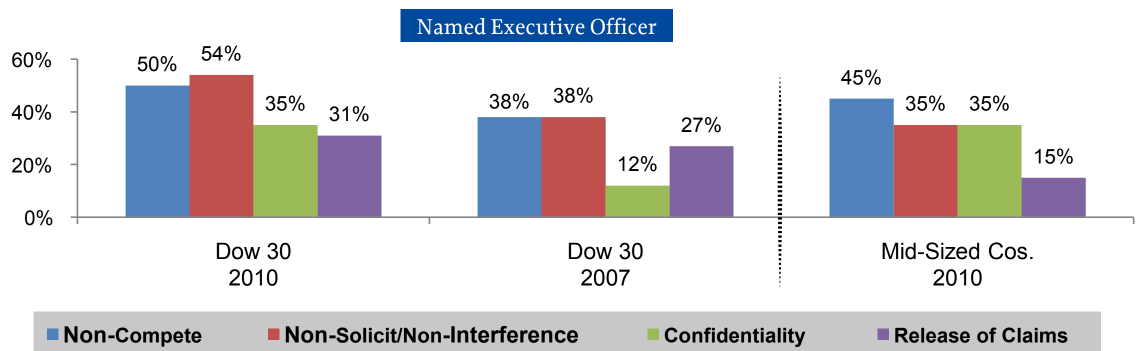
Prevalence of Covenants

Post-termination payments, cash and/or equity are often tied to certain covenants, intended to protect the company. The prevalence of some common covenants is described in the chart below.[1]





CAP Comment: *Recently, as shown in the graph chart above, there has been an increase in the prevalence of these provisions. Over the near-term, we expect this trend to continue.*

Non-Compete	Prevents the employees from working for a direct competitor.
Non-Solicitation	Prevents solicitation of customers or employees.
Non-Interference	Prevents the employee from interfering with certain relationships: vendor/ supplier, referral of customers.
Confidentiality	Prevents the employee from transferring confidential information and materials.
Release of Claims	An agreement between the employer and the employee which legally releases the employer from all claims of discrimination and wrongful termination, with employee agreeing not to sue the employer in return for severance.

1 Prevalence data is based on proxy disclosure. Charts reflect subset of companies that provide a payment upon CIC. Dow 30 subset reflects 26 companies; Mid-Size subset reflects 20 companies.

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Change-in-Control ("CIC") Practices

- Definition of Change in Control
- Value of CIC Payments for CEO and CFO upon Termination
- Protection Period
- Cash Severance Multiples
- Cash Severance Formula Components
- Definition Bonus included in Severance Formula
- Trigger for Cash Severance
- Bonus in Year of Termination
- Treatment of Equity
- Welfare Benefits Continuation
- §280G Tax Gross-ups

Definition of CIC

For purposes of triggering a CIC-related payment, companies define a CIC in a number of ways. Examples of CIC definitions (for compensation purposes) among the Dow 30 are broken out below.

Change in Control Definition	Prevalence in Dow 30	Prevalence of Definition in Dow 30	Section 409(A) Definition of CIC[2]
Acquisition of Voting Power	63% 19 of 30 cos.	30%: 5 companies 25%: 2 companies 20%: 10 companies 15%: 1 company n/d: 1 company	30%
Merger, Consolidation or Reorganization	67% 20 of 30 cos.	80%: 2 companies 50%+: 8 companies All or substantially all: 4 companies n/d: 6 companies	-
Change in Board Composition	63% 19 of 30 cos.	67%: 2 companies 50% / Majority: 17 companies	-
Liquidation or Dissolution	57% 17 of 30 cos.	Complete liquidation: 14 companies All or substantially all: 2 companies n/d: 1 company	-
Sale of a Substantial Portion of Assets	43% 13 of 30 cos.	50%: 3 companies 40%: 2 companies All or substantially all: 7 companies n/d: 1 company	33%

2 Section 409A of the IRC defines the treatment of "non-qualified deferred compensation" for federal income tax purposes.

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Value of CIC Payments for CEO and other NEOs upon Termination

The SEC requires disclosure in the annual proxy statement (DEF 14A) of estimated payments to NEOs, assuming a CIC and other terminations occur at year-end. The table below summarizes the values disclosed by the Dow 30 for CEOs and other NEOs.[3]

CEO Summary Statistics[4]	2010 Total Value of Est. CIC Payment upon Termination ($000s)		Total Value of Est. CIC Payment as % of Market Capitalization (as of 12/31/2010)	
	Dow 30 CEOs	Mid-Sized Cos. CEOs	Dow 30 CEOs	Mid-Sized Cos. CEOs
75th Percentile	$41,661	$29,838	0.074%	0.797%
Median	$27,675	$14,019	0.057%	0.436%
25th Percentile	$17,007	$8,574	0.015%	0.177%

NEOs (excluding CEO) Summary Statistics[4]	2010 Total Value of Est. CIC Payment upon Termination ($000s)		Total Value of Est. CIC Payment as % of Market Capitalization (as of 12/31/2010)	
	Dow 30 NEOs	Mid-Sized Cos. NEOs	Dow 30 NEOs	Mid-Sized Cos. NEOs
75th Percentile	$15,716	$7,626	0.018%	0.224%
Median	$9,662	$3,752	0.011%	0.109%
25th Percentile	$6,593	$2,244	0.007%	0.055%

***CAP Comment:** The magnitude of these potential payments often draws the attention of outside observers.*

***CAP Comment**: Describing this value as a percent of market capitalization provides one reference point when considering if these values could be prohibitive for a potential sale or merger. When a transaction is considered, the cost of this type of benefit is considered for all relevant employees (often a larger group of executives), not just NEOs. At companies with smaller market capitalizations, the aggregate value as a percent of market capitalization can be substantially greater.*

3 Values reflect a double trigger situation, where both a CIC and involuntary termination of employment occur.

4 Summary statistics reflect companies providing any payment upon CIC and involuntary termination (excludes zeros).

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Definitions CIC Cash Severance Benefit Trigger

CIC-related cash severance payments can have a "single," "double" or "modified single" trigger. The chart below summarizes the prevalence of these provisions.

Prevalence of Trigger for Cash Severance	Dow 30 (2010)		Dow 30 (2007)		Mid-Sized Companies (2010)	
	CEO (%)	NEOs (%)	CEO (%)	NEOs (%)	CEO (%)	NEOs (%)
Single Trigger	-	-	6%	6%	5%	5%
Double Trigger	100%	100%	94%	88%	90%	95%
Modified Single Trigger	-	-	-	6%	5%	-

Single	Benefit will become payable automatically upon a CIC.
Double	Benefit become payable after both a CIC and the termination of the executive. The termination can be either by the company without "Cause" or by the executive for "Good Reason," within a specified period following the CIC.
Modified Single	Allows the individual to terminate employment voluntarily ("walk away") for any reason during a specified period ("window") following a CIC and receive severance payments.

***CAP Comment**: ISS' policies consider change-in-control payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers) to be an "egregious" pay practice (see section entitled "Shareholder Advisory / Institutional Investor Policies").*

***CAP Comment**: There has been a trend away from the "single" or "modified single" triggers. This is demonstrated in our sample where 100% of the Dow 30 companies now require a "double" trigger event before CIC-related payments are made.*

Protection Period

"Protection period" describes the timeframe in which a termination by the company must occur following a change-in-control in order to receive enhanced (CIC-related) cash severance payments. Typically the protection period extends for two years.

Protection Period (# of years)	Dow 30 (2010)		Dow 30 (2007)		Mid-Sized Companies (2010)	
	CEO (%)	NEOs (%)	CEO (%)	NEOs (%)	CEO (%)	NEOs (%)
1	19%	19%	25%	19%	14%	14%
2	68%	68%	69%	68%	72%	79%
3	13%	13%	6%	13%	14%	7%

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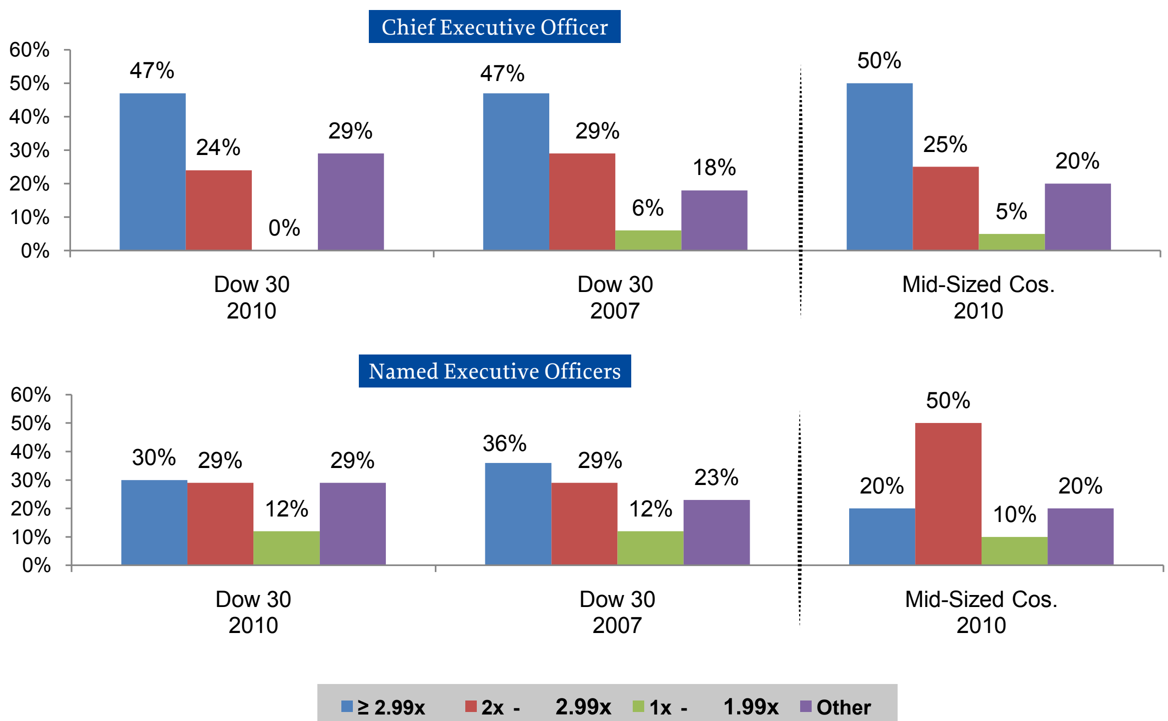
Cash Severance Multiples (CIC)[5]

Prevalence of Benefit	Dow 30 (2010)	Dow 30 (2007)	Mid-Sized Cos. (2010)
CEO	57% (17 of 30 cos.)	57% (17 of 30 cos.)	100% (20 of 20 cos.)
NEOs	57% (17 of 30 cos.)	57% (17of 30 cos.)	100% (20 of 20 cos.)

CIC-related cash severance payments are most often determined using a multiple of certain components of annual compensation (most often defined as base + bonus, see next page); the prevalence of such multiples is described below. Some companies use different methods to determine these cash payments, which we have classified as "Other." [6]



Note

Nearly half of the companies in the Dow 30 (13 out of 30 companies) do not provide additional change-in-control benefits beyond those defined in long-term incentive plans.

***CAP Comment**: The data indicates that companies typically differentiate between the multiple provided to the CEO and other named executive officers. There is no significant difference in CEO cash severance multiples between the Dow 30 and Mid-Sized companies.*

***CAP Comment**: ISS' policies define any new or extended agreements that provide for CIC payments exceeding 3x base salary and average/target/most recent bonus to be an "egregious" pay practice.*

5 Charts reflect subset of companies that provide a cash payment upon CIC. Dow 30 subset reflects 17 companies; Mid-Size subset reflects 20 companies.

6 Examples of these types of payments include payments only determined through Committee discretion or where companies continue certain payments, such as base salary, over a specific period of time (based on years of service and/or based on the remaining term of an individual's employment agreement).

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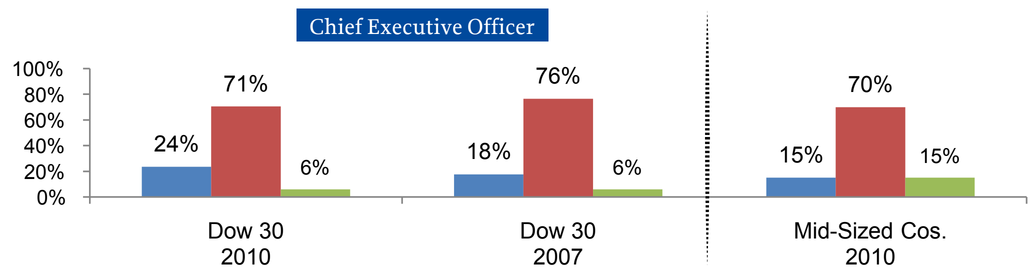
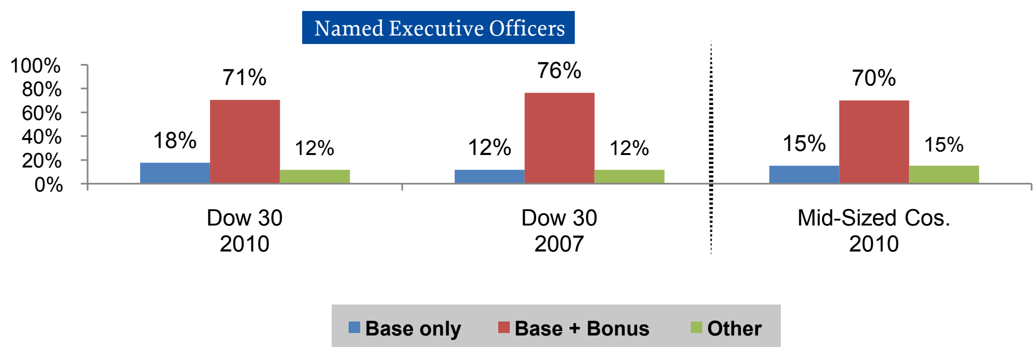
Cash Severance Formula (CIC)[7]

As described on the prior page, the formula used to calculate CIC-related cash severance payments most often incorporates a multiple of base salary and bonus. The graphs below describe the prevalence of different definitions of compensation used in the cash severance formula that determines certain CIC-related payments.





7 Charts reflect subset of companies that provide a cash payment upon CIC. Dow 30 subset reflects 17 companies; Mid-Size subset reflects 20 companies.

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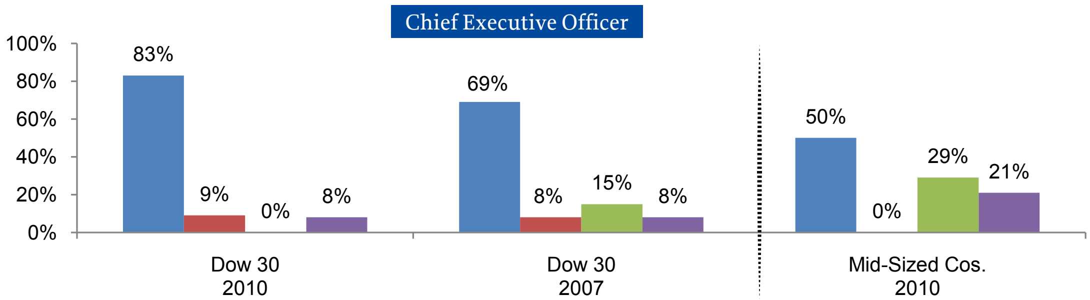
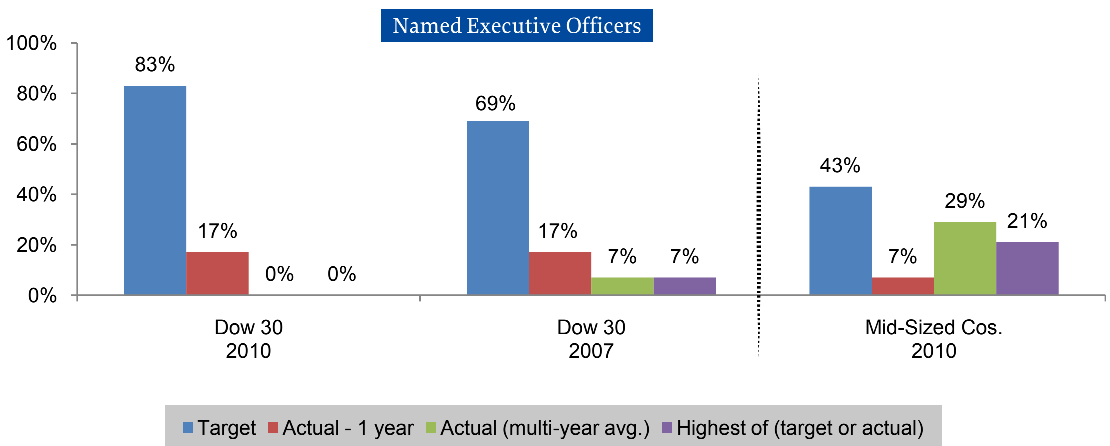
Definition of Bonus included in Cash Severance Formula (CIC)[8]

For companies that include a bonus value in the cash severance formula, the chart below describes the prevalence of various definitions of "bonus."





***CAP Comment**: Our research found a shift to greater use of 'target' bonus in CIC-related cash severance formulas among Dow 30 companies over the past three years. We expect Mid-Sized companies will follow the lead of the Dow 30 and shift to a greater use of a "Target" bonus definition.*

Target Bonus	Target bonus in year of termination.
Actual Bonus	1-year (e.g., prior year) actual bonus in year of termination.
Actual Bonus (multiple-year average)	The average bonus paid over a prior number of years (e.g., three years).
"Highest of" Bonus	Severance is based on a multiple of the greater of two criteria, usually the target bonus in the year of termination or the average actual bonus over a prior number of years.

8 Charts reflect subset of companies that provide a cash payment upon CIC. Chart reflects a subset of companies that include "base + bonus" in the cash severance formula.

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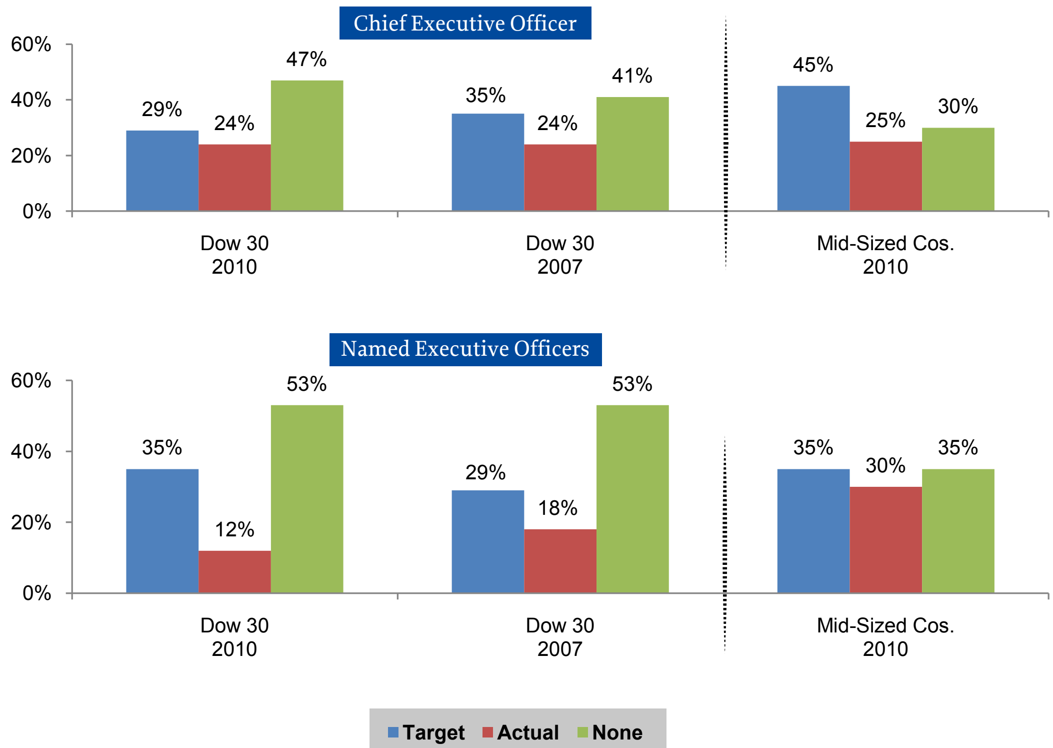
Bonus Payment in Year of Termination (CIC)[9]

If a termination occurs during the protection period following a change-in-control, some companies will provide a pro-rated bonus for service during the year of termination. The graphs below highlight the prevalence of companies that provide a pro-rated bonus in the year of termination, and, if so, the definition of bonus used.



***CAP Comment**: Around one-half of Dow 30 companies do not have a contractual commitment to provide a pro-rated bonus for service during the year of termination following a CIC.*

9 Charts reflect subset of companies that provide a cash payment upon CIC. Dow 30 subset reflects 17 companies; Mid-Size subset reflects 20 companies.

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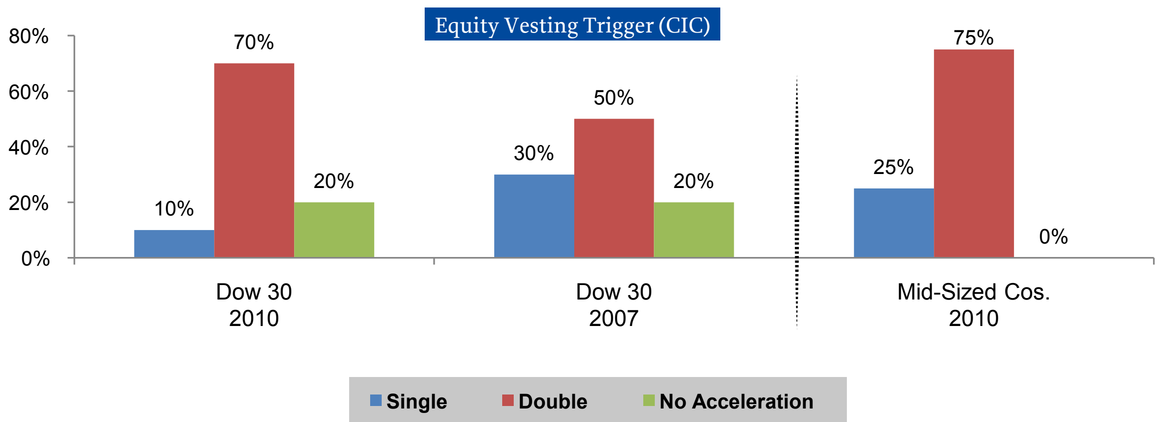
Treatment of Equity (CIC)[10]

Acceleration of the vesting of outstanding equity awards / compensation can take place through a single-trigger or double-trigger event.



Single Trigger	Benefits will become payable automatically upon a CIC.
Double Trigger	Benefits become payable after both a CIC and the termination of the executive. The termination can be either by the company without "Cause" or by the executive for "Good Reason," within a specified period following the CIC

CAP Comment: *Our research revealed a marked shift away from single trigger equity acceleration, among Dow 30 companies, over the past three years. We believe that other companies are following this trend.*

CAP Comment: *Single trigger equity acceleration has received significant negative attention from shareholder/ proxy advisory services over the past few years.*

10 Charts reflect complete datasets. Dow 30 dataset reflects 30 companies; Mid-Size Dataset reflects 20 companies.

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Prevalence of Welfare Benefits Continuation Following CIC[11]

Approximately 90% of companies provide continuation of welfare benefits following a change-in-control. The table below outlines the prevalence of companies in our sample that provide welfare benefits and the most prevalent time period the benefits are continued.

# of Month of Benefits Continuation	Dow 30 (2010)		Dow 30 (2007)		Mid-Sized Companies (2010)	
	CEO	NEOs	CEO	NEOs	CEO	NEOs
None	41%	41%	53%	65%	40%	30%
6	6%	6%	-	-	-	-
12	6%	6%	-	6%	-	15%
18	-	-	-	-	5%	5%
24	12%	24%	12%	6%	15%	30%
36	35%	24%	35%	24%	35%	20%
Life	-	-	-	-	-	-

CAP Comment: *Historically. the period of benefits continuation has often aligned with the period represented by the cash severance multiple (e.g., 3x = 3 years / 36 months). However, in our experience, some companies are decreasing the period for benefit continuation to 18 months or using the "lesser of" multiple period (e.g., x = 12 months) or 18 months.*

11 Charts reflect subset of companies that provide a cash payment upon CIC. Dow 30 subset reflects 17 companies; Mid-Size Dataset reflects 20 companies.

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Prevalence of Outplacement Benefits Following CIC

Some companies provide outplacement benefits upon termination following a change-in-control, meant to facilitate the job search process of a terminated individual. Outplacement benefits are typically provided over a specified time period or may be described as a dollar value. The table below summarizes the prevalence of companies in our sample that provide outplacement services to terminated CEOs and named executive officers following a CIC.

Prevalence of Outplacement		Dow 30 (2010)	Dow 30 (2007)	Mid-Sized Companies (2010)
CEO	Prevalence	17 of 30 cos.	17 of 30 cos.	20 of 20 cos.
	Yes	35%	18%	30%
	No	65%	82%	70%
NEOs	Prevalence	17 of 30 cos.	17 of 30 cos.	20 of 20 cos.
	Yes	29%	29%	40%
	No	71%	71%	60%

Prevalence of Retirement Benefits Following CIC

It is minority practice to provide enhanced retirement benefits upon termination following a CIC; any special retirement benefits provided are typically done so through lump sum payment of the accrued value, accelerated vesting, and additional age and service credits.

Retirement Benefit	Dow 30 (2010)		Dow 30 (2007)		Mid-Sized Companies (2010)	
	CEO	NEOs	CEO	NEOs	CEO	NEOs
Payout of Lump Sum of Accrued Value	-	-	-	-	-	-
Additional Age / Service Credit	17%	10%	17%	13%	20%	20%
Accelerated Vesting	3%	3%	3%	6%	-	-
None	80%	87%	80%	84%	80%	80%

CAP Comment: *Historically, the practice of providing enhanced retirement benefits was more prevalent than it is today. Over time, we expect the already low prevalence shown above to continue to decrease.*

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Tax Gross-ups (CIC)

IRC §280G limits a company's tax deduction for certain payments made to executives as a result of a change-in-control. Generally, if parachute payments to an executive exceed 2.99x the "base amount," payments in excess of 1x the "base amount" are subject to penalties.

- The "base amount" is the executive's average W-2 income for the 5 years preceding the CIC
- Penalty imposed on the executive is a 20% non-deductible excise tax on the excess payment
- Penalty imposed on the corporation is the loss of the tax deduction on the excess parachute payments

Originally, "golden parachute" provisions were added to the IRC by the Deficit Reduction Act of 1984. In reaction to perceived excessive severance payments, Congress indicated that the purpose was to discourage golden parachute payments to senior executives of a company in the event of a corporate takeover. In reality, IRC Section 280G rules were counterproductive.

- Some companies that were previously reluctant to adopt CIC provisions, felt they had Congressional "determination" that parachute payments up to 2.99x base amount were appropriate
- Employer-provided "gross-up" payments on the excise taxes imposed on parachute payments became relatively common
- The gross-up and denial of deductions for golden parachutes increased expense to an acquiring company and decreased the amount available to pay shareholders

In terms of compensation and executive benefits, companies consider this potential tax in a number of ways, including providing a full excise tax gross-up, a conditional gross-up, a modified cap gross-up, a cutback, or no gross-up payment. Current practices are broken out on the next page.

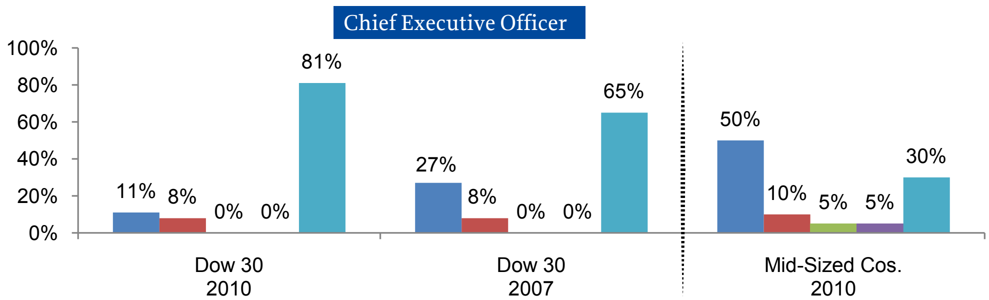
Excise Tax Gross-up	Company pays the executive with sufficient additional amounts (the "gross-up" amount) to pay the parachute and income taxes on the gross-up amount and the parachute tax on the payments and benefits to which the executive is entitled without the gross-up. The purpose is to put the executive in the same after-tax position that he/she would have been absent the excise tax.
Conditional Gross-up	Company pays the excise tax only if the payments exceed the safe harbor by a certain amount (e.g., 110% or $50,000). If not, payments are cut back to the safe harbor.
Modified Cap	Company cuts back payments to the safe harbor limit only if the individual would receive a greater after-tax benefit than if the excise tax were paid by the individual on the excess parachute payments.
Cutback	Company cuts back all payments to the safe harbor limit so that no excise tax is imposed on the individual under any circumstance.

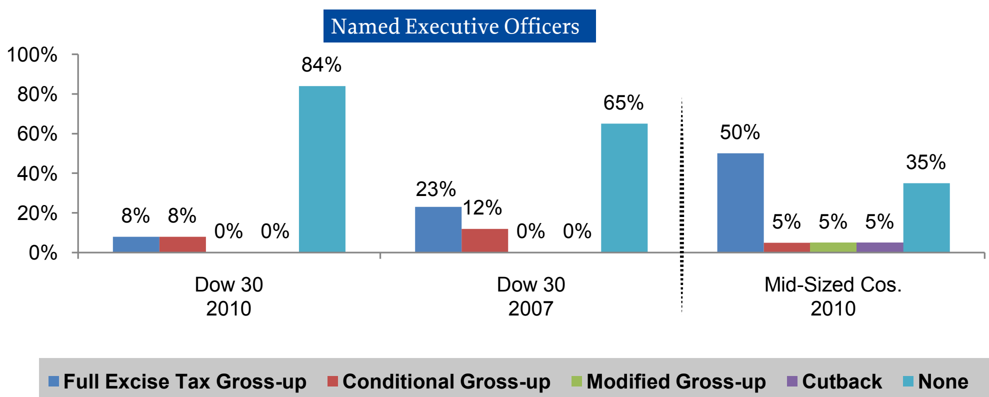
CAP Comment: *The once prevalent practice of providing §280G tax gross-ups has been declining in prevalence, especially since enhanced disclosure of these potential payments was required by the SEC in 2007 and shareholder/proxy advisory groups began targeting this as a poor pay practice.*

[continued on next page]

Tax Gross-ups (CIC) (continued)[12]

The graphs below illustrate the prevalence of gross-up benefits provided to CEOs and NEOs in our two datasets, for CIC-related payments.





***CAP Comment:** There has been a reduction in the number of Dow 30 companies providing a full excise tax gross-up since 2007, reflective of the broader marketplace. We expect this trend to continue in Mid-Sized companies.*

***CAP Comment**: Nearly all of the Dow 30 companies providing some form of a tax gross-up for CIC-related payments to the CEO or NEOs have "grandfathered" this benefit for current executives and committed prospectively to not offer the benefit to future participants. The trend to eliminate tax gross-ups for future CIC-related payments is not as prevalent among the Mid-Sized companies, with only one-third committing to remove the benefit for future plan participants. We expect that, over time, an increasing number of companies will eliminate the tax gross-up benefit for new plan participants.*

12 Charts reflect subset of companies that provide a payment upon CIC. Dow 30 subset reflects 26 companies; Mid-Size subset reflects 20 companies.

[continued on next page]

Severance Practices

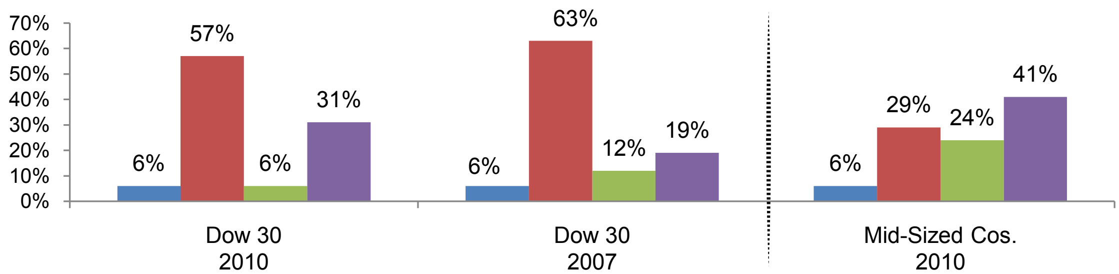
- Cash Severance Multiples
- Cash Severance Formula Components
- Definition of Bonus included in Severance Formula
- Bonus in Year of Termination
- Welfare Benefits Continuation

Cash Severance Multiples (Non-CIC)[13]

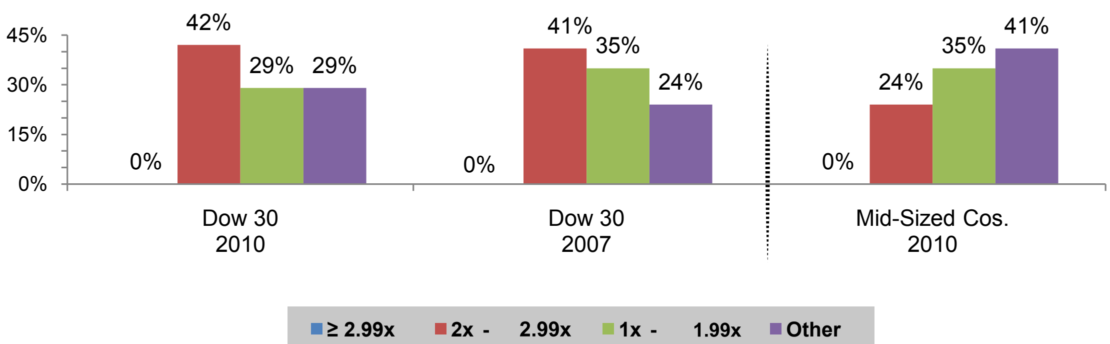
Prevalence of Benefit	Dow 30 (2010)	Dow 30 (2007)	Mid-Sized Cos. (2010)
CEO	57% (16 of 30 cos.)	53% (16 of 30 cos.)	85% (17 of 20 cos.)
NEOs	57% (17 of 30 cos.)	57% (17of 30 cos.)	90% (17 of 20 cos.)

Upon involuntary termination ("not for Cause"), companies will often provide cash payments that are typically determined using a multiple of certain components of annual compensation (most often defined as a multiple of base salary plus bonus or just base salary); the prevalence of such multiples is described below.

Chief Executive Officer



Named Executive Officers



CAP Comment: *Some companies use different methods to determine these cash payments, which we have classified as "Other." Examples of "Other" types of payments include payments determined through Committee discretion or where companies continue certain payments, such as base salary, over a specific period of time (based on years of service and/or based on the remaining term of an individual's employment agreement).*

CAP Comment: *Severance multiples are typically lower in non-CIC situations / terminations and we expect this relationship to be maintained even if companies lower CIC severance benefit multiples in the future.*

Note

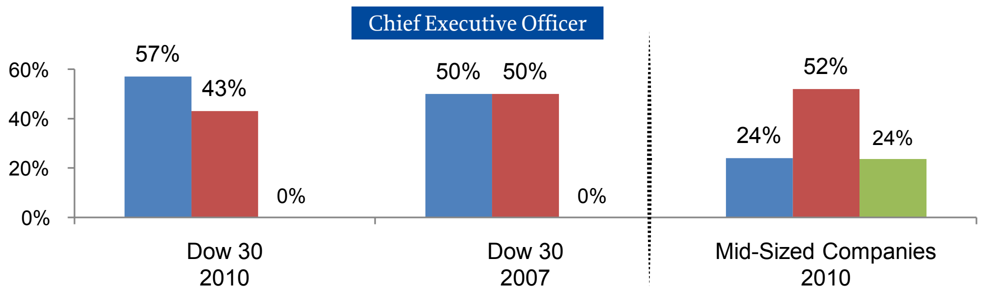
Nearly half of the companies in the Dow 30 (13 out of 30 companies) do not provide contractual severance benefits.

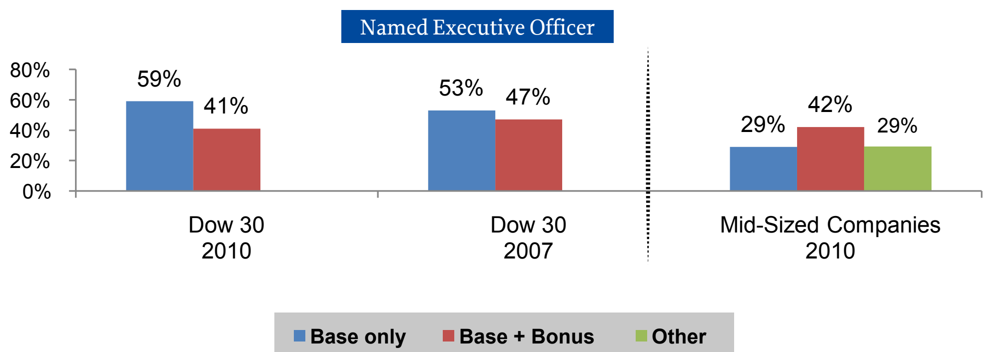
13 Charts reflect subset of companies that provide a cash payment upon termination.

[continued on next page]

Cash Severance Formula (Non-CIC)[14]

As described on the prior page, the formula used to calculate cash severance payments most often incorporates a multiple of base salary and bonus or a multiple of just base salary. The graphs below show the prevalence of different definitions of compensation used in the cash severance formula that determines severance payments in the absence of a CIC.



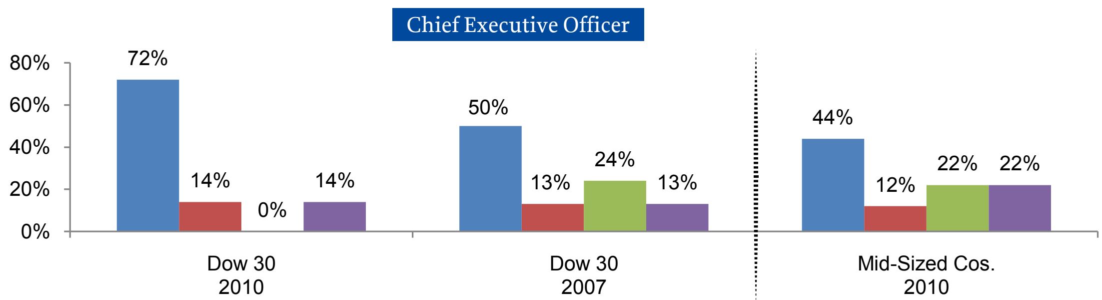


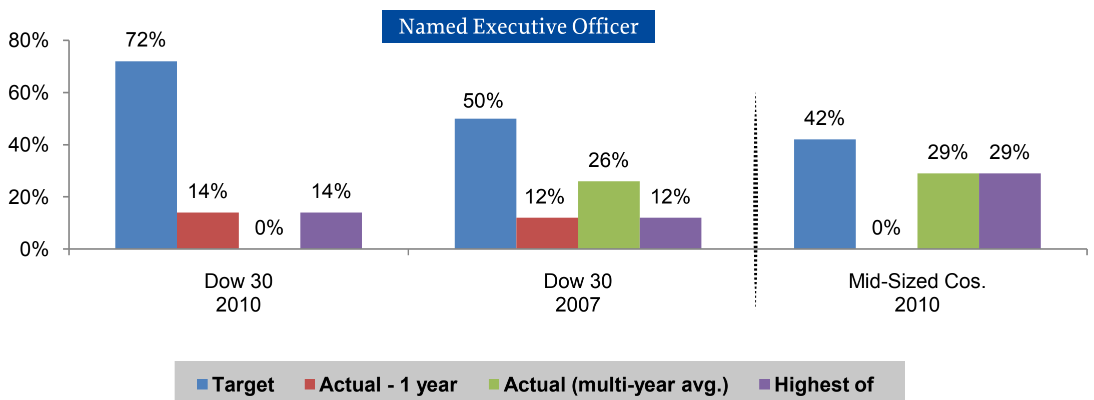
14 Charts reflect dataset of companies that provide a cash payment upon termination.

[continued on next page]

Definition of Bonus included in Severance Formula (Non-CIC)[15]

For companies that include a bonus value in the cash severance formula, the chart below describes the prevalence of various definitions of "bonus" that are used.





***CAP Comment:** Our research found a shift to a greater use of 'target' bonus in cash severance formulas among Dow 30 companies over the past three years. We expect Mid-Sized companies will follow the lead of the Dow 30 and shift to a 'Target' bonus definition.*

Target Bonus	Target bonus in year of termination.
Actual Bonus	1-year (e.g., prior year) actual bonus in year of termination.
Actual Bonus (multiple-year average)	Average bonus paid over a prior number of years (e.g., three years).
"Highest of" Bonus	Severance benefit is calculated using a multiple of the greater of the target bonus or the average actual bonus over a prior number of years.

15 Charts reflect dataset of companies that provide a cash payment upon termination. Dataset reflects a subset of companies that include "base + bonus" in the cash severance formula.

[continued on next page]

Prevalence of Welfare Benefits Continuation Following Termination (Non-CIC)

Some companies provide continuation of welfare benefits in a non-CIC related termination. The table below outlines the prevalence of companies in our sample that provide welfare benefits and the time periods over which benefits are continued.

Benefits Continuation (# of mons.)	Dow 30 (2010)		Dow 30 (2007)		Mid-Sized Companies (2010)	
	CEO	NEOs	CEO	NEOs	CEO	NEOs
None	50%	47%	50%	41%	35%	29%
6	6%	6%	-	-	-	-
12	13%	24%	13%	24%	6%	35%
18	-	-	-	-	6%	18%
24	31%	24%	38%	35%	29%	12%
36	-	-	-	-	6%	-
Life	-	-	-	-	6%	-
Remainder of Employment Agreement	-	-	-	-	12%	6%

***CAP Comment:** Historically, the period of benefits continuation has often aligned with the period represented by the cash severance multiple (e.g., 3x = 3 years / 36 months). However, in our experience, some companies are decreasing the period for benefit continuation to 18 months or using the "lesser of" multiple period (e.g., x = 12 months) or 18 months.*

[continued on next page]

Prevalence of Outplacement Following Termination (Non-CIC)

Some companies provide outplacement benefits upon termination (typically "not for Cause"), meant to facilitate the job search process of a terminated individual. Outplacement benefits are provided over a specified time period or may be described as a dollar value. The table below summarizes the prevalence of companies in our sample that provide outplacement services to terminated CEOs and NEOs.

Prevalence of Outplacement		Dow 30 (2010)	Dow 30 (2007)	Mid-Sized Companies (2010)
CEO	Prevalence	16 of 30 cos.	16 of 30 cos.	17 of 20 cos.
	Yes	44%	44%	29%
	No	56%	56%	71%
NEOs	Prevalence	17 of 30 cos.	17 of 30 cos.	17 of 20 cos.
	Yes	35%	35%	35%
	No	65%	65%	65%

Prevalence of Retirement Benefits Following Termination (Non-CIC)

It is minority practice to provide enhanced retirement following any form of termination, such as a lump sum payment of the accrued value, accelerated vesting, and/or additional age and service credit.

	Dow 30 (2010)		Dow 30 (2007)		Mid-Sized Companies (2010)	
Retirement Benefit	**CEO**	**NEOs**	**CEO**	**NEOs**	**CEO**	**NEOs**
Payout of Lump Sum of Accrued Value	-	-	-	-	10%	10%
Additional Age / Service Credit	7%	7%	3%	10%	-	-
Accelerated Vesting	-	-	-	-	-	-
None	93%	93%	97%	90%	90%	90%

CAP Comment: *No more than three companies in either dataset provided additional retirement benefits for executives. Of those few providing a benefit, companies provide additional age and service credit for 12 – 24 months following termination.*

CAP Comment: *Historically, the practice of providing enhanced retirement benefits was more prevalent than it is today. Over time, we expect the already low prevalence to continue to decrease.*

[continued on next page]

Recent Related Regulatory and Legislative Actions

- 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act
- Say on Golden Parachutes
- Say on Pay

2010 Dodd-Frank Wall Street Reform and Consumer Protection Act

In 2010, the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (Dodd-Frank) was signed into law by President Obama, legislation that included executive compensation and corporate governance reforms. Two Dodd-Frank reforms relevant to this research report are mandatory non-binding Say on Pay and "golden parachute" shareholder advisory votes.

We anticipate a long-term consequence of this legislation will be a continued decrease in the value of golden parachute payments. For companies that do not adjust their programs, the required vote will ensure that companies disclose the business case for maintaining or grandfathering certain practices, such as excise tax gross-up provisions and change-in-control payments.

Say on Golden Parachutes

The SEC's rules require a separate non-binding shareholder advisory vote on golden parachute compensation (related to a sale, consolidation or merger), to the extent not previously subject to a prior general Say on Pay vote. If any changes are made after the most recent vote that would result in an increase in the value of the golden parachute payments, the company will have to hold a subsequent vote on golden parachutes.

The final rules also require new tabular disclosure and enhanced narrative disclosure of golden parachute payments. Tabular disclosure of the following elements related to golden parachute payments for each named executive officer is required: cash severance payments, dollar value of accelerated stock awards, in-the-money value of options accelerated, and payments to cancel stock or options; pension and deferred compensation enhancements; perks and benefits; gross-up payments; other; total.

Say on Pay

The final Dodd-Frank rules require companies with a public equity float above $75 million to have a Say on Pay Vote in its first proxy for an annual meeting after January 21, 2011, and to have additional votes at least once every three years. Proposals request that shareholders approve, through a non-binding advisory vote, the compensation of Named Executive Officers as disclosed in the proxy statement, both in the Compensation Discussion and Analysis and the supporting tabular narrative disclosure. The proposed rules indicate that future CD&A disclosure will require companies to discuss how their compensation policies and decisions were influenced by their Say on Pay vote results.

For additional information on compensation-related Dodd-Frank provisions, see related CAPFlashes:

- *September 2011: 2011 Proxy Season Summary - Say on Pay*
- *June 2011: 2011 Proxy Season Updates – Say on Pay and New Fidelity Voting Guidelines*
- *April 2011: SEC Proposed Rules on Compensation Committee and Consultant/Advisor Independence*
- *March 2011: SEC Final Rules on Say on Pay and SEC Timing Updates*
- *March 2011: FDIC and Related Agencies Propose Rules Under Dodd-Frank Reform Act Relating to Incentive-based Compensation Arrangements*

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Shareholder Advisory / Institutional Investor Policies

- Institutional Shareholder Services Policies ("ISS")
- Fidelity

Institutional Shareholder Services Policies ("ISS")

ISS, an influential shareholder advisory service, provides recommendations for (among other things) compensation-related shareholder votes. In its voting policies, ISS highlights specific pay practices that it views as "egregious" and may independently, "by themselves, [be] sufficiently problematic to warrant Withhold or Against votes in most circumstances." Certain "egregious" pay practices are specifically related to change-in-control / severance payments and include:

- Excessive perquisites or tax gross-ups, including any gross-up related to a secular trust or restricted stock vesting
- New or extended agreements that provide for:
    - CIC payments exceeding 3x base salary and average/target/most recent bonus
    - CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers)
    - CIC payments with excise tax gross-ups (including "modified" gross-up)

Companies with "egregious" practices are more likely to receive either an Against vote recommendation for Say on Pay or Against / Withhold recommendation on Compensation Committee members in years when no Say on Pay vote is on the ballot or when the Board has failed to respond to concerns from prior Say on Pay votes.

For Say on Golden Parachute votes, ISS plans to make vote recommendations on a case-by-case basis, though the vote recommendation should be consistent with ISS' pre-existing policies on problematic pay practices related to severance packages. Specific features that may potentially lead to a negative vote recommendation include some of the following:

- Recently adopted or materially amended agreements that include excise tax gross-up provisions
- Recently adopted or materially amended agreements that include modified single trigger
- Single trigger payments that will happen immediately upon a CIC, including cash payment and such items as the acceleration of performance-based equity despite failure to achieve performance measures
- Single trigger vesting of equity based on a definition of CIC that requires only shareholder approval rather than transaction
- Potentially excessive severance payments
- Recent amendments or other changes that may make packages so attractive as to influence merger agreements that may not be in the best interest of shareholders

For additional information, see the associated December 2010 CAPFlash: "ISS 2011 Policy Updates – Here Comes Say on Pay."

[continued on next page]

Fidelity

Fidelity, a large / influential institutional investor, has stated in its compensation-related proxy voting guidelines that it will generally vote against proposals to support golden parachutes[16]. Additionally, in determining whether there is a misalignment between compensation and shareholder interests, Fidelity will take into account, among other factors, whether the Compensation Committee waived equity vesting restrictions and/or the company adopted or extended a golden parachute without shareholder approval.

For additional information, see the June 2011 CAPFlash: "2011 Proxy Season Updates – Say on Pay and New Fidelity Voting Guidelines."

16 Fidelity defines a "golden parachute" as: "employment contracts, agreements, or policies that include an excise tax gross-up provision; single trigger for cash incentives; or may result in a lump sum payment of cash and acceleration of equity that may total more than 3x annual compensation (base + bonus) in the event of a termination following a change-in-control."

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CAP Report

Company Profile

❖ Compensation Advisory Partners

Compensation Advisory Partners LLC (CAP) is an independent consulting firm specializing in executive and director compensation, and related corporate governance matters, with a unique combination of deep expertise and intense client focus. Comprised of senior industry veterans from Mercer and KPMG, CAP's consultants have served as independent advisor to Boards and senior management at many of the world's largest and leading companies in the areas of compensation governance, strategy and program design.

Formed in 2009, CAP's founding principle is that compensation should be a management tool to help support business strategy. Our consulting experience enables our team to assist companies in creating and implementing defensible, performance-oriented executive compensation programs that meet high governance standards in a changing regulatory environment.

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The staff has strong industry sector knowledge and a broad client base, ranging from the largest Fortune 100 multi-nationals to start-up companies across all major industries.

The firm's breadth of experience, research and clientele keep it at the forefront of trends and practices in all areas of executive and director compensation.

Compensation Advisory Partners provides Boards of Directors and Compensation Committees best-in-class advice, while also meeting the increasing need to demonstrate the independence and objectivity of that advice from a truly independent platform.

Please contact us if you would like to discuss your own executive or director compensation issues. You can also access our website at www.capartners.com for more information.

Please contact us at (212) 921-9350 if you have any questions about the issues discussed above or would like to discuss your own executive compensation issues. You can access our website at www.capartners.com for more information on executive compensation.