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ACCOUNTABILITY AND TRANSPARENCY

Are Your Corporate Governance Practices Putting You at Risk?

Public Company Executive Compensation Hot Topics

FOLEY
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Foley & Lardner LLP: 2014 National Directors Institute Public Company Executive Compensation Hot Topics Roundtable

November 6, 2014

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Institutional Shareholder Services (ISS) Policy Update

ISS 2015 Policy Changes

- 2015 draft policies released for comment in October
- Comment period closed October 29
- Based on ISS' request for comments, U.S. updates are likely to include only one pay-related change:
  - ISS currently bases its voting recommendations regarding equity incentive plan proposals on a series of standalone tests focused on the cost of the plan and certain problematic pay practices
  - ISS proposes to use a "scorecard" model that considers a range of positive and negative factors, rather than a series of "pass/fail" tests as applied in the existing policy, to evaluate equity incentive plan proposals
- Final 2015 policy updates expected in early November

SEC Rules Update
CEO Pay Ratio Disclosure

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Proposed CEO Pay Ratio Disclosure Rules

- Dodd-Frank requires the SEC to issue rules requiring issuers to disclose in their proxy statements a “pay ratio,” described as the following:
  - The median of the annual total compensation of all employees of the issuer, except the CEO; the annual total compensation of the CEO; and the ratio of those two amounts, with total compensation determined in accordance with Item 402 of Regulation S-K.
- The SEC proposed rules in September 2013
- Final rules are expected in December 2014

-5-

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Proposed CEO Pay Ratio Disclosure Rules

- Under the proposed SEC rules, for purposes of identifying the median employee:
  - Employee pool would include:
    - All employees of the registrant and its subsidiaries on the last day of the most recently completed fiscal year
    - All domestic and foreign full-time, part-time, seasonal or temporary workers employed on that day
  - Companies would be permitted to use their entire employee population or statistical sampling

-6-

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Proposed CEO Pay Ratio Disclosure Rules

- Under the proposed SEC rules, for purposes of identifying the median employee with reference to compensation:
  - Companies would not be required to use the "total compensation," as defined by the SEC for purposes of the Summary Compensation Table, for their entire employee population or the statistical sample
  - Instead, may use any compensation measure that is consistently applied to all employees included in the calculation, including amounts derived from payroll or tax records
- Once the median employee has been identified using such a compensation measure, must use the Summary Compensation Table definition of "total compensation" to calculate and disclose the compensation of the median employee and the ratio

-7-

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Proposed CEO Pay Ratio Disclosure Rules

- Smaller reporting companies, emerging growth companies and foreign private issuers that file annual reports and registration statements on Form 20-F would be exempt from the pay ratio disclosures under the SEC's proposed rules
- Effective date:
  - Compliance with the final rules would be required with respect to compensation for the first fiscal year commencing on or after the effective date of the rules
  - Disclosure of the pay ratio would be required with the annual report for that fiscal year or, if filed later, the proxy or information statement for the next annual meeting following the end of that fiscal year (subject to a requirement that the pay ratio be filed within 120 days after the end of the fiscal year)

-8-

Say on Pay

Say on Pay – 2014 Proxy Season Results

- Overall results similar to 2013, although the results for individual companies varied
  - Average support was 92% across all companies
  - Shareholder engagement appeared to work for companies with failed votes in 2013; a majority of these companies received greater than 70% support in 2014
- There was a correlation between failed "say on pay" votes and negative vote recommendations from proxy advisory services, but effect of an adverse ISS opinion appears to be diminishing
  - A negative ISS recommendation correlated to a decline in median voting support by 25.9% at S&P companies compared to 32.5% over the prior three years*

*Statistics courtesy of *Wescott, 2014 Proxy Season Wrap-up (The Advisor July 2014)*

Say on Pay – Consequences of a Failed Vote

- The consequences of a failed "say on pay" vote include the following:
  - Although all companies will be required to address the "say on pay" vote and any responsive actions in CD&A, this disclosure takes on greater importance for companies with failed "say on pay" votes
  - Proxy advisory services may recommend withholding votes from directors if remedial measures not satisfactory
  - Potential for litigation

-11-

Say on Pay and Equity Plan Proposals – Constituent Engagement

- Company engagement with shareholders on say on pay and equity plan issues
  - Timing: prior to proxy season
  - Methods:
    - Surveys
    - Group meetings
    - One-on-one meetings
    - Conference calls
    - E-Forums
    - Additional soliciting material
    - Compensation committee chair blog posting?
      - Coca-Cola equity stewardship guidelines
  - Designation of compensation "spokesperson"
- Consider engaging with ISS as well

-12-

Other Dodd-Frank Compensation-Related Provisions

Compensation Committee and Adviser Independence

- Dodd-Frank Act required SEC to issue rules concerning exchange listing standards that would require heightened independence requirements for compensation committee members
- Final rules and listing standards came into effect in 2013
- New requirements must be reflected in the compensation committee charter

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Compensation Committee Independence

- NYSE listing standards:
  - In considering independence, must consider all factors specifically relevant to determining whether a director has a relationship to the listed company that is material to that director's ability to be independent from management in connection with the duties of a compensation committee member, including, but not limited to
    - The source of compensation paid to directors serving on the compensation committee; and
    - Whether a director is affiliated with the company, a subsidiary or an affiliate of a subsidiary
- NASDAQ listing standards:
  - Now require compensation committee composed entirely of independent directors
  - A director will not qualify as independent for service on the compensation committee if he or she has received, directly or indirectly, consulting, advisory or other compensatory fees from the issuer or a subsidiary of the issuer
  - Consider whether the director is affiliated with the company and determine whether such affiliation would impair the director's judgment as a member of the compensation committee

-15-

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Compensation Committee Responsibilities

- NYSE and NASDAQ listing standards mandate that compensation committees:
  - Have the authority, in their sole discretion, to retain or obtain the advice of a compensation consultant, independent legal counsel or other adviser;
  - Be directly responsible for the appointment, compensation, and oversight of the work of any compensation adviser they retain;
  - Receive appropriate funding as determined by the compensation committee from the company for payment of reasonable compensation to compensation advisers; and
  - Reflect these elements in their charters

-16-

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Committee Adviser Independence

- Rules on advisor independence provide that a compensation committee "may select" a compensation consultant, legal counsel or other adviser only after taking into account specified independence factors
- Both NYSE and NASDAQ specify the following six independence factors:
  - Provision of other services to the issuer by the firm that employs the compensation adviser;
  - Amount of fees received from the issuer by the firm that employs the compensation adviser, as a percentage of the total revenue of the firm that employs the compensation adviser;
  - Policies and procedures of the firm that employs the compensation adviser that are designed to prevent conflicts of interest;

-17-

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Committee Advisor Independence

- Six independence factors (continued):
  - Any business or personal relationship of the compensation adviser with a member of the compensation committee;
  - Any stock of the issuer owned by the compensation adviser or the adviser's immediate family members; and
  - Any business or personal relationship of the compensation adviser or the firm employing the adviser with an executive officer of the issuer.
- NYSE listing standards also require consideration of all “factors relevant”

-18-

Clawbacks

- Dodd-Frank Act required the SEC to issue rules directing exchanges to prohibit the listing of issuers that do not develop and implement policies providing:
  - For disclosure of the issuer's policy regarding any incentive-based compensation that is based on financial information required to be reported under the securities laws; and
  - That, if the issuer is required to prepare an accounting restatement due to its material noncompliance with any financial reporting requirement under the securities laws, the issuer will recover from any current or former executive officer who received incentive-based compensation (including stock options awarded as compensation) during the three-year period preceding the date on which the issuer is required to prepare an accounting restatement, based on the erroneous data, in excess of what would have been paid to the executive officer under the accounting restatement

Clawbacks

- Section 304 of the Sarbanes-Oxley Act of 2002 (SOX) already contains a clawback provision, although the standard under the Act is stricter than the SOX standard because SOX requires that the restatement occur “as a result of misconduct,” only applies to a company's CEO and CFO, and is limited to a 12-month period preceding the restatement
- SEC currently has no publicly-disclosed timetable for these rules

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Required Pay and Performance Disclosure

- Dodd-Frank requires the SEC to issue rules requiring issuers to disclose "pay for performance" in their proxy statements:
  - Information showing the relationship between executive compensation and the financial performance of the issuer, taking into account any change in the value of the issuer's shares, which may include a graphic representation of the information required to be disclosed
- SEC currently has no publicly-disclosed timetable for these rules

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Pay for Performance

Pay for Performance

- What Does “Pay for Performance” Mean in Practice?
  - Measuring pay
    - “Real” or “realizable” pay versus Summary Compensation Table
    - Relative – selection of peers
  - Measuring performance
    - Total shareholder return
    - Financial measures used for incentive compensation
    - Other measures
    - Relative – selection of peers

Pay for Performance

- How should “pay for performance” be presented to shareholders (CD&A)?
  - Use of charts or other graphics
  - Location in proxy statement
  - Establishing workable precedent
  - SEC requirements:
    - GAAP presentation or reconciliation
    - Not materially misleading (balance)

Shareholder Litigation on Compensation

Shareholder Litigation on Compensation – Failed Say on Pay Votes

- Several shareholder derivative lawsuits involving compensation-related claims have been filed or threatened since the advent of say on pay
  - Typically occur following a failed say on pay vote and/or in advance of a shareholder meeting at which shareholder approval for an equity compensation plan is sought
  - Dodd-Frank expressly stated that it did not impose new or enhanced fiduciary duties in connection with the requirement to hold say on pay votes
  - Lawsuits based on failed say on pay votes generally have not been successful, but plaintiff firms continue some activity in this area
- Cheniere Energy, Inc. postponed its 2014 annual meeting due to a lawsuit filed four days earlier alleging deficiencies in the Cheniere equity incentive plan and the proxy statement disclosures concerning the plan

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Shareholder Litigation on Compensation – Director Pay

- Director pay, as well as executive pay, has also been the subject of shareholder litigation
  - An excessive compensation lawsuit was filed in June 2014 against the officers and directors of Facebook
    - Alleges directors received excessive compensation
    - Argues that the "demand" requirement is excused "Because . . . all the non-employee Director Defendants . . . received the challenged compensation pursuant to an incentive plan that contains no limits on their compensation, let alone meaningful ones, the Director Defendants stand on both sides of the compensation awards."
  - The Facebook complaint follows the 2012 Delaware case, *Seinfeld v. Slager*, which likewise alleged that directors had paid themselves excessive compensation
    - The court allowed plaintiffs to proceed without making a demand because the directors were not considered disinterested
- **Recommendation**: Consider establishing separate award limits for non-employee directors in omnibus plans or a separate plan for awards to non-employee directors

-27-

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Shareholder Litigation on Compensation – Issues Under Code Section 162(m)

- Another category of compensation-related litigation that some plaintiffs have pursued relates to Code Section 162(m)
- Summary of Section 162(m):
  - Compensation paid by a publicly traded company to certain officers is generally not deductible by the company to the extent it exceeds $1 million per person per year under limits prescribed by Internal Revenue Code Section 162(m)
  - There is an exception for qualified "performance-based compensation," which does not count against the $1 million limit if applicable requirements under Section 162(m) are met

-28-

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Shareholder Litigation on Compensation – Issues Under Code Section 162(m)

- A number of lawsuits have been brought asserting that boards have failed to satisfy their fiduciary duties in various ways by paying compensation in excess of $1 million limit under Section 162(m) and failing to satisfy the requirements to qualify the compensation as performance-based
- Many of the Section 162(m)-based cases have been unsuccessful, but some have survived motions to dismiss

-29-

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Recommendations to Minimize Exposure to Potential Section 162(m) Litigation

- Monitor the five-year re-approval requirement to ensure that performance goals are resubmitted to shareholders in a timely manner
- Review proxy statement disclosures concerning incentive awards to ensure that they do not include a promise of compensation deductibility under Section 162(m) and that they disclose any discretion of the compensation committee to award non-deductible compensation above the limits stated in the governing plan
- Ensure that the performance goals selected by the compensation committee for specific awards of incentive compensation are included in the shareholder-approved “menu” of potential goals listed in the governing plan
- Ensure that the proxy statement seeking approval of performance goals for Section 162(m) purposes accurately describes the plan’s operations

-30-

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Foley & Lardner LLP: 2014 National Directors Institute Public Company Executive Compensation Hot Topics Roundtable

November 6, 2014

Performance, Reward & Talent
Consulting

2014 Hot Topics in Executive Compensation

June 2014

Aon Hewitt, the global talent, retirement and health solutions business of Aon plc (NYSE: AON).

Table of Contents

About This Material

Aon Hewitt surveyed companies to identify 2014 Hot Topics in executive compensation, and to get a preview at market direction with regard to program design and corporate governance. The survey results provide a clear picture of the 2014 executive compensation landscape.

Survey results often are displayed according to executive groupings, including:

- Chief Executive Officer.
- Level 2 Executives—Any Officer, member of the leadership/management team, and/or direct report to the CEO.
- Level 3 Executives—Any other employee classified as an executive, typically VPs and above, not included in Level 2.

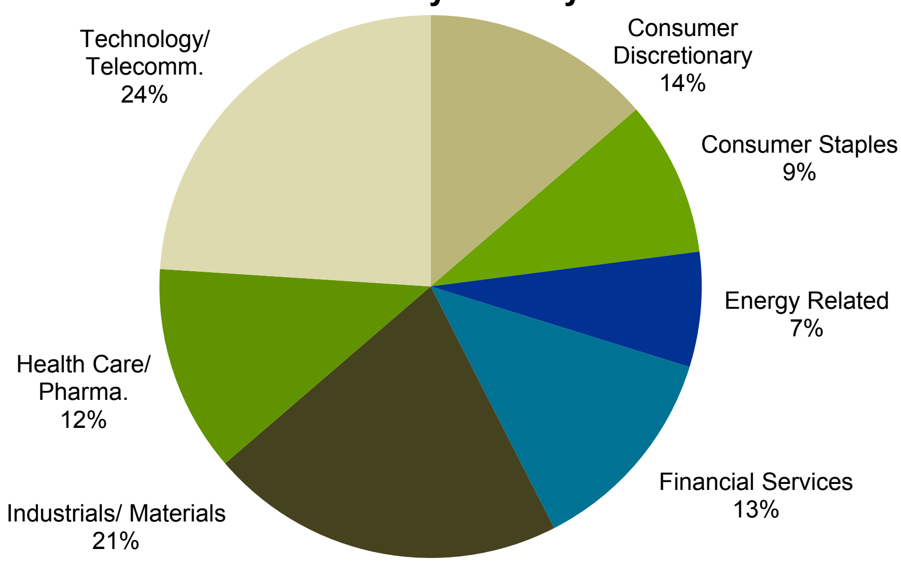
Additionally, comparisons to results from our 2012 and 2013 surveys are made throughout this report.

Organizations Participating in This Survey

Survey results are based on responses from 294 participating organizations representing a cross-section of major U.S. companies. Survey participants are listed in the Participating Organization section at the end of this report.

- Seventy-one percent (71%) of the organizations responding are publicly-held, while 19% are privately-held.
- The remaining participant population represents subsidiaries (7%) and not-for-profit/government entities (3%).
- The composition of the 2014 survey respondents is more heavily weighted toward smaller revenue-sized technology organizations than it has been in prior years.

Breakdown by Industry



Executive Summary

This section summarizes the overall results of our 2014 Hot Topics in Executive Compensation survey.

Our Overall View

Our key takeaway from these survey results, combined with our consulting experience, is that pay-for-performance alignment is “top of mind” for all executive compensation constituents. The conversation with compensation committees and executives has shifted from solely “target” pay competitiveness to include incentive plan metric selection and goal setting.

Shareholder advisory firms have developed pay-for-performance analytics and incorporated them into their annual Say-on-Pay recommendations. In reaction, U.S. companies initially attempted to ‘prove’ their pay-for-performance alignment. Our observation is that over time, U.S. companies are becoming more proactive in their approach to driving pay-for-performance alignment.

Survey Findings

The main priority for companies and executives for 2014 center on the alignment of pay and performance. Companies and executives both list their top priority as pay competitiveness.

- Executives want total compensation opportunities that are consistent with market practice.
- Companies are concerned with (and Boards are demanding) alignment of total compensation and company performance through careful incentive design.

Governance priorities are fairly evenly split between two key drivers of the Say-on-Pay issue:

- Developing appropriate peer groups; and
- CD&A disclosure.

Companies continue to review/modify incentive programs to ensure that the right combination of performance measures and equity vehicles provide an adequate means to evaluate performance and deliver competitive and justified pay opportunities.

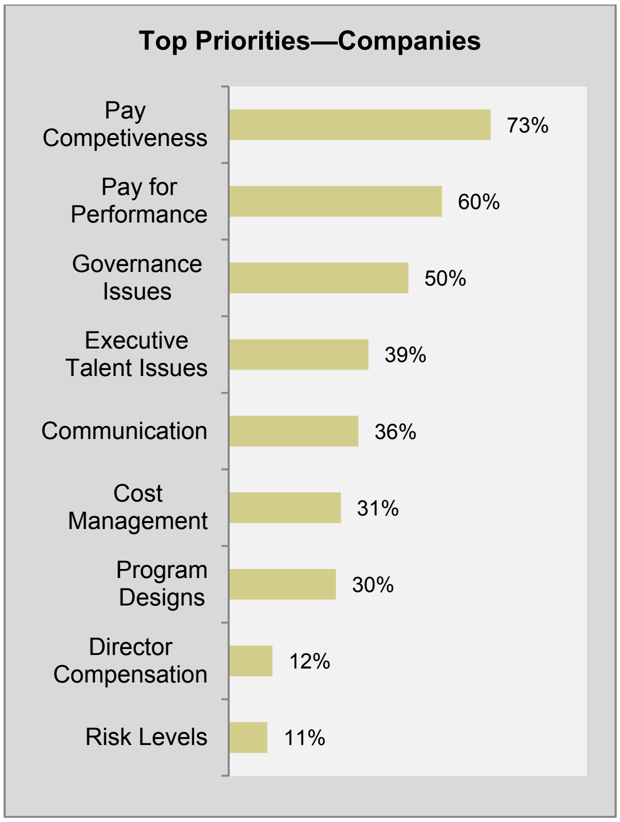
Additional survey insights include:

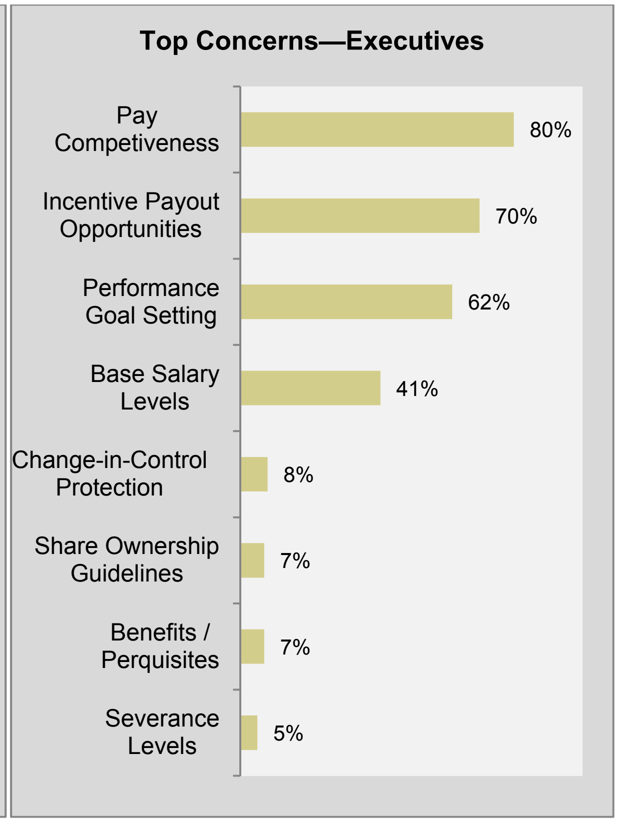
- Long-term incentive values were expected to be similar to prior year levels.
- Overall, vehicle usage is consistent with the past few years, with performance-based programs being the most prevalent among CEOs and direct reports and restricted stock being more common as reporting level decreases.
- Payouts from performance-based vehicles were expected to be at or above target.
- Short-term incentive values vary among organizations; however, most expected payouts to be at or above target.
- Merit increase budgets remain at a steady state of 3% per year. Most feel their process is working effectively.
- Reviewing “earned pay” levels is still a minority practice; however, we expect more organizations to utilize these concepts in the future.

Survey Results

2014 Priorities and Concerns

Companies continue to balance business strategy, compensation best practices, and the views of shareholder advisory firms. The following charts summarize top priorities for companies vs. the top concerns of executives.





Top Priorities—Companies	Top Concerns—Executives
Governance Issues: Companies are fairly evenly split between shareholder/say-on-pay issues, developing an appropriate peer group, the impact of new shareholder advisory firm policies, and CD&A disclosure. **Executive Talent Issues:** In addition to attract/motivate/retain issues, companies are most concerned with succession planning. **Risk Levels:** Financial services organizations dominated this response. These companies are most concerned about compliance with the Federal Reserve Sound Incentive Guidance.	**Pay Competitiveness:** Executives are concerned with both target and earned pay levels. **Incentive Payout Opportunities:** Executives are primarily concerned with long-term incentive opportunities. **Performance Goal Setting:** Consistent with prior years, the methodology for setting short- and long-term goals executives continues to be a concern.

Aon Hewitt Comment: Additional detail regarding 2014 priorities and concerns can be found in the Appendix.

Annual Review of Pay Levels/Programs

Annual competitive reviews of total direct compensations levels (base salary, annual bonus, and long-term incentives) are the market norm at 94% prevalence. Survey results for 2013 and 2014 are consistent.

Benchmarked over last 12 months	2014	2013
Direct Compensation Levels	94%	98%
Long-Term Incentive Program Design	69%	70%
Short-Term Incentive Program Design	59%	62%
Outside Director Compensation	41%	41%
Executive Benefit & Perquisite Program Designs	50%	40%
Change-In-Control/Severance	36%	39%
Executive Benefit & Perquisite Levels	31%	36%
Share Ownership Guidelines	34%	33%
Other Governance Programs	14%	15%

Aon Hewitt Comment: Totals exceed 100% due to multiple responses.

Say-on-Pay

- Applicable to only public company respondents.
- Thirty-five percent (35%) indicate that they have had active dialogues with large institutional shareholders since their prior year Say-on-Pay vote, with the majority (84%) considering those discussions to have been successful.
- Approximately 14% noted that they have made modifications to their programs and policies to address shareholder concerns, including:
  - Adjustments to cash/equity compensation mix and pay positioning philosophy.
  - Introduction/refinement of governance policies such as ownership guidelines.
  - Modification of incentive program design elements (e.g., different performance measures for short- and long-term plans, adjusting plan leverage).

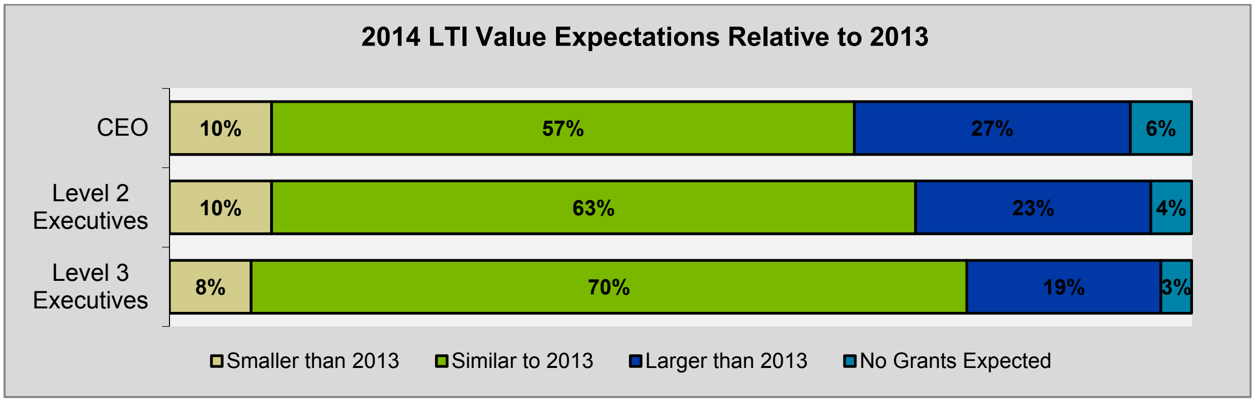
CEO Pay Ratio

While activist groups believe the disclosure will increase the transparency of executive compensation, many public companies are voicing concerns over how the calculation will be performed and the difficulty in doing so. As expected, most survey participants are waiting for final rulings before addressing this disclosure issue. Approximately 25% of survey participants suggest they have started to address the issue in one or more ways, as follows:

- Outlining an approach to collect data (87%);
- Identifying data challenges based on internal systems (76%);
- Preparing a preliminary estimate of the pay ratio (65%); and
- Identifying statistical sampling methods (24%).

Long-Term Incentives (LTI)

Long-term incentive values for 2014 were expected to be similar to or slightly higher than 2013.



Long-Term Incentives—2014 Areas of Concern

Seventy percent (70%) of respondents indicate their long-term incentive programs are working well, but 30% report that aspects of their programs should be reviewed as follows:

Program features to review	2014	2013
Vehicle Use (Number and type used)	54%	65%
Targeted Payout Opportunities	41%	47%
Performance Evaluation Factors (Number of measures, comparator groups, and absolute vs. relative performance evaluation)	41%	41%
Performance Leverage Factors (Minimum/Maximum payout opportunities and performance levels)	36%	54%
Eligibility Levels	34%	37%
Other: Program Design Elements (Vesting and Termination Provisions)	16%	27%

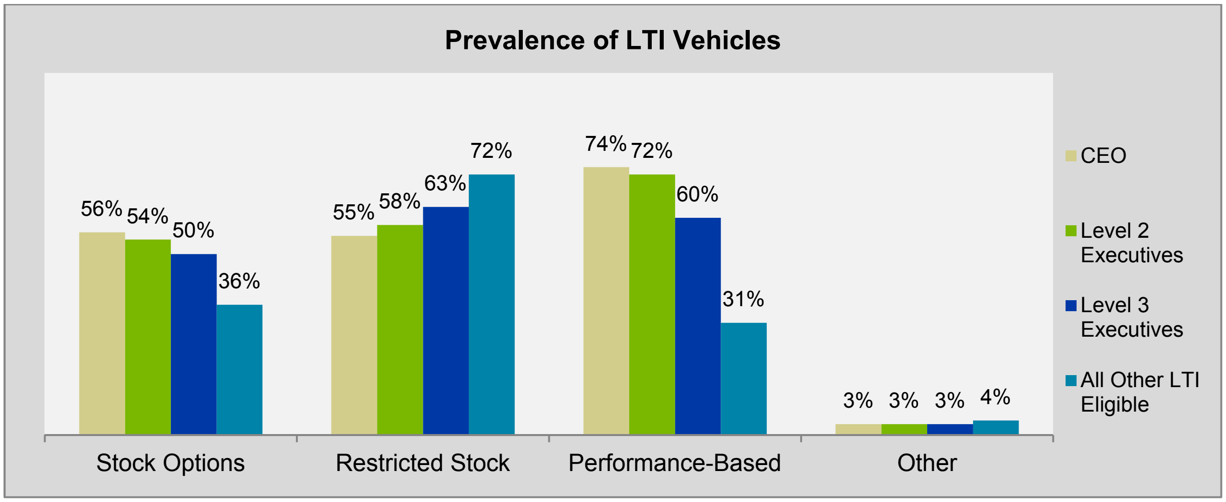
Aon Hewitt Comments:

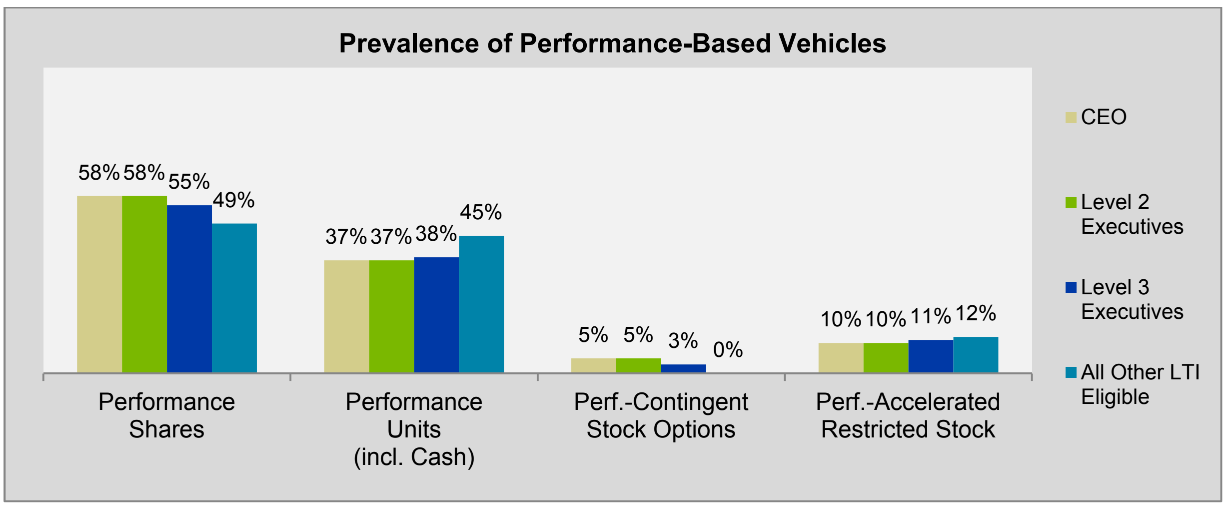
- Represents responses from participants indicating that aspects of their current plan design should be reviewed.
- Totals exceed 100% due to multiple responses.
- Additional detail regarding the areas of concern for long-term incentives can be found in the Appendix.

Long-Term Incentives—Program Utilization

The use of stock option and performance-based vehicles decreases in prevalence and the use of restricted stock become more common as reporting level decreases.

- Performance-based vehicles include both cash and stock programs, with performance shares being the most prevalent.



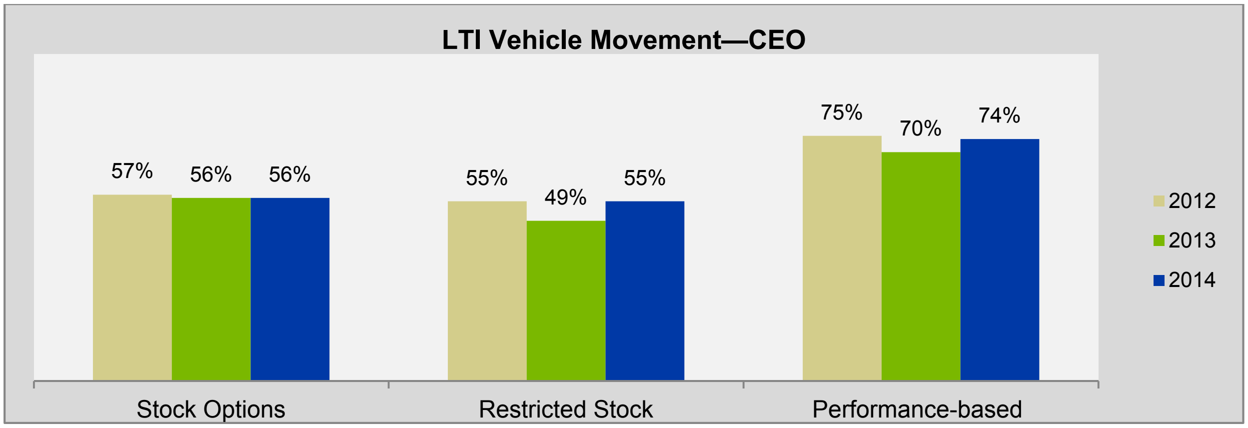


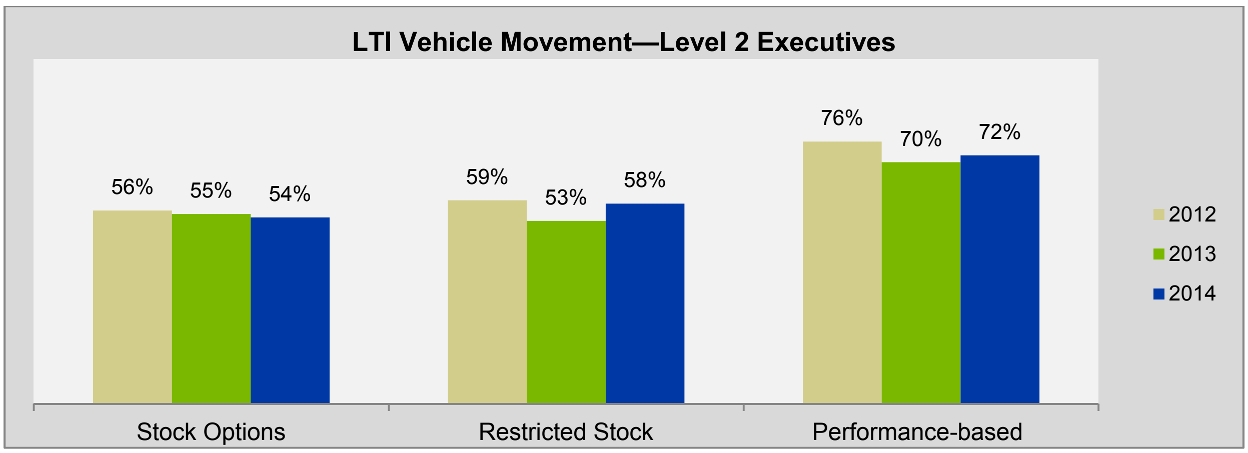
Definitions

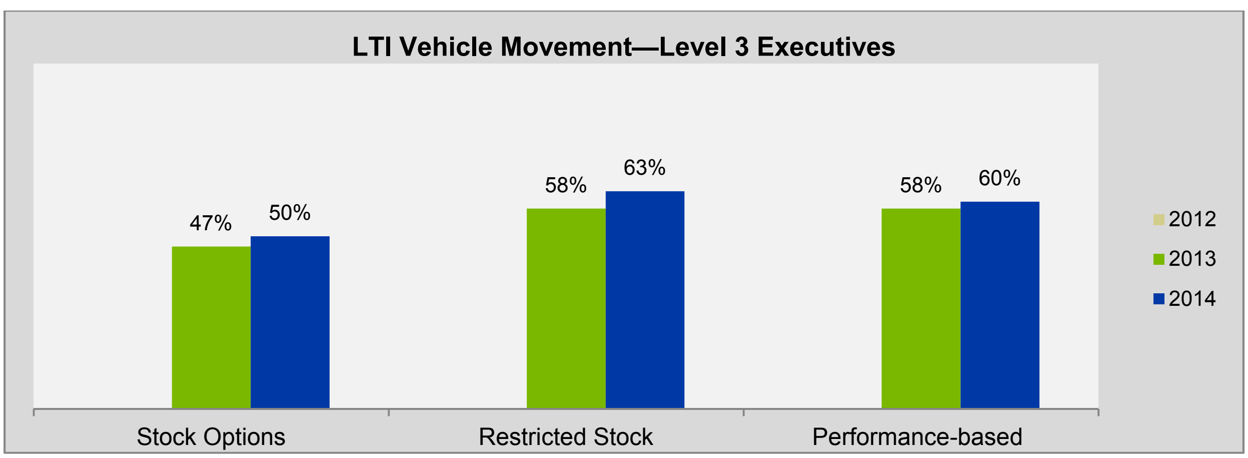
- **Performance Plans:** Shares or cash earned based on performance over a specified time frame relative to pre-established performance goals.
- **Performance-Contingent Stock Options:** Vesting occurs if performance conditions are met.
- **Performance-Accelerated Restricted Stock:** Vesting is accelerated based on performance. Fixed vesting occurs if performance conditions are not met.

Long-Term Incentives—Movement in Vehicle Types (2012–2014)

Overall, program utilization has been fairly consistent over the past three years.



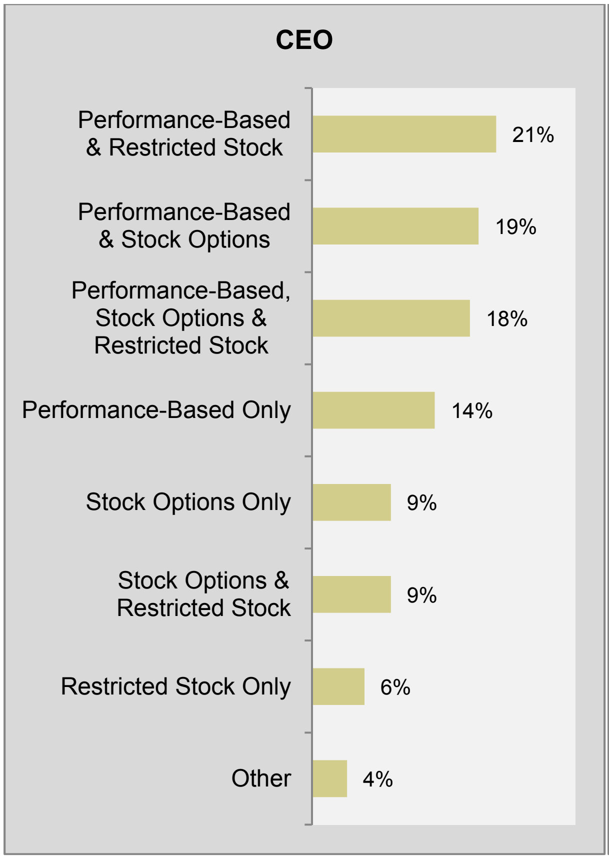


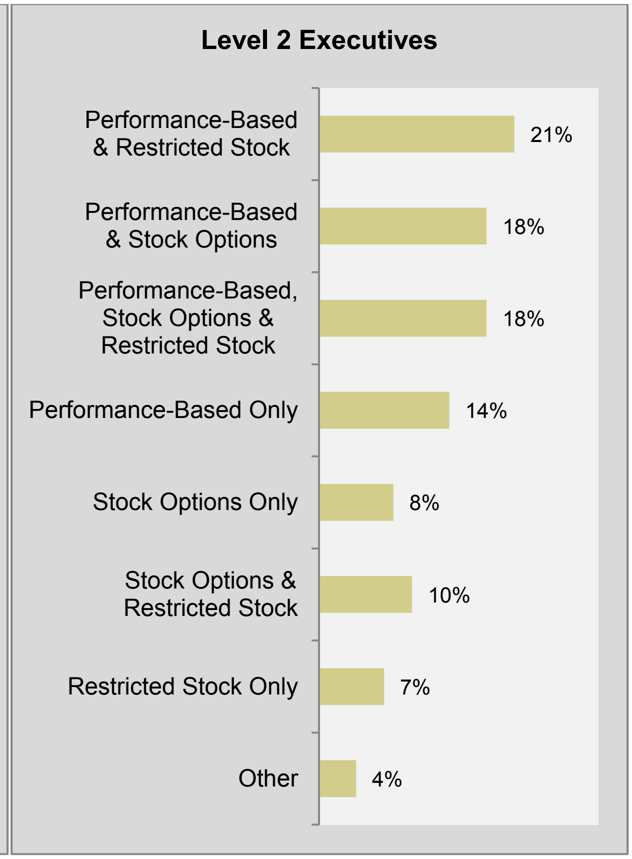


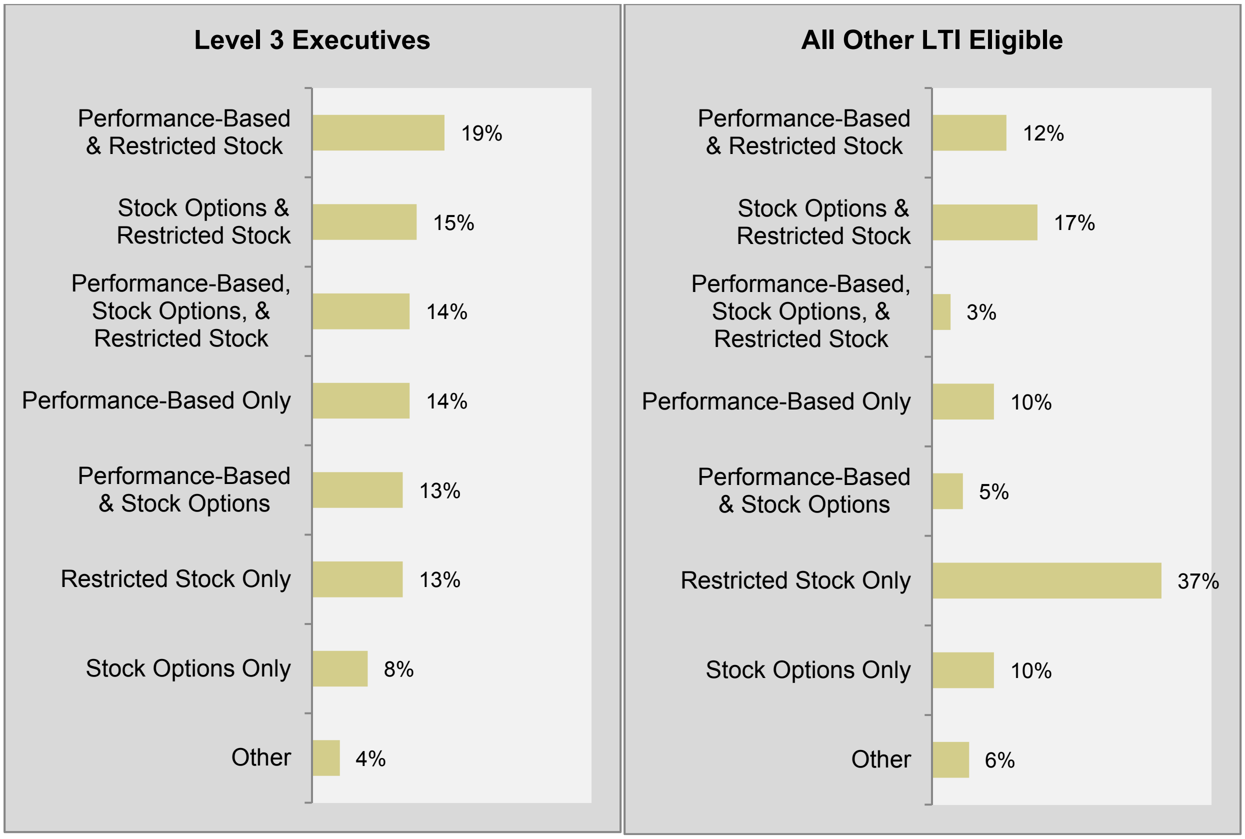
Aon Hewitt Comment: Level 3 Executive data was not collected in 2012.

Long-Term Incentives—Number/Combination of Vehicles

Most companies use a performance-based vehicle in combination with stock options and/or restricted stock. Program utilization is typically consistent for the CEO and Level 2 executives. Program delivery begins to vary with Level 3 executives (e.g., increased prevalence of restricted stock).

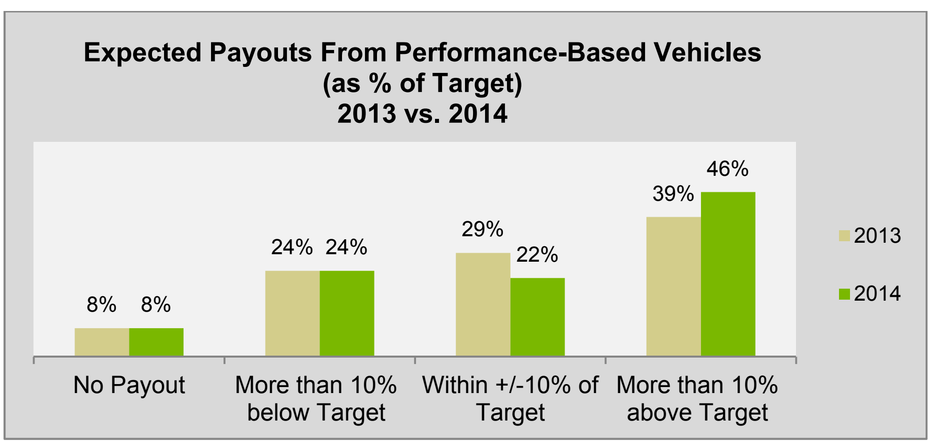






Long-Term Incentives—Performance-Based Vehicle Payouts

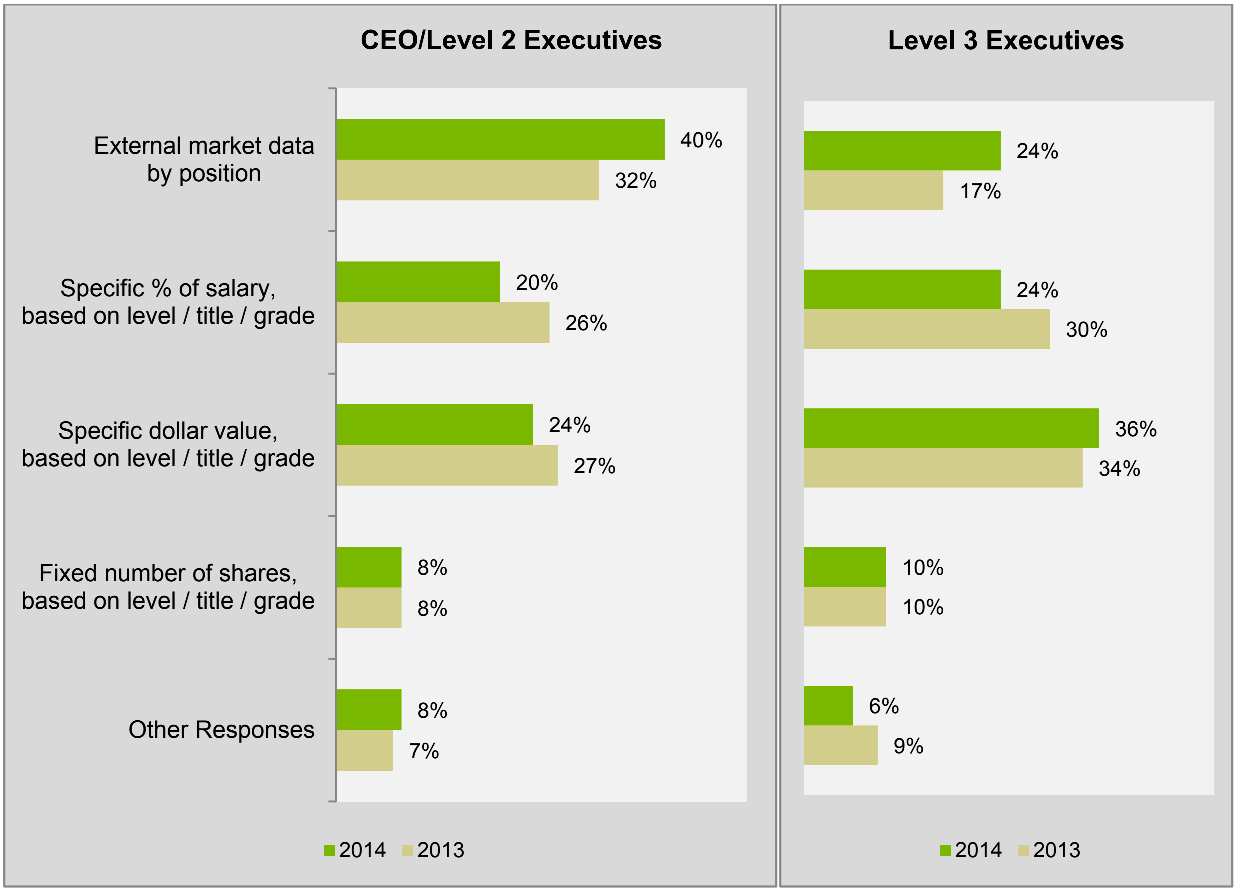
Consistent with 2012 and 2013 survey results, over half of companies expected 2014 performance-based plan payouts to be above target.



Aon Hewitt Comment: Results are based on participants with stated performance-based vehicle targets and a recently concluded measurement cycle. Survey results are similar across all executive groups.

Long-Term Incentives—Ongoing Equity Grant Determination

Award opportunities are most commonly determined for the CEO and Level 2 executives by external market data collected for each of their specific positions. The prevalence of approaches taken by survey respondents are provided below.



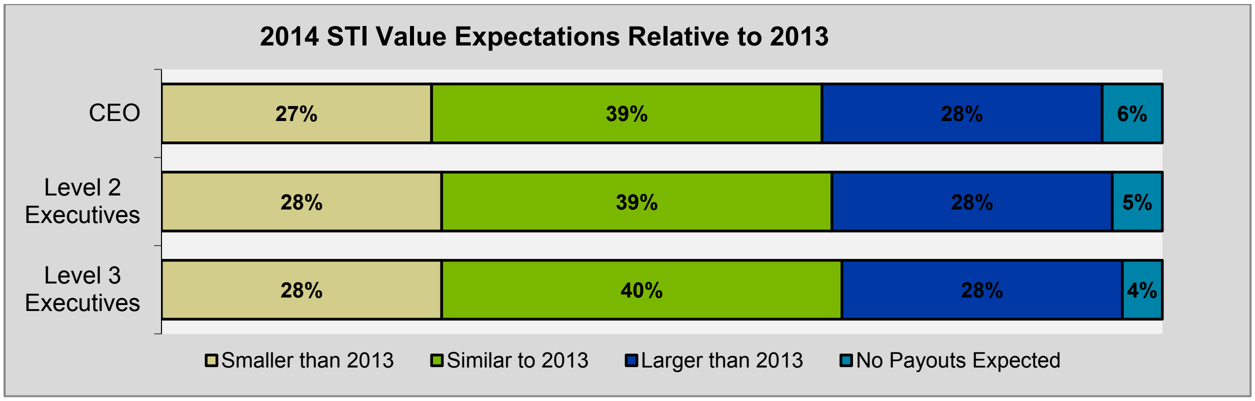
Aon Hewitt Comment: Other responses include a combination of the above approaches, Board and/or Management discretion, and share utilization (e.g., run rate).

The majority of companies indicating the use of a fixed number of shares report that they review their grant levels vs. market annually.

- Twenty-two percent (22%) have not reviewed or updated share levels in at least two years.
- Thirty-seven percent (37%) review share levels annually, but has not updated them in the last two years.
- Forty-one percent (41%) review and update share levels annually.

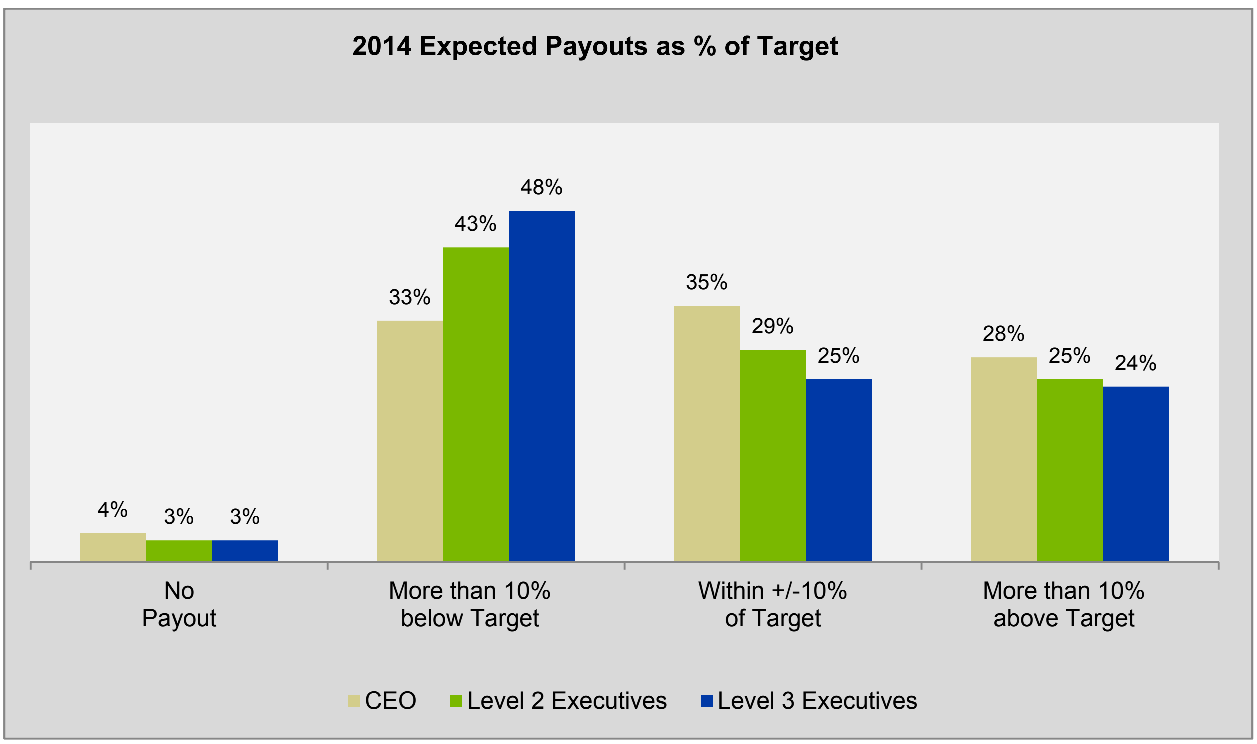
Short-Term Incentives (STI/Annual Bonus)

The expectation for 2014 short-term incentive payouts was varied among surveyed organizations; however, there is consistency across executive groups.



Short-Term Incentives—2014 Expected Payouts for 2013 Performance

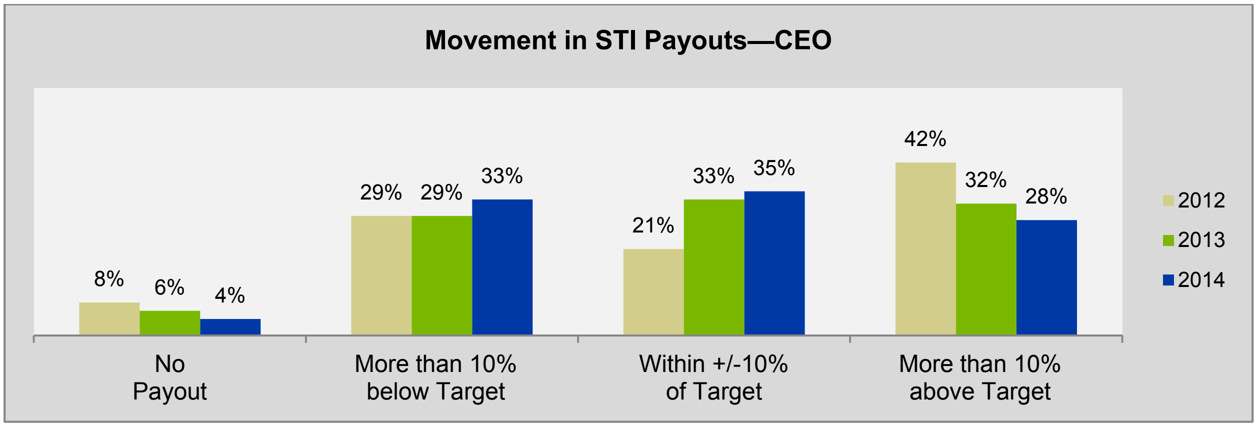
Companies reported a wide range of payout expectations. Depending on organizational level, approximately one-fourth to one-third of companies expects payouts within +/-10% of target. The majority of the remaining companies expect payouts either above or below target by more than 10%.

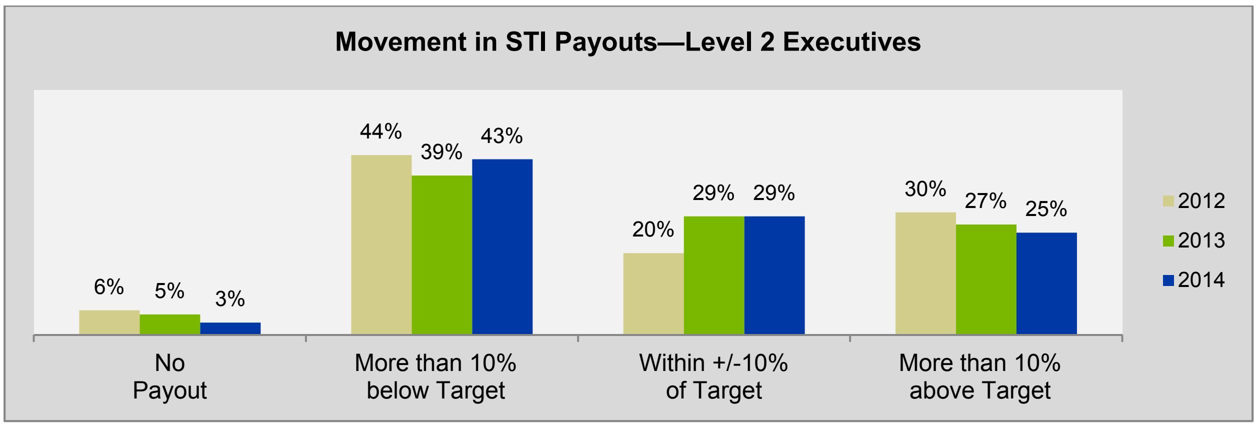


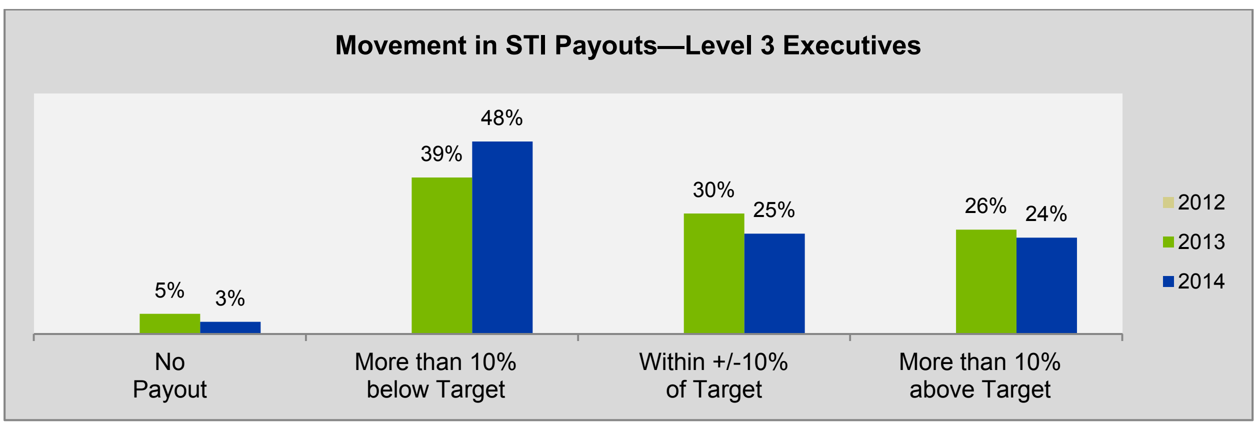
Aon Hewitt Comment: Results are based on survey participants with stated short-term incentive targets.

Short-Term Incentives—Movement in Payouts (2012–2014)

For the CEO and Level 2 Executives, 2014 payout expectations were similar to 2013. For Level 3 Executives, almost half of companies expect payouts more than 10% below target.







Aon Hewitt Comment: Level 3 Executive data was not collected in 2012.

Short-Term Incentives—2014 Areas of Concern

Sixty-two percent (62%) of respondents indicate their short-term incentive programs are working well, but 38% report that aspects of their programs should be reviewed as follows:

Program features to review	2014	2013
Performance Evaluation Factors (Number and type of measures used)	69%	74%
Performance Leverage Factors (Minimum/maximum payout opportunities and performance levels)	49%	36%
Targeted Payout Opportunities	35%	50%
Eligibility Levels	20%	22%
Emphasis on Risk Measures	9%	10%

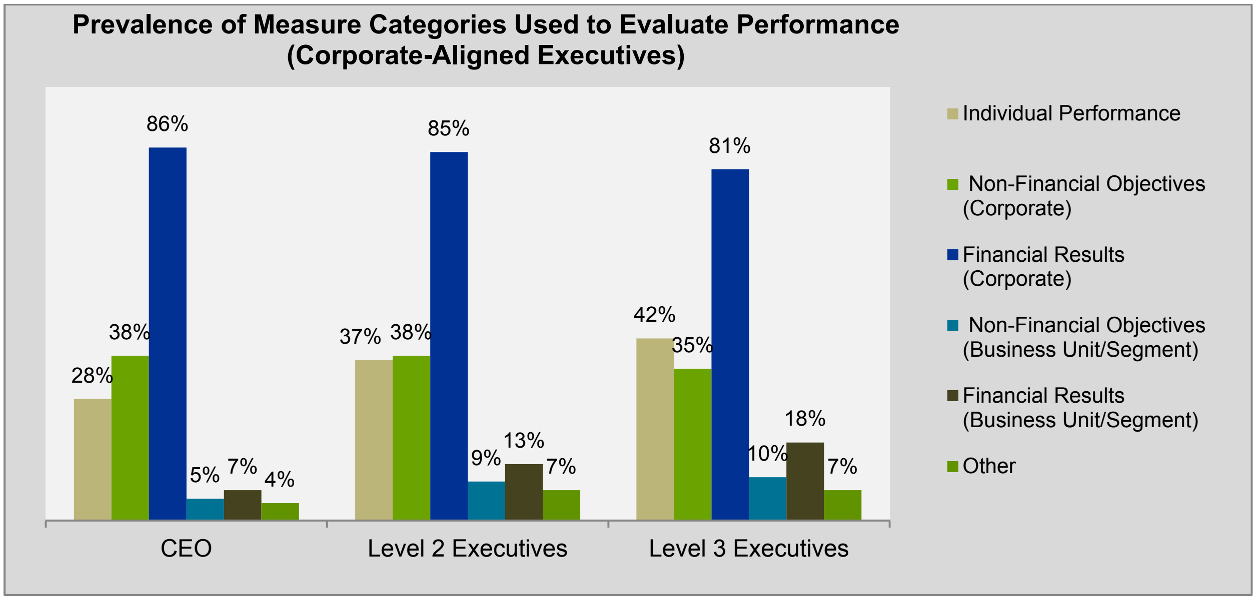
Aon Hewitt Comments:

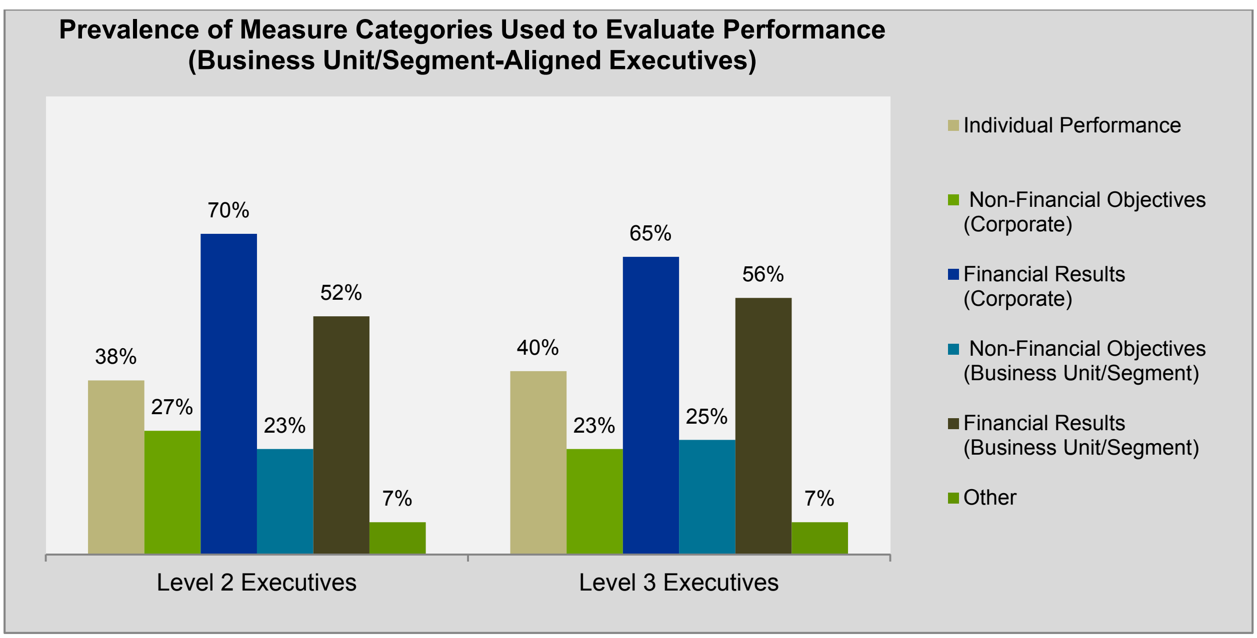
- Represents responses from participants indicating that aspects of their current plan design should be reviewed.
- Totals exceed 100% due to multiple responses.
- Additional detail regarding the areas of concern for short-term incentives can be found in the Appendix.

Short-Term Incentives—Performance Evaluation Categories

The use of corporate financial results is the most common category used to evaluate annual performance.

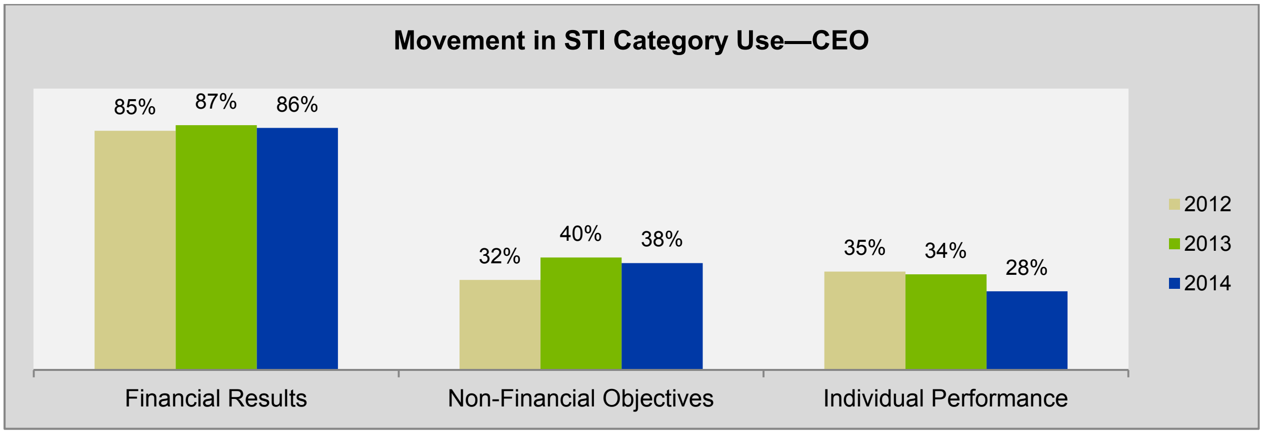
- Among corporate-aligned executives, most use corporate financial results coupled with either individual performance goals or other non-financial objectives.
- Among business unit/segment-aligned executives, the use of corporate and their unit's financial results are the common categories used.

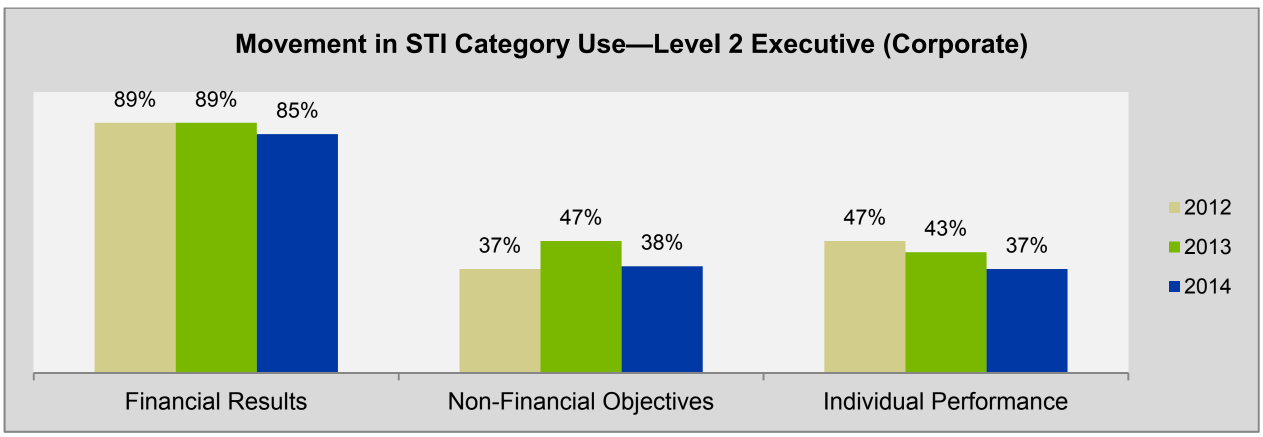


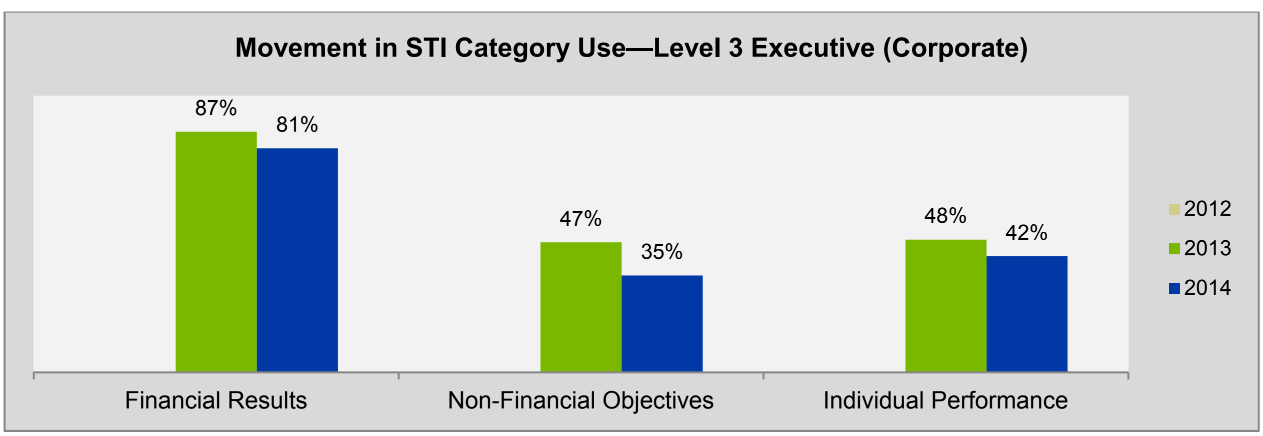


Short-Term Incentives—Movement in Performance Evaluation Category Use (2012–2014)

Overall, the use of performance categories has been consistent over the past three years.



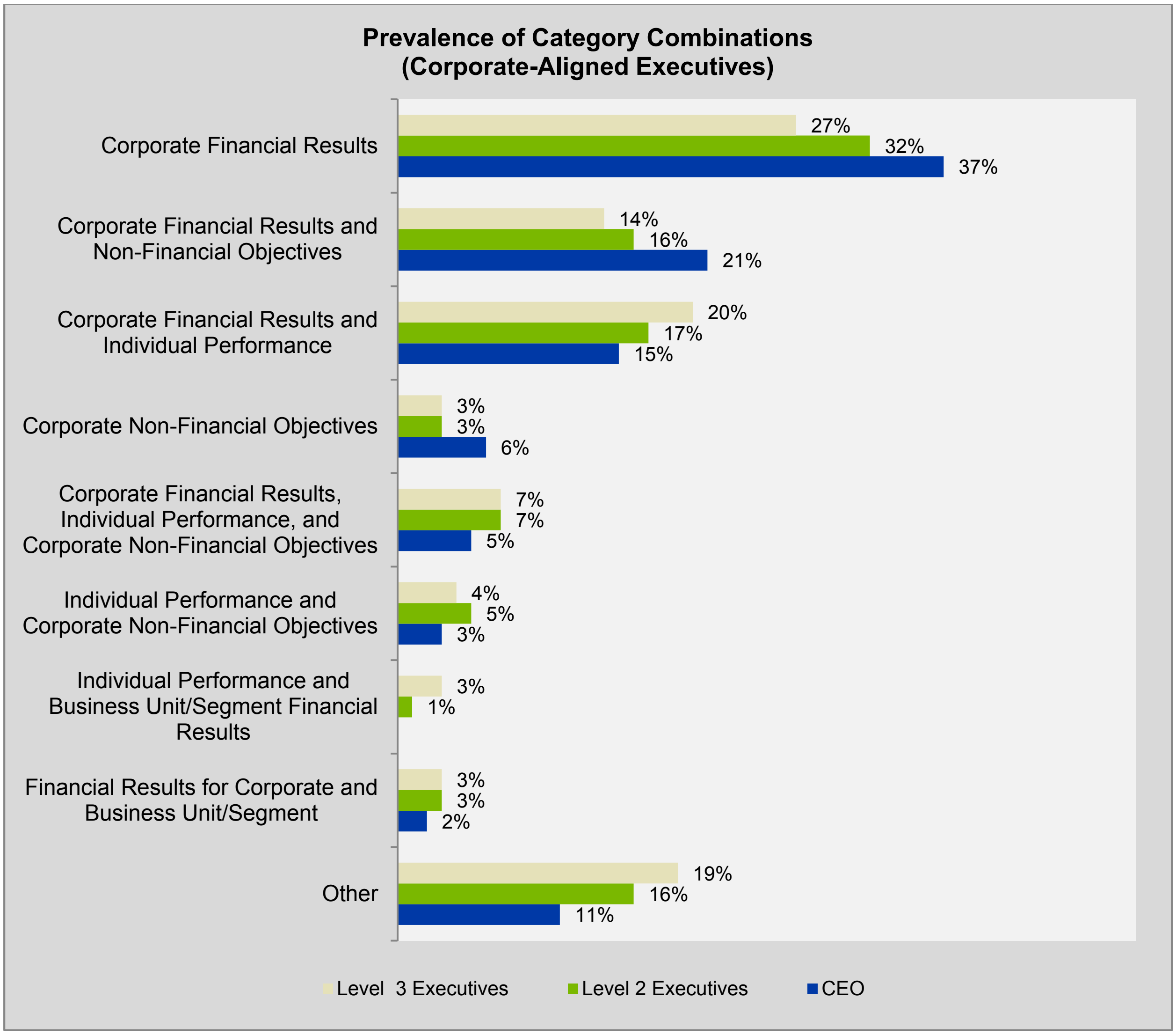




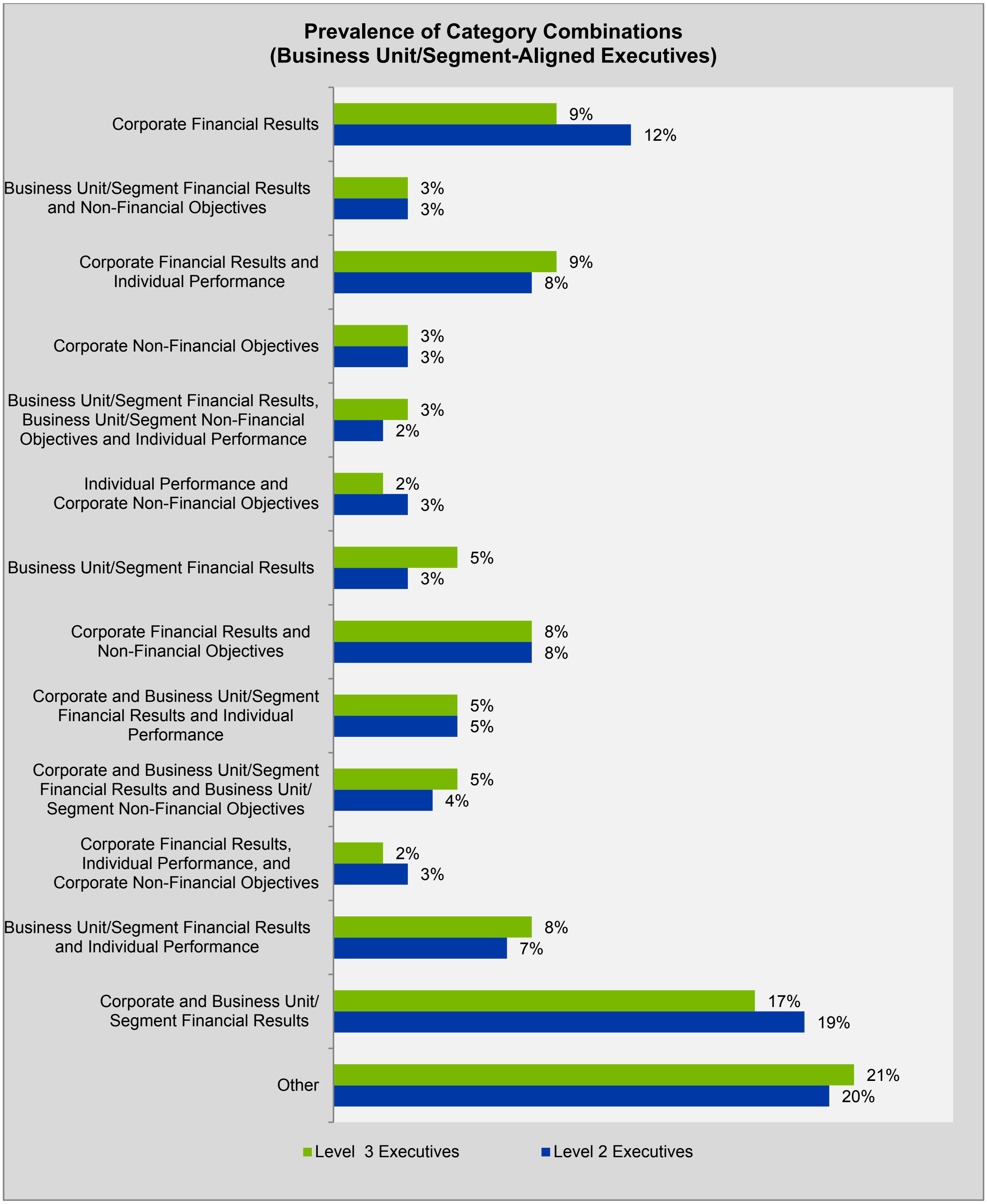
Aon Hewitt Comment: Level 3 Executive data was not collected in 2012.

Short-Term Incentives—Number/Combination of Categories

For corporate-aligned executives, corporate financial results in combination with either the achievement of non-financial objectives or individual performance are common. For business unit/segment-aligned executives, there are numerous combinations of corporate/business unit financial results, non-financial objectives, and individual performance.



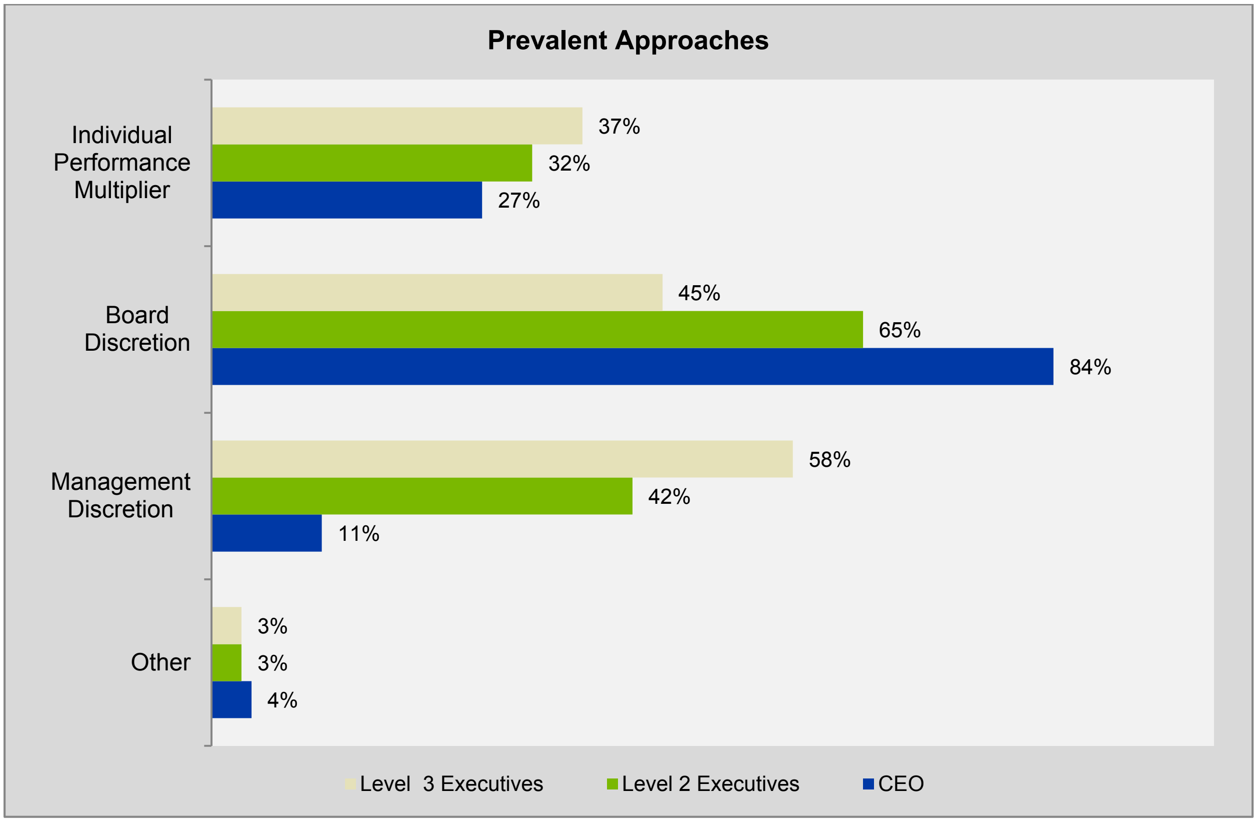
Aon Hewitt Comment: The "Other" category contains various combinations of the above categories along with financial results and non-financial objectives at the business unit/segment level. No combination is greater than 3% of the total sample.



Aon Hewitt Comment: The “Other” category contains various combinations of the above categories. No combination is greater than 3% of the total sample.

Short-Term Incentives—Payout Adjustments

Eighty-five percent (85%) of survey respondents indicated that calculated short-term incentive payouts are eligible for adjustment by approaches such as individual performance multipliers and/or discretion.



Aon Hewitt Comments:

- Totals exceed 100% due to multiple responses.
- The "Other" category contains responses pertaining to the use of multipliers not based on individual performance.

Earned Pay

To help Boards, management, and investors better understand the relationship of executive compensation and company performance, some companies (26% of publicly-held participants) have explored alternative pay definitions to the Summary Compensation Table and/or target compensation values. The intent of using an alternative pay definition is to enhance clarity with regard to pay and performance alignment.

Primary reasons for using an alternative pay definition	Prevalence
To educate Management and/or the Compensation Committee	47%
To illustrate difference/relationship between target pay and earned pay	45%
To test pay and performance alignment (typically Board/Committee request)	34%
To demonstrate that although target pay is positioned at median vs. peers/industry, earned pay was higher/lower than median due to performance	30%
Realizable/earned pay was below Summary Compensation Table and better aligned with performance	15%
To identify if incentive plan goals have been set too high or too low	9%
Other: Non-specified	4%

Aon Hewitt Comment: Totals exceed 100% due to multiple responses.

Program design changes as result of alternative pay definition	Prevalence
Long-Term Incentive Plan Measures	47%
Equity/Long-Term Compensation Mix (Options/Sars vs. RSA/RSU vs. Performance Shares/Units)	41%
Direct Compensation Mix (Base Salary vs. Annual Incentive Opportunity vs. Long-Term Incentive Opportunity)	35%
Annual Incentive Measures	35%
Mix Of Cash Versus Stock	18%
Annual Incentive Pay Curves (Relationship of Performance Achieved to % of Target Earned)	18%

Aon Hewitt Comment: Totals exceed 100% due to multiple responses.

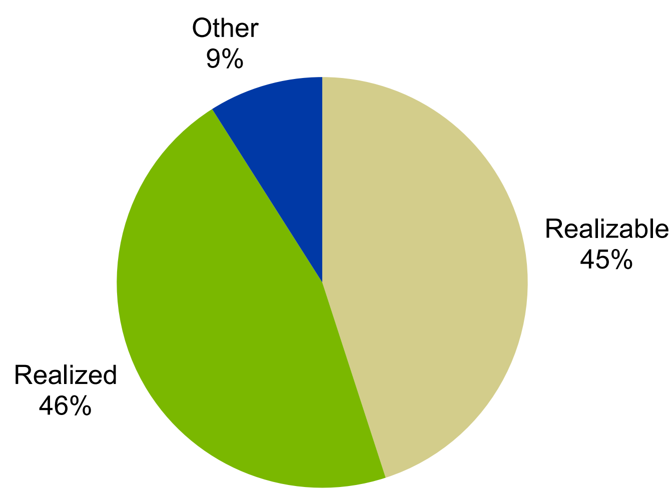
There is not a standard definition of “earned” pay. However, the most common definitions are referred to as “realizable” or “realized” compensation.

<table>
<tr><th>Realizable</th><th>Realized</th></tr>
<tr><td colspan="2">Base salary paid</td></tr>
<tr><td colspan="2">Annual incentive/bonus earned (even if paid in following year)</td></tr>
<tr><td>Value of stock options based on share price at end of the measurement period</td><td>Spread value of stock options exercised during the measurement period</td></tr>
<tr><td>Value of RSA/RSUs granted based on share price at end of the measurement period</td><td>Value of vested RSA/RSUs based on share price on vesting date</td></tr>
<tr><td colspan="2">Long-term performance cash earned during the measurement period (even if paid in following year)</td></tr>
<tr><td>Value of performance shares earned based on share price at end of the measurement period</td><td>Value of performance shares vested during the measurement period</td></tr>
<tr><td>May include changes in pension value and/or other compensation from Summary Compensation Table</td><td>May include the value of benefits or perquisites paid during the measurement period</td></tr>
</table>

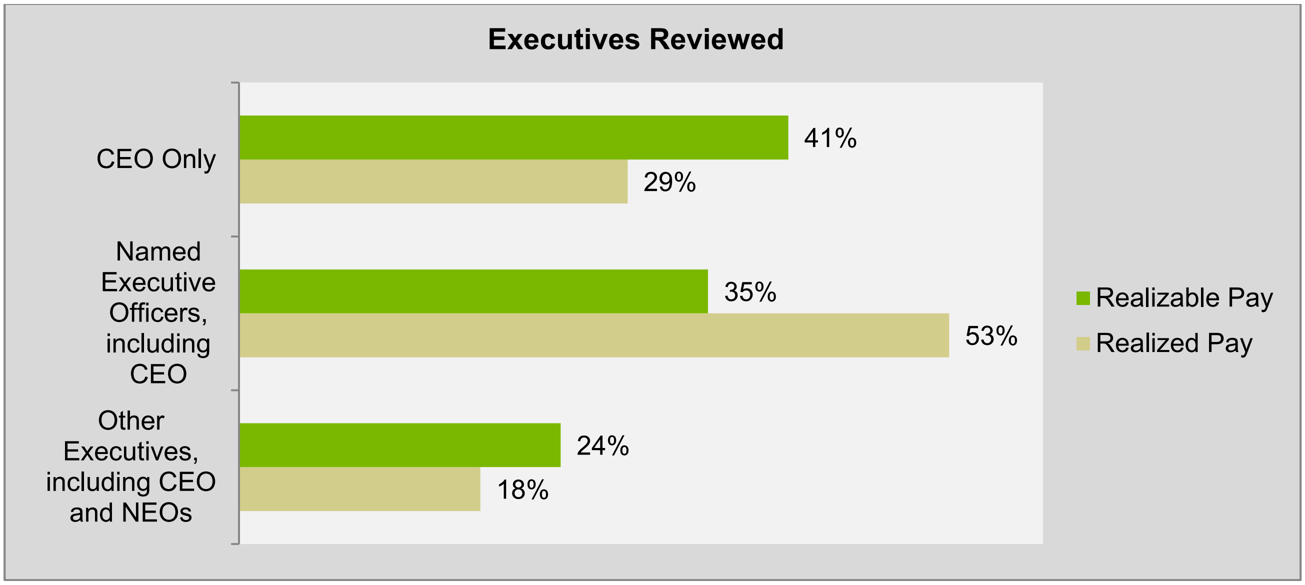
The use of either a “realized” or “realizable” pay definition is evenly used by survey participants.

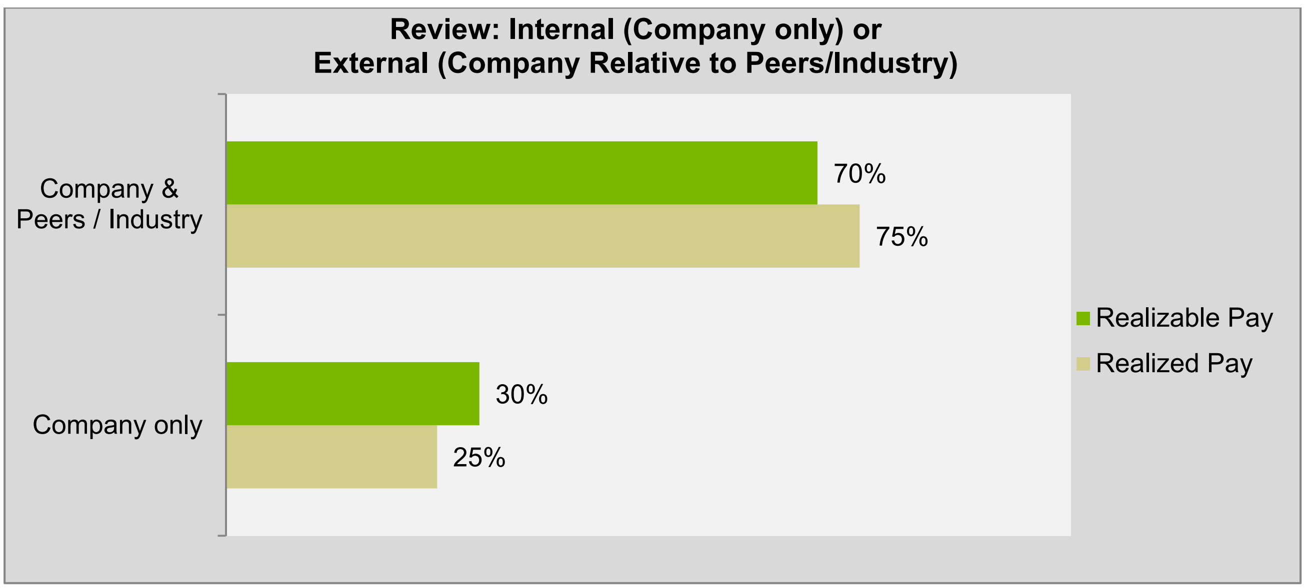
- In addition, 32% of those surveyed use both definitions when reviewing “earned pay”.

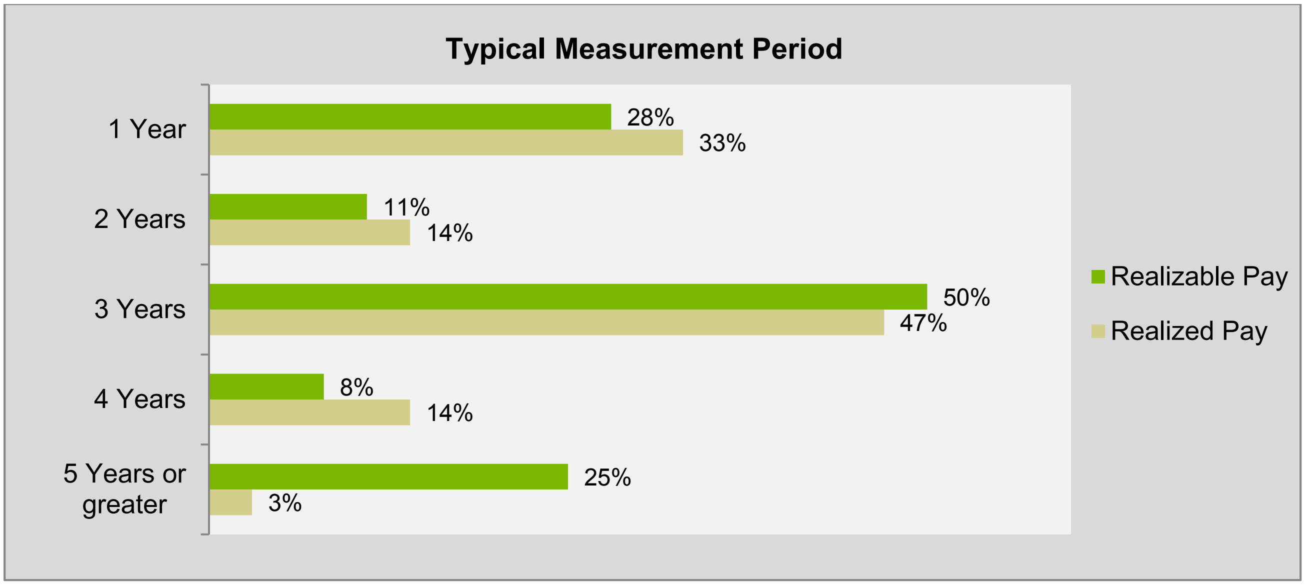
Prevalence of Use—By Definition



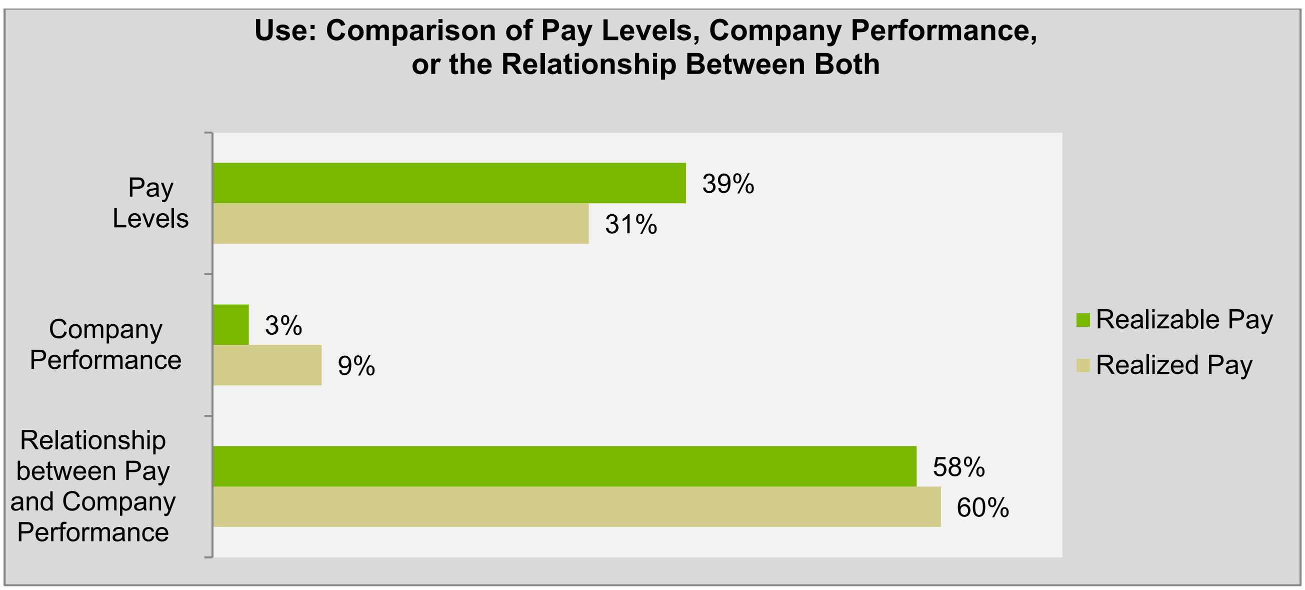
Regardless of how “earned pay” is defined, as seen in the following charts, many demographic and methodology characteristics are similar.

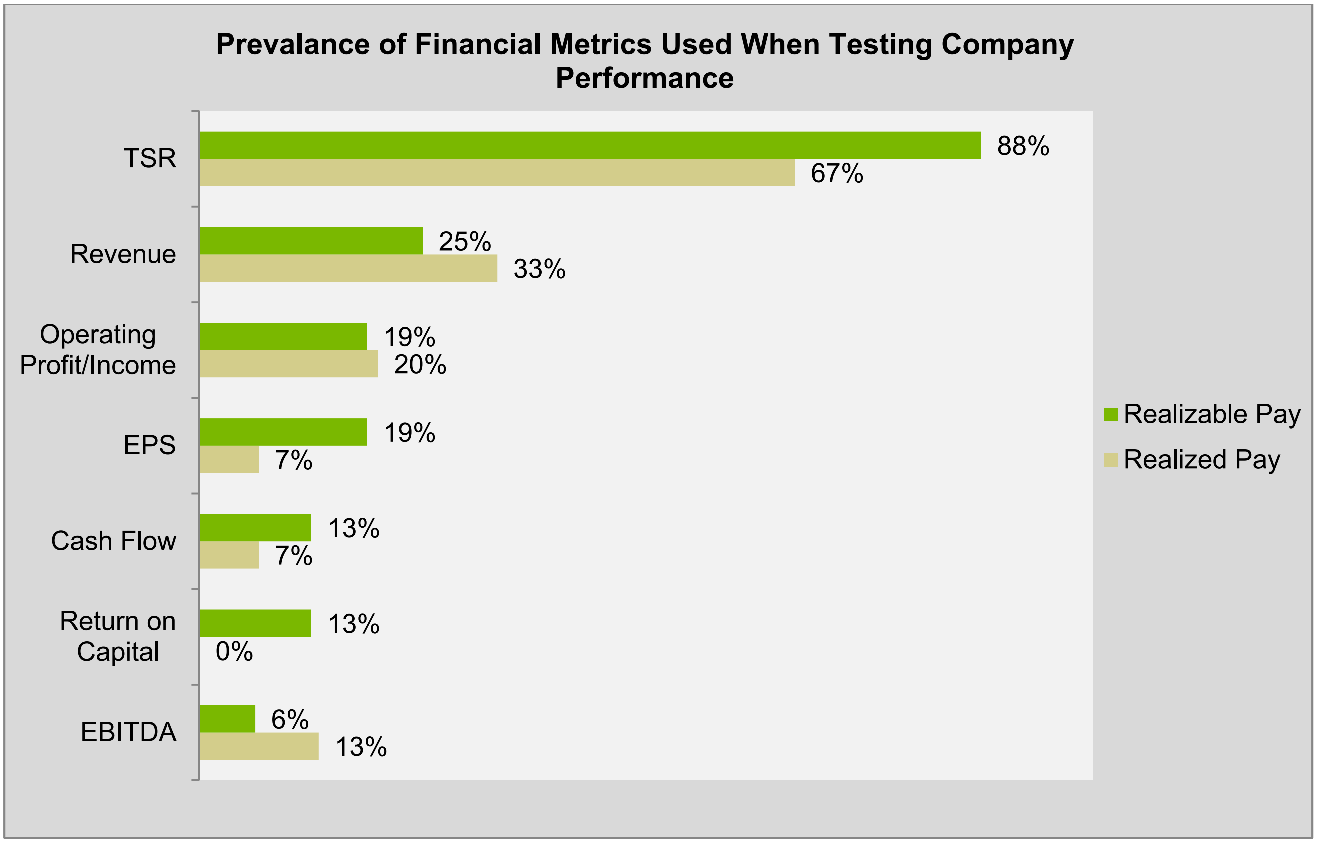






Aon Hewitt Comment: Totals will not equal 100% due to multiple responses.





Aon Hewitt Comment: Totals exceed 100% due to multiple responses.

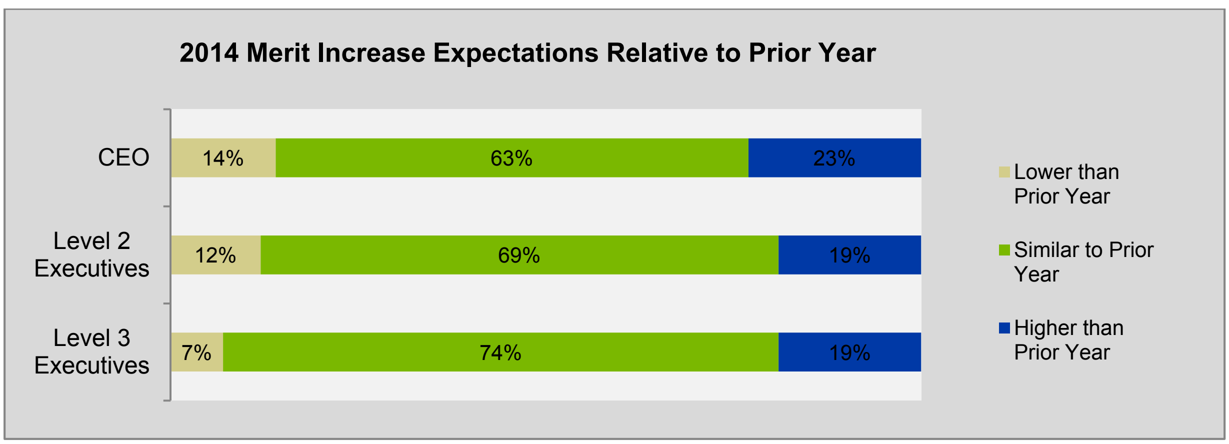
Base Salary—Executive Merit Increases

Most companies (90% of survey respondents) report their executive merit process is working well. However, almost half (42%) of survey participants feel their executives are concerned with their salary level.

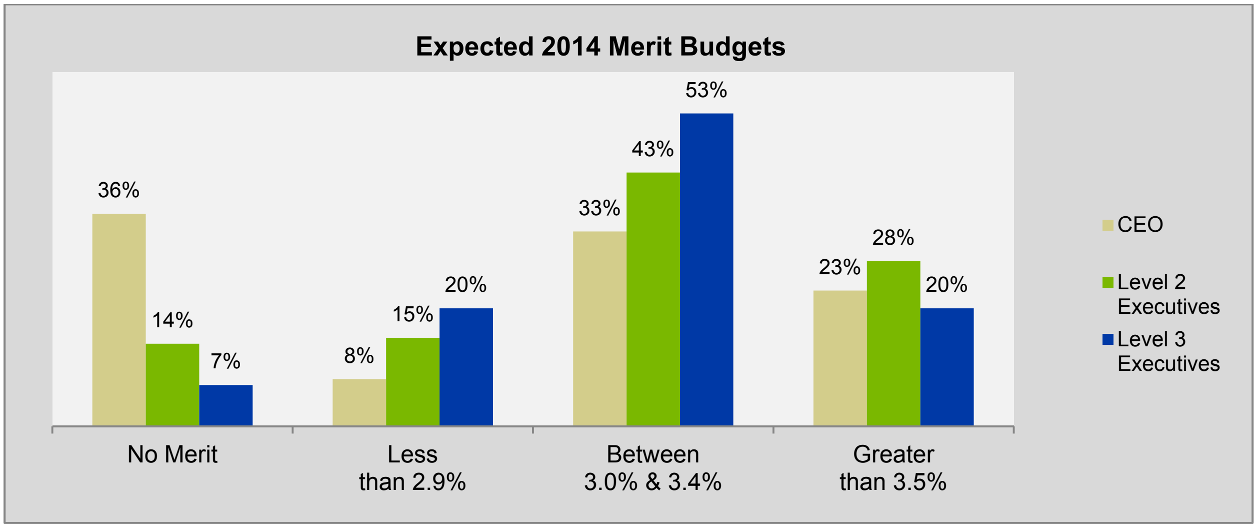
Aspects of the merit increase process that organizations find most challenging	2014	2013
Providing meaningful increases with relatively small merit budgets	74%	74%
Linkage between performance assessments and actual merit increase	48%	77%
Executive perception that merit increases are an entitlement	41%	43%
Pressure to increase pay for executives above the target market position	33%	34%
Pressure to compete with peer companies/industry actions	26%	20%
Balancing small merit increases with large incentive payments	7%	20%

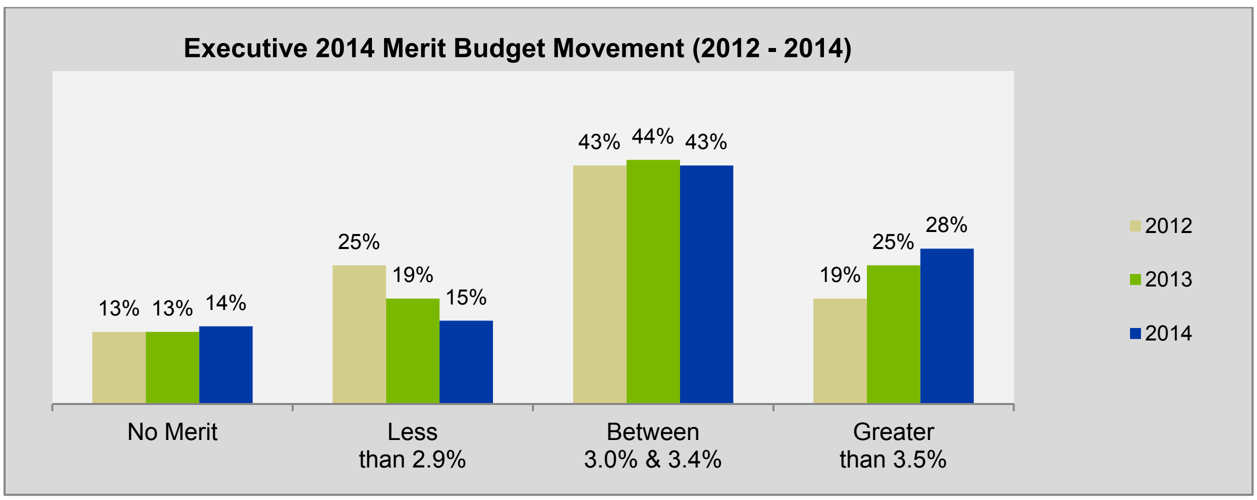
Aon Hewitt Comment: Represents participant responses indicating that merit increase process is not effective. Results exceed 100% due to multiple responses.

2014 executive merit budgets are expected to stay at similar levels as seen in 2013, with a 3% merit pool continuing to be the standard, especially as the reporting level decreases.



Base Salary—Executive Merit Budget Prevalence

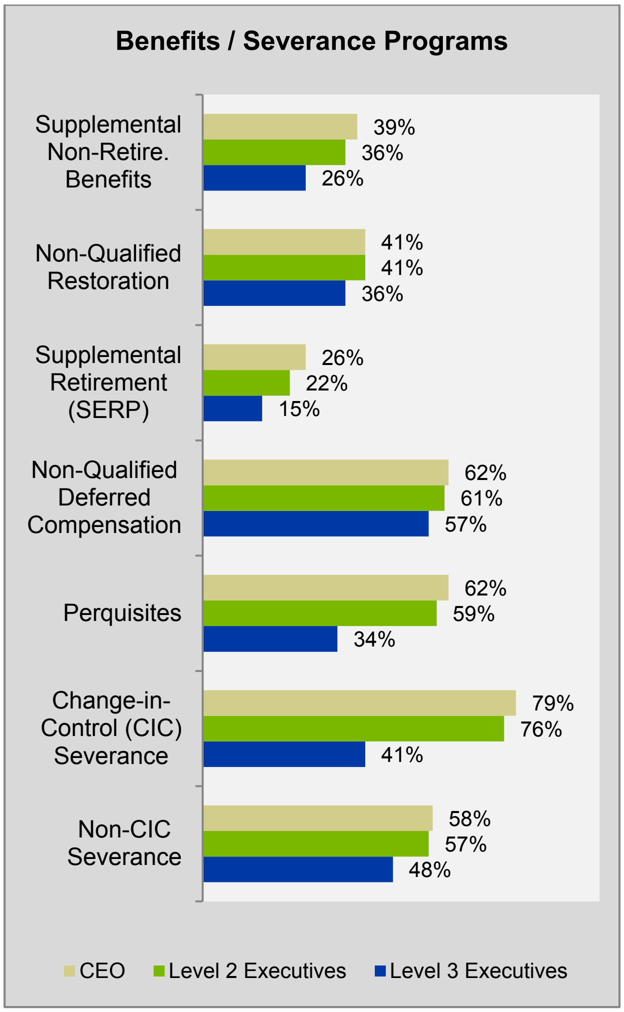


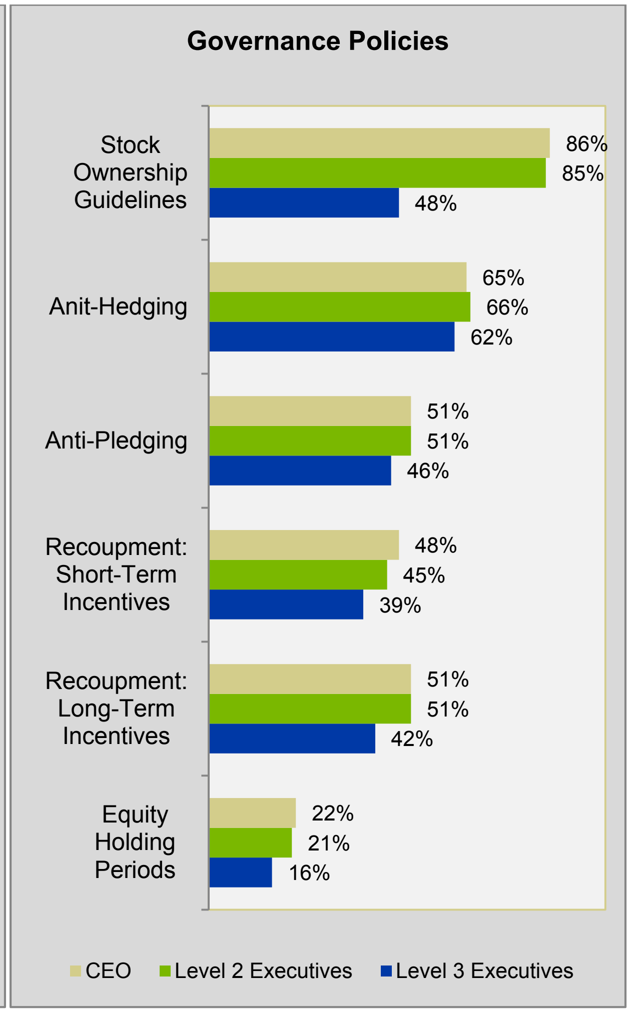


Aon Hewitt Comment: For reporting purposes, the data reported above for 2012–2014 is based on responses for Level 2 Executives.

Governance and Pay Program Prevalence—Publicly-Held Companies

- All executives receive direct compensation in the form of base salary, short-term incentives, and/or long-term incentives.
  - The prevalence of long-term incentives slightly decreases as reporting level decreases—97% for CEOs vs. 92% for Level 3 Executives.
- As expected, supplemental benefit plans and severance protection are most prevalent among CEOs and Level 2 Executives.
- Stock ownership guidelines are the most prevalent overall governance policy.





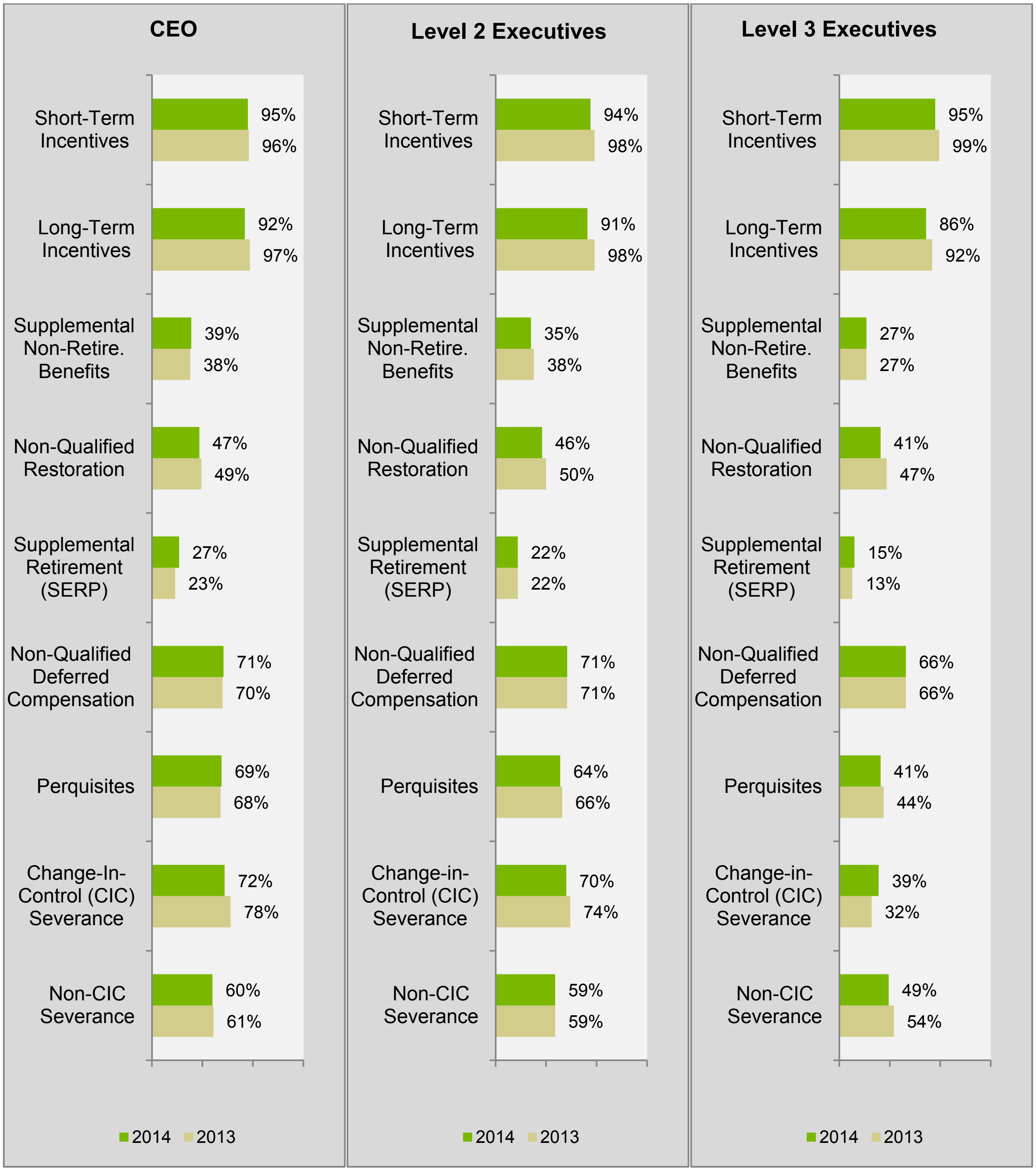
Definitions:

- **Supplemental Non-Retire. Benefits:** Non-retirement benefit arrangements that are in addition to the benefit offerings provided to the overall employee population, such as medical, life, and disability insurance programs.
- **Non-Qualified Restoration:** Programs for retirement plans such as pension and/or defined contribution that restore benefit levels curtailed by IRS imposed limits.
- **Supplemental Retirement (SERP):** Any supplemental retirement benefit that provides an overall higher benefit formula.
- **Perquisites:** Programs such as financial planning, car allowances, etc.

Governance and Pay Program Prevalence—Publicly-Held Companies

2014 vs. 2013—Constant Sample (n=107)

Survey results are consistent between years.



Governance and Pay Program Prevalence—Publicly-Held Companies

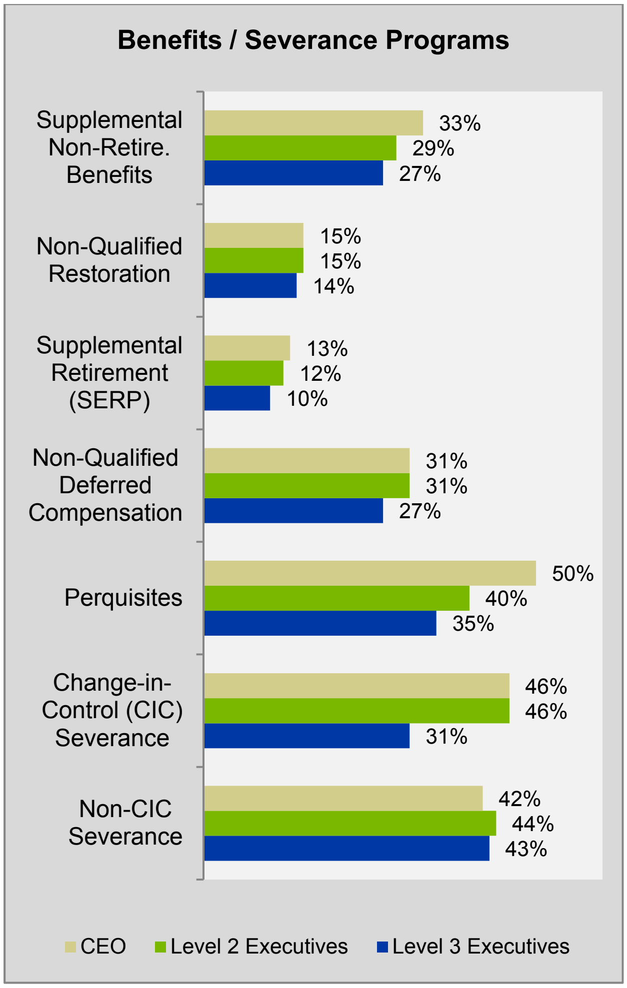
2014 vs. 2013—Constant Sample (n=107)

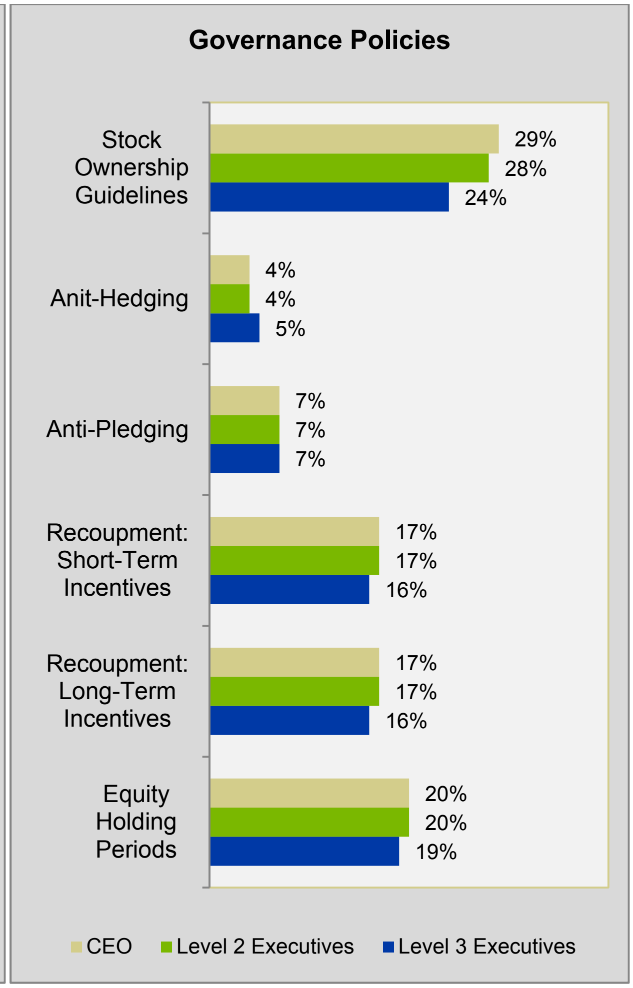
Aon Hewitt Comment: Anti-Pledging prevalence was not collected in 2013.

Governance and Pay Program Prevalence—Privately-Held Companies

Incentive programs and governance policies are less prevalent at private companies than public companies.

- Depending on organizational level, 80% to 90% of respondents have a short-term incentive program, and 65% to 75% have a long-term program.





Appendix

Top 2014 Priorities for Organizations—Detailed Responses

Top Priorities for Organizations	Overall Prevalence
Pay Competiveness	
Competitiveness of the targeted total compensation relative to the external market	73%
Incentive Payout Opportunities	
Alignment of executive compensation with company performance	60%
Governance Issues	
Shareholder/Say-On-Pay concerns	14%
Development of an appropriate peer group(s)	22%
Impact of new policies/regulations (i.e., ISS Pay-for-Performance policies)	23%
Drafting of Proxy/CD&A disclosures	14%
Review or implementation of governance policies ***Note:*** *The most prevalently noted policy was Recoupment (94%), followed by Share Ownership (56%), Hedging (39%), and Pledging (33%).*	6%
Executive Talent Issues	
Retaining current executives	27%
Attracting/recruiting new executives	25%
Executive succession planning	30%
Communication	
Communication of the "value" of compensation programs to executives	36%
Cost Management	
Control of compensation and benefit costs	31%
Program Reviews	
Long-Term Incentives	23%
Short-Term Incentives	20%
Benefits and perquisites	6%
Other Priorities	
Risk levels impacting compensation programs	15%
External competitiveness of outside director compensation	15%
Compliance with the Federal Reserve's Sound Incentive Guidance*	34%
Other (Responses generally involve merger and/or integration issues)	9%

Aon Hewitt Comment: Results based on full survey sample. Totals will not equal 100% due to multiple responses.

*Prevalence reflective of only Financial Services organizations. Prevalence for full survey population is 5%.

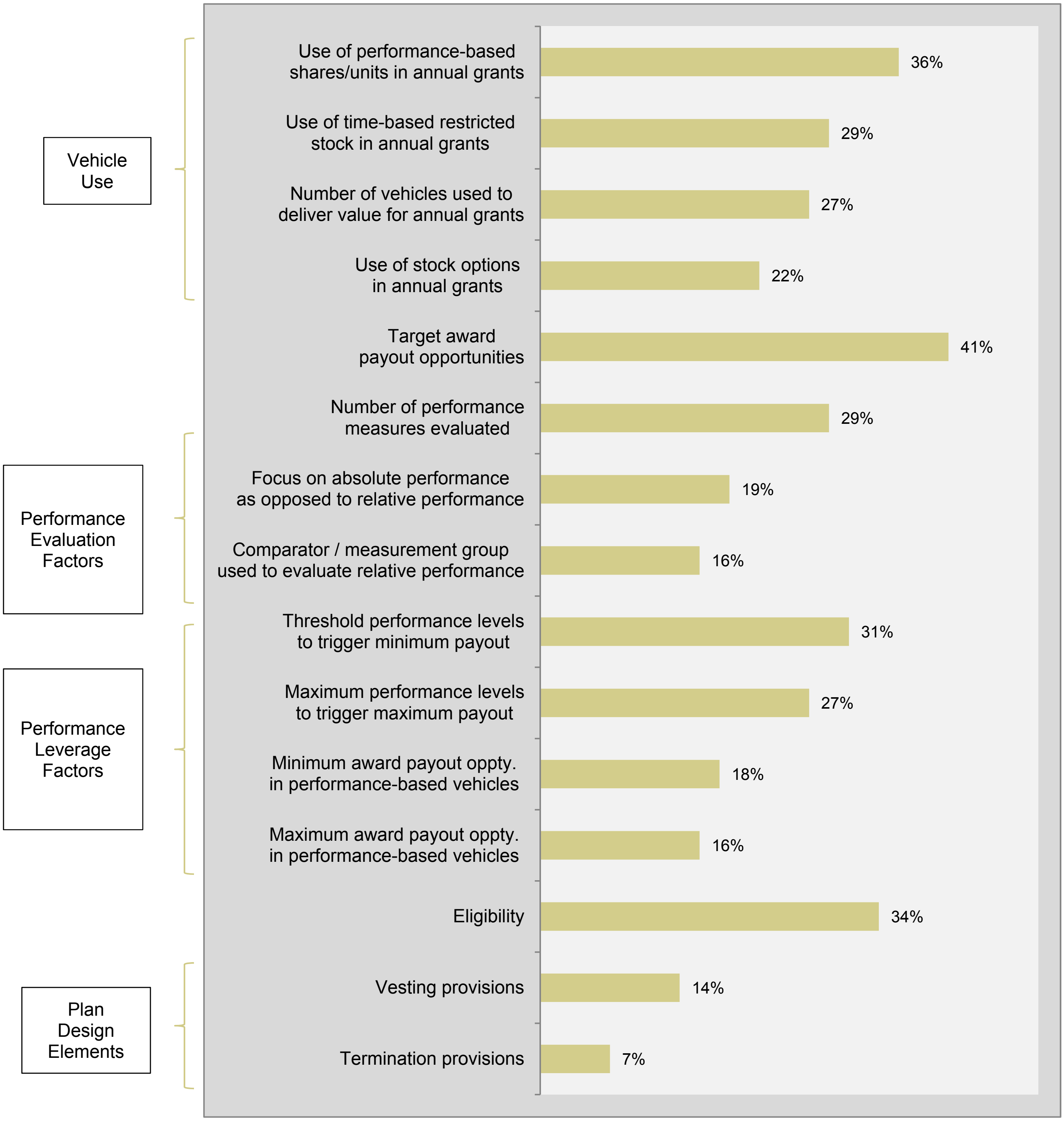
Top 2014 Concerns for Executives—Detailed Responses

Top Concerns for Executives	Overall Prevalence
Pay Competiveness	
Competitiveness of target compensation	66%
Competitiveness of “earned” pay (i.e., realized or realizable)	47%
Incentive Payout Opportunities	
Long-term incentive payout opportunities	59%
Short-term incentive payout opportunities	48%
Performance Goal Setting	
How performance goals are set for short-term incentive payout opportunities	48%
How performance goals are set for long-term incentive payout opportunities	39%
Line of sight relative to metrics utilized under incentive arrangements	23%
Other Concerns	
Base salary levels	41%
Change-in-control protection outside of a severance arrangement	8%
Attainment of share ownership requirements	7%
Elimination of specific benefits and/or perquisites	7%
Severance levels	5%
Compliance with Federal Reserve incentive compensation requirements*	13%
Other	2%

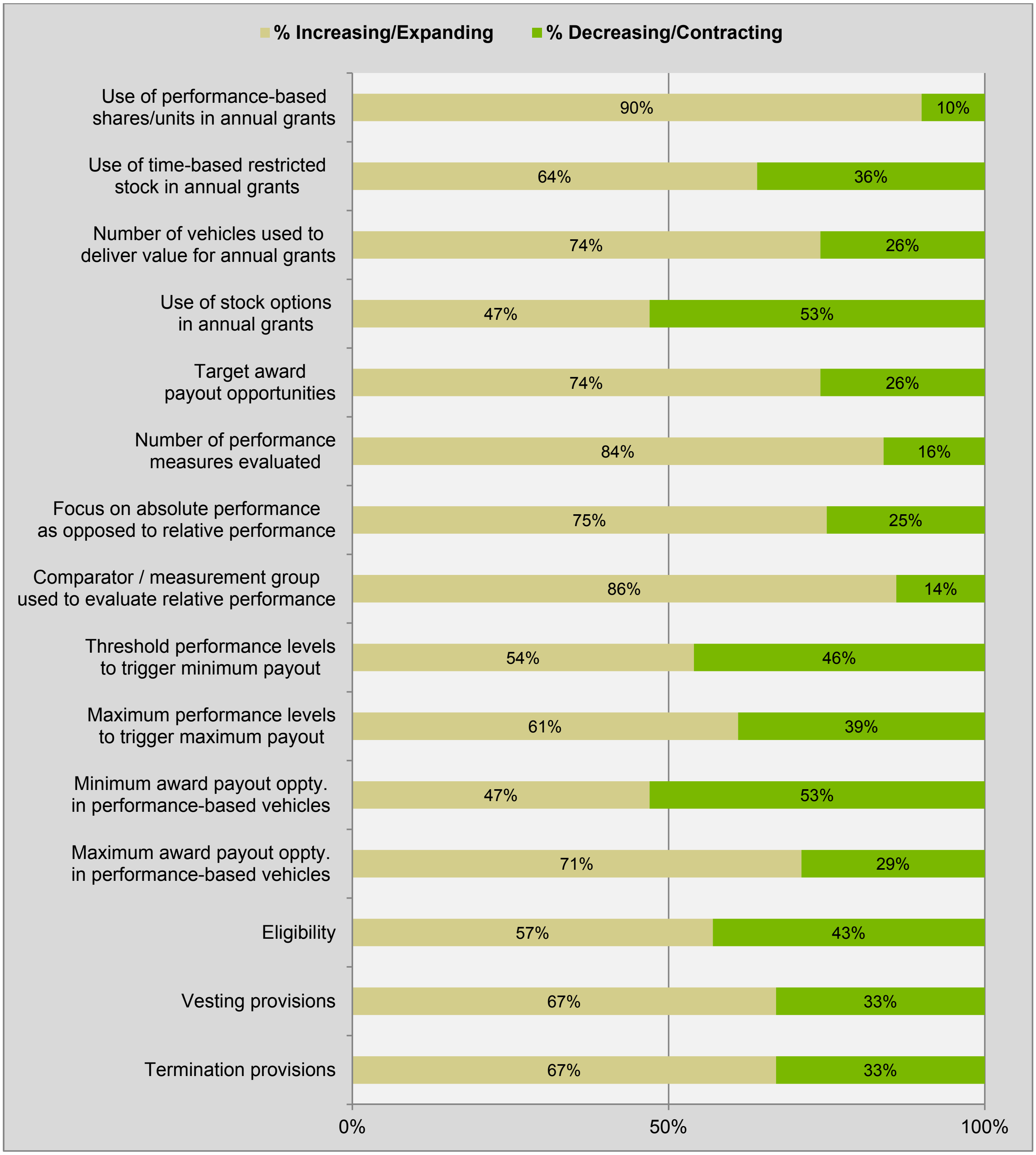
Aon Hewitt Comment: Results based on full survey sample. Totals will not equal 100% due to multiple responses.

*Prevalence reflective of only Financial Services organizations. Prevalence for full survey population is 2%.

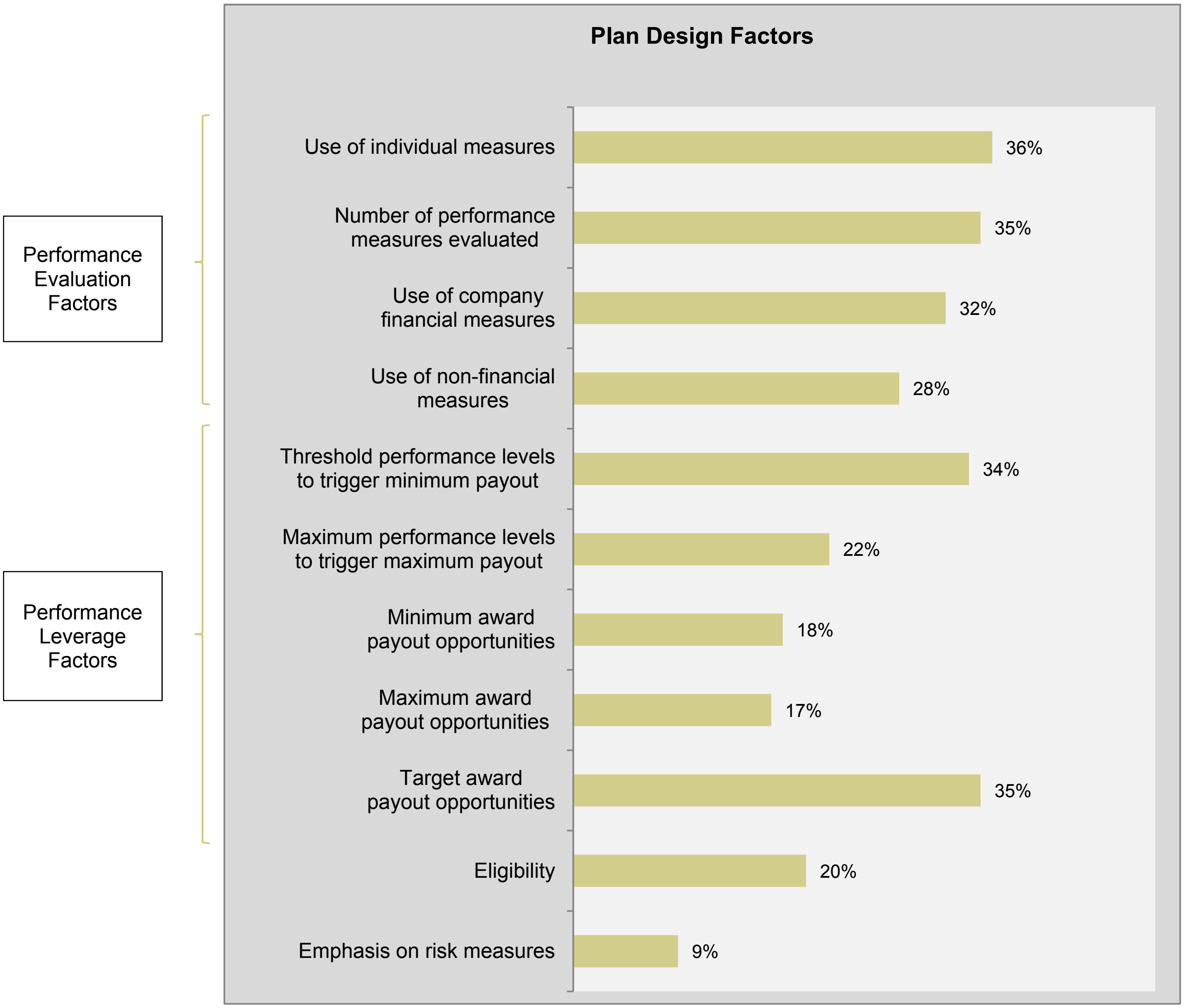
Long-Term Incentives—2014 Areas of Concerns (Detailed Responses)



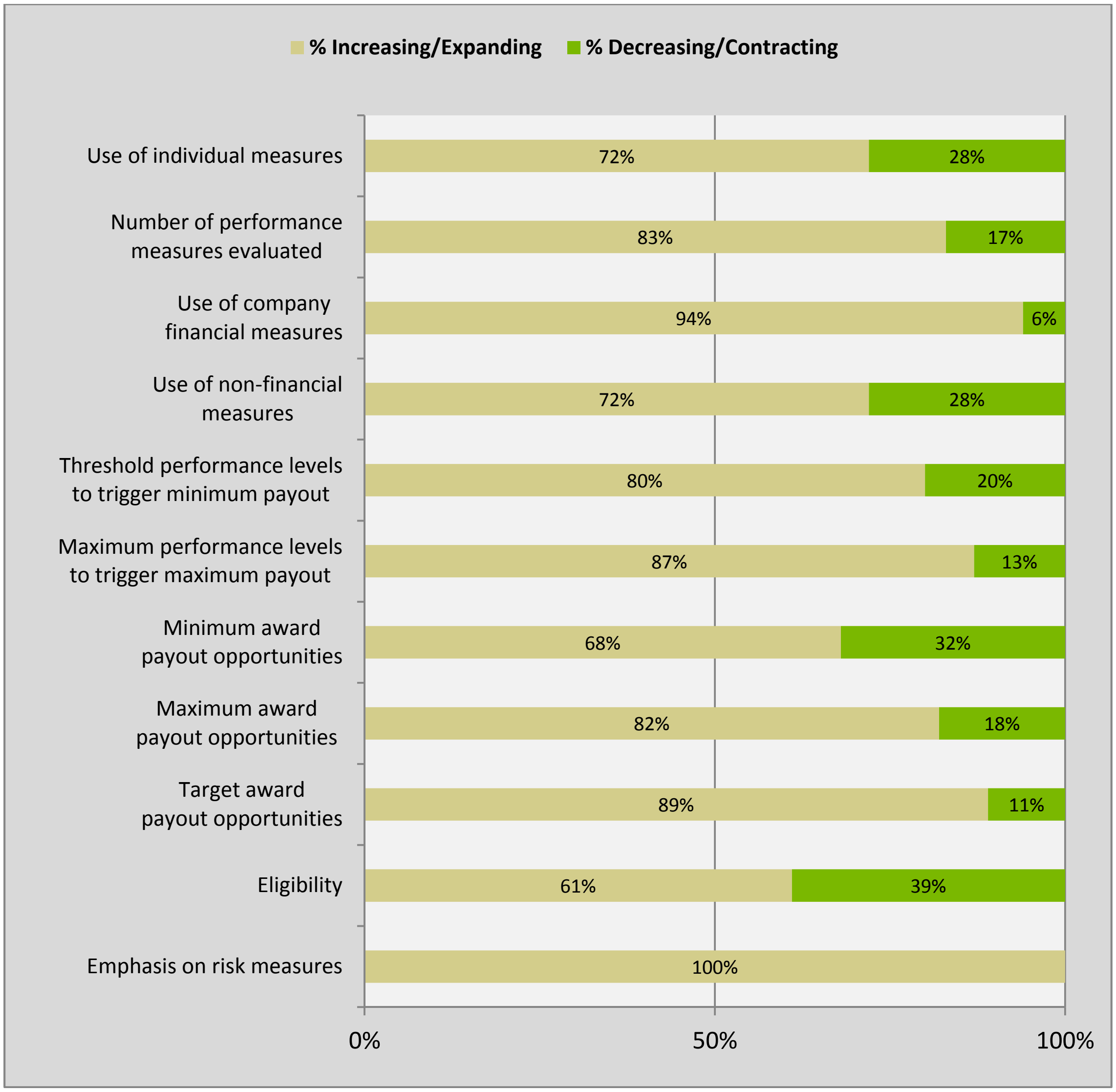
Long-Term Incentives—2014 Areas of Concerns (Detailed Responses)



Short-Term Incentives—2014 Areas of Concerns (Detailed Responses)



Short-Term Incentives—2014 Areas of Concerns (Detailed Responses)



Participating Organization Information

Distribution by Revenue Size

Ranges	Full Sample
Less than $1 billion	26%
Between $1 billion and $10 billion	47%
Greater than $10 billion	27%

Distribution by Asset Size

Ranges	Full Sample
Less than $100 billion	53%
Between $100 billion and $200 billion	17%
Greater than $200 billion	30%

Aon Hewitt Comment: Limited to Financial Services participants.

Participating Organizations (Alphabetical)

3M Company*	_Ascension Health*_	Calumet Specialty Products
A.O. Smith Corporation	_Associated Banc-Corp*_	_Campbell Soup Company*_
Abbott Laboratories	_Assurant, Inc.*_	Capella Education Company
AbbVie Inc.	Astreya Partners, Inc.	_Capital One Financial Corp.*_
ACI Worldwide, Inc.	Autodesk, Inc.	_Cargill*_
Actelion Pharmaceuticals	_AutoZone, Inc.*_	Carter's, Inc.
Aetna Inc.*	_Avis Budget Group, Inc.*_	Castlight Health, Inc.
AFC Enterprises, Inc.*	_BAE Systems plc*_	_Caterpillar Inc.*_
Agilent Technologies, Inc.*	_Baxter International Inc.*_	Catholic Health Partners
Akamai Technologies, Inc.	BB&T Corporation	_Centene Corporation*_
Alliant Energy Corporation*	_BBVA Compass*_	Cepheid
Altria Group Inc.*	Black Angus Steakhouses, LLC	CGI Technologies & Solutions
Ambit Biosciences Corporation	_Black Hills Corporation*_	Check Point Software Tech., Inc.
Ameren Corporation	Bloomin' Brands, Inc.	Chicago Transit Authority
American Blue Ribbon Holdings	_BCBS of Kansas*_	_Chrysler Group LLC*_
American Express Company*	Bluestem Brands	_CIT Group Inc.*_
American Family Insurance	BMC Software, Inc.	Citigroup Inc.
Andersen Corporation	BMO Financial Group	Citrix Systems, Inc.
Aon plc.	_BNSF Railway Company*_	Cleveland Clinic
Apache Corporation	_Booz Allen Hamilton*_	CNO Financial Group, Inc.
Arby's Restaurant Group, Inc.	_BorgWarner Inc.*_	_Coca-Cola Enterprises Inc.*_
Arete Associates	Brinker International, Inc.	Cohu, Inc.
Armstrong World Industries, Inc.*	_Buckeye Partners, L.P.*_	Colfax Corporation
Ascena Retail Group, Inc.	Calgary Co-Operative Ltd.	_Comerica Inc.*_
	Calix, Inc	

*2013 Hot Topics in Executive Compensation Survey Participant

Participating Organizations (Alphabetical)

ConAgra Foods, Inc.	E.I. DuPont de Nemours & Co.	_General Dynamics Corporation*_
Connexus Energy	_Early Warning*_	_General Mills, Inc.*_
Con-way Inc.*	_Eastman Chemical Company*_	_General Motors Company*_
Coriant	Eastman Kodak Company	_Genuine Parts Company*_
Covidien plc.	Efi Automotive	_GfK*_
Cubic Corporation	_Eli Lilly and Company*_	Gilead Sciences Inc.
Curtiss-Wright Corporation	_EMC Corporation*_	GLOBALFOUNDRIES
CVS Caremark Corporation	EMCOR Group, Inc.	Good Start Genetics, Inc.
Cymer LLC	Enbridge Inc.	H.J. Heinz Company
Cytokinetics, Inc.	_Energizer Holdings, Inc.*_	Harsco Corporation
Darden Restaurants, Inc.*	Epicor Software Corporation	Helsinn Therapeutics (U.S.), Inc.
Dean Foods Company	_Erie Insurance Group*_	_Herman Miller, Inc.*_
Dell	_ESCO Technologies Inc.*_	Hi-Crush Services LLC
Delta Air Lines, Inc.	_FedEx Corporation*_	_Home Depot*_
Deluxe Corporation	_FEI Company*_	HomeAway, Inc.
Diebold, Inc.	_First American Financial Corp.*_	Hormel Foods Corporation
Digital River Inc.	_FirstEnergy Corporation*_	_HRL Laboratories LLC*_
DIRECTV	_Fiserv, Inc.*_	Hubbell Incorporated
Discover Financial Services*	Flextronics International, Ltd.	Huntington National Bank
Dollar General Corporation	Flowserve Corporation	Hutchinson Technology Inc.
Dollar Tree, Inc.	FMC Corporation	Igenica Biotherapeutics
Dover Corporation	_FBHS, Inc.*_	Infinity Pharmaceuticals, Inc.
Drais Pharmaceuticals, Inc.	_Freescale Semiconductor, Ltd.*_	_Ingersoll-Rand plc*_
DTE Energy Company	GE Capital	_Ingredion Inc.*_
Duke Energy Corporation*		

*2013 Hot Topics in Executive Compensation Survey Participant

Participating Organizations (Alphabetical)

International Dairy Queen	MaxLinear Inc.	NOVA Chemicals
J.C. Penney Company	McCormick & Co., Inc.	OFS Firel, LLC
Johnson & Johnson	*McDonald's Corporation* *	OGE Energy Corp
Joy Global, Inc.	Mondelez International, Inc.	Omnicell, Inc.
JPMorgan Chase & Co.	*Mead Johnson Nutrition Co.**	Omniguide
Kellogg Company	Medpace	ON Semiconductor Corporation
KEMP Technologies	Mendel Biotechnology, Inc.	*OSG Tap & Die**
Key Safety Systems, Inc.	Microsemi Corporation	Palo Alto Networks, Inc.
KeyCorp.	*Microsoft Corporation**	Pandora
Keystone Foods	Midway Gold Corporation	Pegasystems Inc.
*Kimberly Clark Corporation**	Mission Health System	*Pepsico, Inc.**
Labcyte Inc.	*Mohawk Industries, Inc.**	Perforce Software, Inc.
Lattice Semiconductor Corp.	Moody's Corporation	Plexus Corporation
LinkedIn Corporation	*Moog Inc.**	*PNC Financial Services Group**
LivingSocial, Inc.	Morgan Stanley	Precision Drilling Corporation
Lockheed Martin Corporation	*Mutual of Omaha**	Premiere Global Services, Inc.
L'Oreal USA	Nationwide	Press Ganey Associates
*Luminex Corporation**	Navistar International Corp.	Printpack, Inc.
*M/I Homes**	*Newell Rubbermaid**	Printronix
*Marathon Oil Corporation**	*Newfield Exploration Company**	*Procter & Gamble Company**
*Marathon Petroleum Corp.**	NewPage Corporation	*Protective Life Corporation**
*Marriott Vacations Worldwide**	Nimble Storage, Inc.	*Prudential Financial, Inc.**
*MasterCard International**	Nitto Denko Technical	*Public Service Enterprise Group**
Maxim Integrated Products, Inc.	Northeast Utilities	RadiSys Corporation

*2013 Hot Topics in Executive Compensation Survey Participant

Participating Organizations (Alphabetical)

Raising Cane's Chicken Fingers	*Sprint**	*The Travelers Companies, Inc.**
Rambus Inc.	SRC Inc.	The Wendy's Company
Regions Bank	State Street Corporation	Thompson Hine LLP
Republic Services, Inc.	Steelcase Inc.	Thrivent Financial
*Reynolds American Inc.**	SunCoke Energy, Inc.	*T-Mobile US, Inc.**
Rocket Fuel Inc.	*SunGard**	Toppan Photomasks, Inc.
*Rockwell Automation Inc.**	*SunTrust Bank**	TriMas Corporation
Rosetta Stone, Inc.	SUPERVALU Inc.	Trimble Navigation Limited
Salesforce.com, Inc.	Symantec Corporation	True Religion Apparel, Inc.
Samsung Telecomm. America	Sypris Solutions Inc.	*Tyco International Ltd**
*Schreiber Foods Inc.**	*Takeda Pharmaceutical Co.**	*U.S. Bank**
Selex Galileo Inc.	TeleNav	UC Health
*Senomyx, Inc.**	TELUS International	UL LLC
Shure Inc.	Teradici	Unisys Corporation
Siemens Corporation	Tesaro, Inc.	*UnitedHealth Group Inc.**
Sirva	*Texas Instruments Inc.**	Urban Outfitters, Inc.
Slalom LLC	The Babcock & Wilcox Company	*URS Energy & Construction**
Sloan Global Holdings, LLC	*The Boeing Company**	Valmont Industries, Inc.
Sonic Drive-In	*The Brink's Company**	VeriSign, Inc.
Sonoco Products Company	The Clorox Company	Vistaprint N.V.
Southcross Energy Partners L.P.	*The Hanover Insurance Grp.Inc.**	*VMware, Inc.**
*Southern Company**	*The Hershey Company**	*Wells Fargo & Company**
Splunk, Inc.	The Pampered Chef	*Wheaton Franciscan Healthcare**
Spotify	The Timken Company	*Whole Foods Market, Inc.**

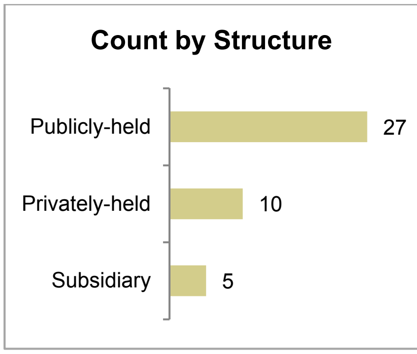
*2013 Hot Topics in Executive Compensation Survey Participant

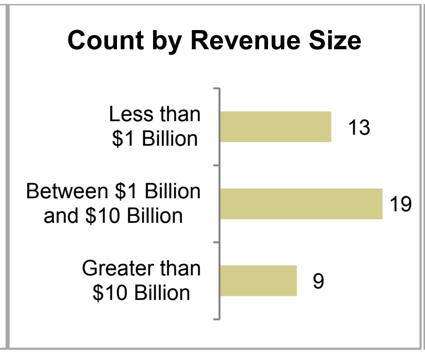
Participating Organizations (Alphabetical)

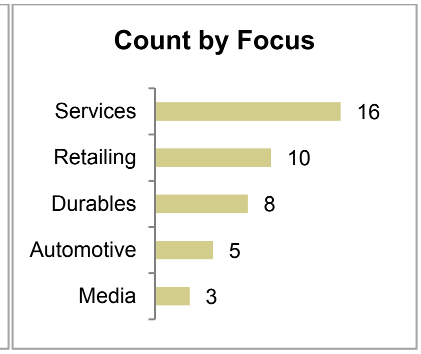
Wize Commerce Wolters Kluwer Xilinx Inc. *Zions Bancorporation**		

*2013 Hot Topics in Executive Compensation Survey Participant

Participating Organizations by Industry Sector: Consumer Discretionary







Consumer Services	Automotive & Components	Retailing
AFC Enterprises, Inc.*	BorgWarner Inc.*	Ascena Retail Group, Inc.
American Blue Ribbon Holdings	Chrysler Group LLC*	AutoZone, Inc.*
Arby's Restaurant Group, Inc.	Efi Automotive	Bluestem Brands
Black Angus Steakhouses, LLC	General Motors Company*	Dollar General Corporation
Bloomin' Brands, Inc.	Key Safety Systems, Inc.	Dollar Tree, Inc.
Brinker International, Inc.	**Consumer Durables/Apparel**	Genuine Parts Company*
Calgary Co-Operative Ltd.	Carter's, Inc.	Home Depot*
Capella Education Company	M/I Homes*	HomeAway, Inc.
CVS Caremark Corporation	Mohawk Industries, Inc.*	J.C. Penney Company Inc.
Darden Restaurants Inc.*	Newell Rubbermaid*	Urban Outfitters, Inc.
International Dairy Queen	Shure Inc.	**Media**
Marriott Vacations Worldwide*	Sloan Global Holdings, LLC	DIRECTV
McDonald's Corporation*	The Pampered Chef	GfK*
Raising Cane's Chicken Fingers	True Religion Apparel, Inc.	Wolters Kluwer
Sonic Drive-In		
The Wendy's Company		

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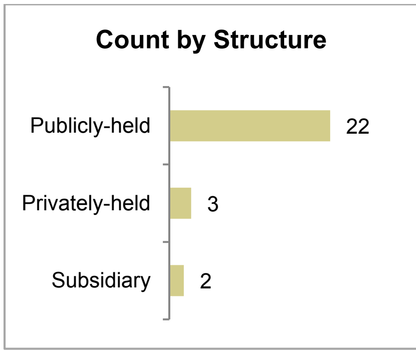
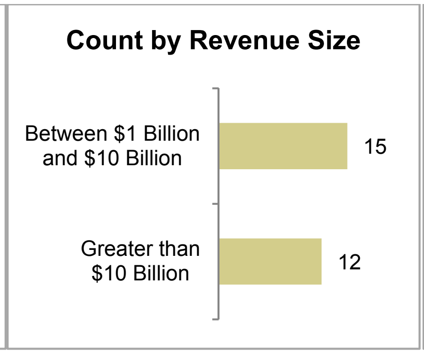
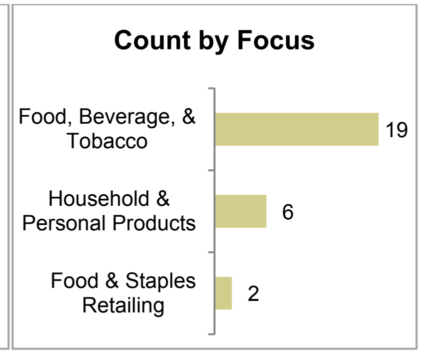
Participating Organizations by Industry Sector: Consumer Staples







Food & Staples Retailing	**Food, Beverage & Tobacco**	
*Whole Foods Market, Inc.**	*Altria Group Inc.**	*Ingredion Inc.**
SUPERVALU Inc.	*Campbell Soup Company**	Kellogg Company
Household & Personal Products	*Cargill**	Keystone Foods
*Energizer Holdings, Inc.**	*Coca-Cola Enterprises Inc.**	McCormick & Co., Inc.
*Kimberly Clark Corporation**	ConAgra Foods, Inc.	Mondelez International, Inc.
L'Oreal USA	Dean Foods Company	*Mead Johnson Nutrition Company**
*Procter & Gamble Company**	*General Mills, Inc.**	*Pepsico, Inc.**
Sonoco Products Company	H.J. Heinz Company	*Reynolds American Inc.**
The Clorox Company	Hormel Foods Corporation	*Schreiber Foods Inc.**
		*The Hershey Company**

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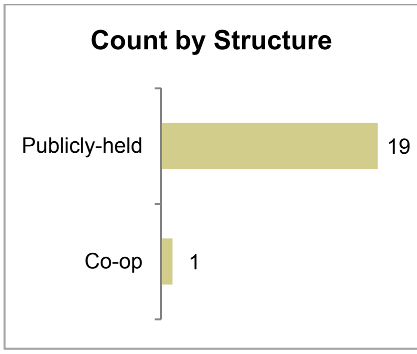
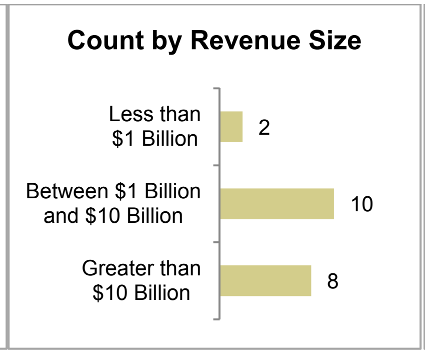
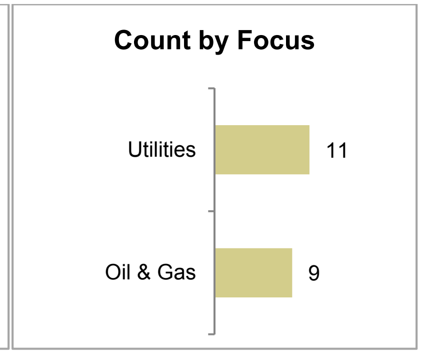
Participating Organizations by Industry Sector: Energy







Oil & Gas		
Apache Corporation	Enbridge Inc.	*Newfield Exploration Company**
*Buckeye Partners, L.P.**	*Marathon Oil Corporation**	Precision Drilling Corporation
Calumet Specialty Products	*Marathon Petroleum Corporation**	Southcross Energy Partners, L.P.
Utilities		
*Alliant Energy Corporation**	DTE Energy Company	OGE Energy Corporation
Ameren Corporation	*Duke Energy Corporation**	*Public Service Enterprise Group Inc**
*Black Hills Corporation**	*FirstEnergy Corporation**	*Southern Company**
Connexus Energy	Northeast Utilities	

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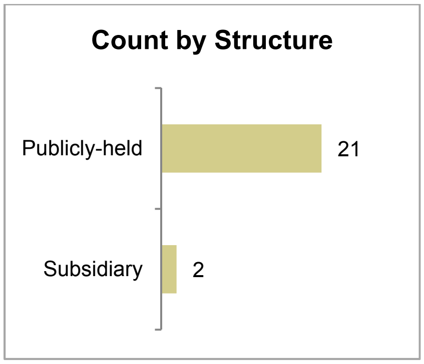
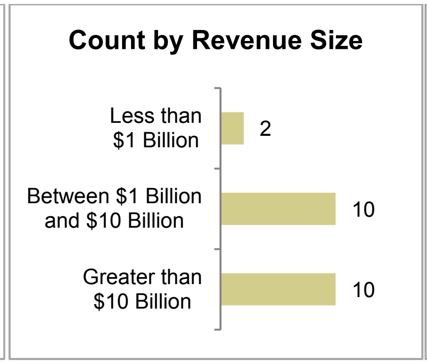
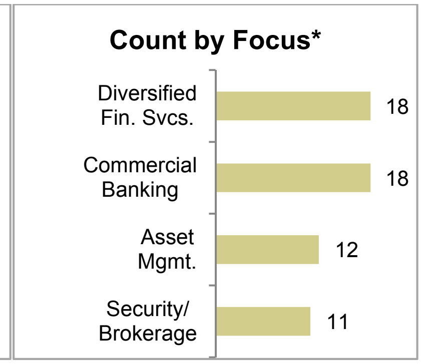
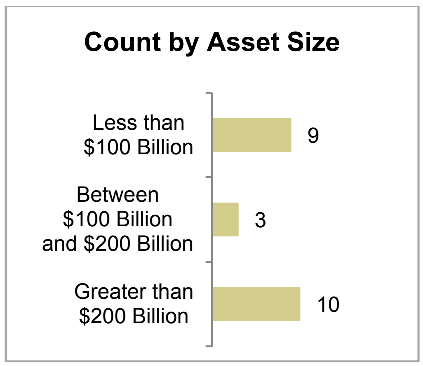
Participating Organizations by Industry Sector: Financial (Non-Insurance)









* Totals will not equal overall count because organizations self-reported multiple areas of focus

Financial (Non-Insurance)		
American Express Company*	_Comerica Inc.*_	_PNC Financial Services Group*_
Associated Banc-Corp*	_Discover Financial Services*_	Regions Bank
BB&T Corporation	GE Capital	State Street Corporation
BBVA Compass*	Huntington National Bank	_SunTrust Bank*_
BMO Financial Group	JPMorgan Chase & Co.	_U.S. Bank*_
Capital One Financial Corporation*	KeyCorp.	_Wells Fargo & Company*_
CIT Group Inc.*	Moody's Corporation	_Zions Bancorporation*_
Citigroup Inc.	Morgan Stanley	

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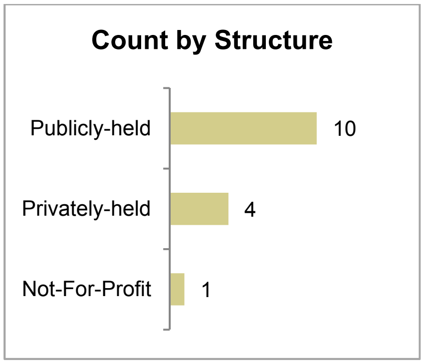
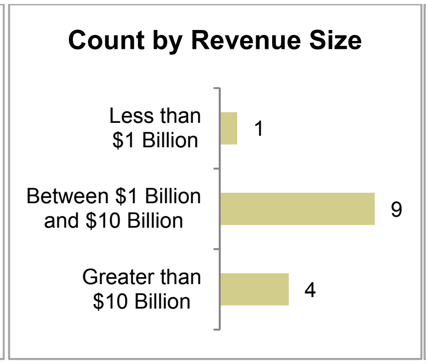
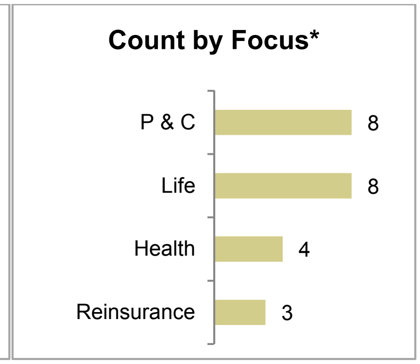
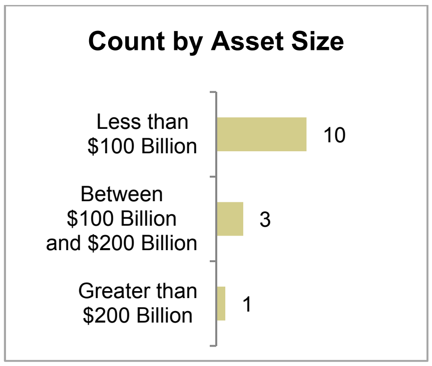
Participating Organizations by Industry Sector: Financial (Insurance)









* Totals will not equal overall count because organizations self-reported multiple areas of focus

Financial (Insurance)		
American Family Insurance	*Erie Insurance Group**	*Prudential Financial, Inc.**
Aon plc.	*First American Financial Corp.**	*The Hanover Insurance Group, Inc.**
*Assurant, Inc.**	*Mutual of Omaha**	*The Travelers Companies, Inc.**
*BCBS of Kansas**	Nationwide	Thrivent Financial
CNO Financial Group, Inc.	*Protective Life Corporation**	

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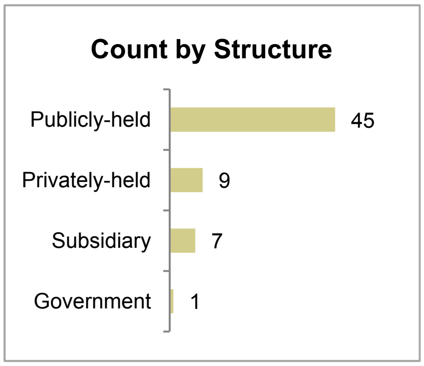
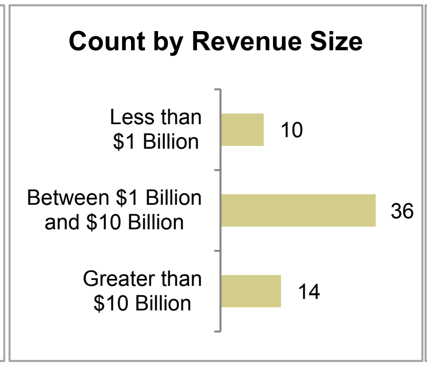
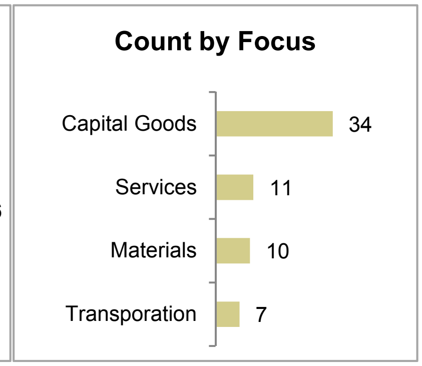
Participating Organizations by Industry Sector: Industrials/Materials







Capital Goods		
*3M Company**	Flowserve Corporation	*Rockwell Automation Inc.**
A.O. Smith Corporation	*FBHS, Inc.**	Selex Galileo Inc.
Andersen Corporation	*General Dynamics Corporation**	Siemens Corporation
*Armstrong World Industries, Inc.**	Harsco Corporation	SRC Inc.
*BAE Systems plc**	Hubbell Incorporated	Sypris Solutions Inc.
*Caterpillar Inc**	*Ingersoll-Rand plc**	The Babcock & Wilcox Company
Colfax Corporation	Joy Global, Inc.	*The Boeing Company**
Cubic Corporation	Lockheed Martin Corporation	The Timken Company
Curtiss-Wright Corporation	*Moog Inc.*	TriMas Corporation
Dover Corporation	Navistar International Corporation	*URS Energy & Construction**
EMCOR Group, Inc.	*OSG Tap & Die**	Valmont Industries, Inc.
*ESCO Technologies Inc.**		
Commercial & Professional Services		
Deluxe Corporation	Republic Services, Inc.	Thompson Hine LLP
*Early Warning**	Steelcase Inc.	*Tyco International Ltd.**
*Herman Miller, Inc.**	TELUS International	UL LLC
Nitto Denko Technical	*The Brink's Company**	
Transportation		
*Avis Budget Group, Inc.**	*Con-way Inc.**	*FedEx Corporation**
*BNSF Railway Company**	Delta Air Lines, Inc.	Sirva
Chicago Transit Authority		
Materials		
E.I. duPont de Nemours & Co.	Midway Gold Corporation	Printpack, Inc.
*Eastman Chemical Company**	NewPage Corporation	*Senomyx, Inc.**
FMC Corporation	NOVA Chemicals	SunCoke Energy, Inc.
Hi-Crush Services LLC		

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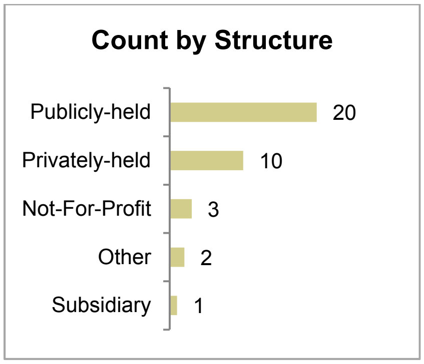
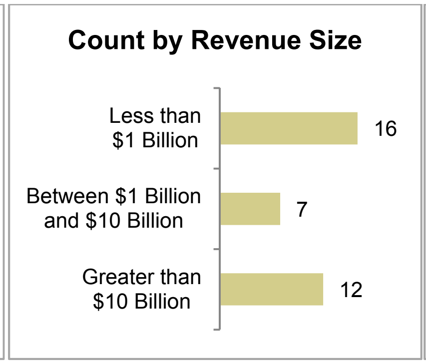
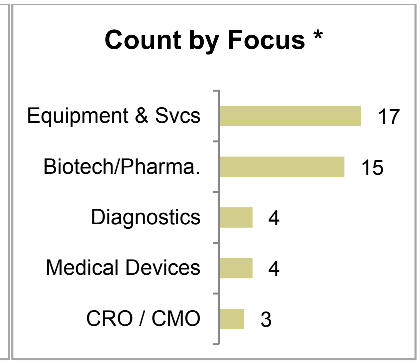
Participating Organizations by Industry Sector: Health Care







* Totals will not equal overall count because organizations self-reported multiple areas of focus

Health Care Equipment & Services		
Abbott Laboratories	*Centene Corporation**	Omniguide
*Aetna Inc.**	Cleveland Clinic	Press Ganey Associates
*Ascension Health**	Covidien plc.	UC Health
*Baxter International Inc.**	Good Start Genetics, Inc.	*UnitedHealth Group Inc.**
Castlight Health, Inc.	Mission Health System	*Wheaton Franciscan Healthcare**
Catholic Health Partners	Omnicell, Inc.	
Pharmaceutical		
AbbVie Inc.	*Eli Lilly and Company**	*Luminex Corporation**
Actelion Pharmaceuticals	Gilead Sciences Inc.	Medpace
*Agilent Technologies, Inc.**	Helsinn Therapeutics (U.S.), Inc.	Mendel Biotechnology, Inc.
Ambit Biosciences Corporation	Igenica Biotherapeutics	*Takeda Pharmaceutical Company**
Cepheid	Infinity Pharmaceuticals, Inc.	Tesaro, Inc.
Cytokinetics, Inc.	Johnson & Johnson	
Drais Pharmaceuticals, Inc.	Labcyte Inc.	

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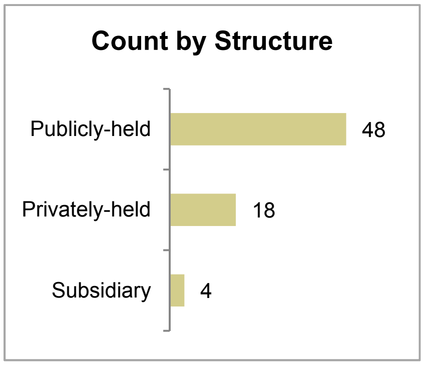
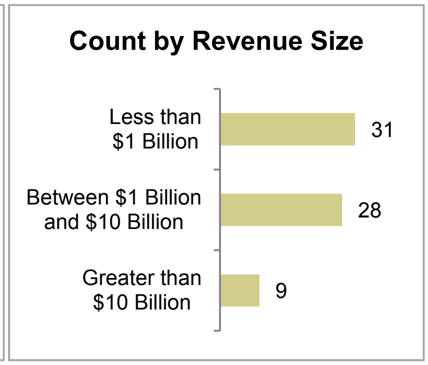
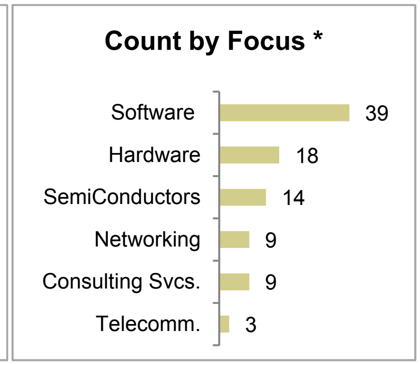
Participating Organizations by Industry Sector: Technology/Telecommunication







* Totals will not equal overall count because organizations self-reported multiple areas of focus

Technology		
ACI Worldwide, Inc.	*Freescale Semiconductor, Ltd.**	RadiSys Corporation
Akamai Technologies, Inc.	GLOBALFOUNDRIES	Rambus Inc.
Arete Associates	*HRL Laboratories LLC**	Rocket Fuel Inc.
Astreya Partners, Inc.	Hutchinson Technology Inc.	Rosetta Stone, Inc.
Autodesk, Inc.	KEMP Technologies	Salesforce.com, Inc.
BMC Software, Inc.	Lattice Semiconductor Corporation	Samsung Telecomm. America
*Booz Allen Hamilton**	LinkedIn Corporation	Slalom LLC
Calix, Inc.	LivingSocial, Inc.	Splunk, Inc.
CGI Technologies & Solutions	*MasterCard Incorporated**	Spotify
Check Point Software Tech., Inc.	Maxim Integrated Products, Inc.	*SunGard**
*Citrix Systems, Inc.**	MaxLinear, Inc.	Symantec Corporation
Cohu, Inc.	Microsemi Corporation	TeleNav, Inc.
Coriant	*Microsoft Corporation**	Teradici
Cymer LLC	Nimble Storage, Inc.	*Texas Instruments Inc.**
Dell	OFS Firel, LLC	Toppan Photomasks, Inc.
Diebold, Inc.	ON Semiconductor Corporation	Trimble Navigation Limited
Digital River Inc.	Palo Alto Networks, Inc.	Unisys Corporation
Eastman Kodak Company	Pandora	VeriSign, Inc.
*EMC Corporation**	Pegasystems Inc.	Vistaprint N.V.
Epicor Software Corporation	Perforce Software, Inc.	*VMware, Inc.**
*FEI Company**	Plexus Corporation	Wize Commerce
*Fiserv, Inc.**	Printronix	Xilinx Inc.
Flextronics International Ltd.		
Telecommunications		
Premiere Global Services, Inc.	*Sprint Corporation**	*T-Mobile US, Inc.**

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The Price of Poaching: Examining Executive Compensation and Lateral Recruitment

Introduction

Intense competition for talent is an important factor to consider in executive compensation design. While pay-for-performance should remain the primary driver for decisions, a strong retentive element also needs to be incorporated. Unfortunately, relying solely on traditional market-based benchmarking analyses may not give decision-makers the full story when it comes to retention, considering the market for executive recruitment tends to be broader than the one used for pay comparisons. This paper summarizes the trends from Aon Hewitt's research on retention by examining the circumstances and compensation packages that were used when companies directly compete for executive talent.

Typically, the retention element in executive compensation is assessed through comparing a program's external competitiveness versus an employment market, or peer group. This is commonly based on position; for example, benchmarking the company's CFO to other CFOs in the market in order to determine if other companies would be a more attractive place to work. These employment markets are intended to be constrained and constructed specifically to identify companies that are similarly situated in terms of size and industry, and less commonly, with similar performance or operational profiles.

Peer group constraints are necessary to ensure executives are compensated appropriately given a company's size and complexity, but often do not represent the "market" of the competitors that compete for executive talent. This widely-used market-based approach to benchmarking provides larger companies an advantage when competing for talent. Indeed, executives do not frequently leave their employer to join one of its "official" peer companies, but a larger company that can afford to spend more on individual executives.

In order to better understand circumstances surrounding executive recruitment Aon Hewitt reviewed instances of *lateral* movement, since these provide interesting case studies in retention. In these scenarios, an executive leaves his/her employer due to being recruited, or "poached," by another company for the same job. These executives did not leave for "bigger positions" along their career path (e.g. a corporate controller hired away to become CFO), but were recruited to a similar position presumably motivated by the challenge and new compensation package. In other words these executives were recruited to the very same position that they were historically benchmarked to in order to prevent poaching.

While there are many reasons an executive may decide to make a lateral move, there are two frequent compensation-related reasons. First is the clear lack of a retentive element in a program, making the decision to leave an easier one. The second is a matter of smaller companies being unable to "afford" the in-demand talent (based on the competitive norms defined by the constrained peer group). This implies that certain compensation packages do not provide protection against poaching when a significantly larger organization is interested. Changes in compensation design or supplemental awards can help at-risk organizations mitigate this risk.

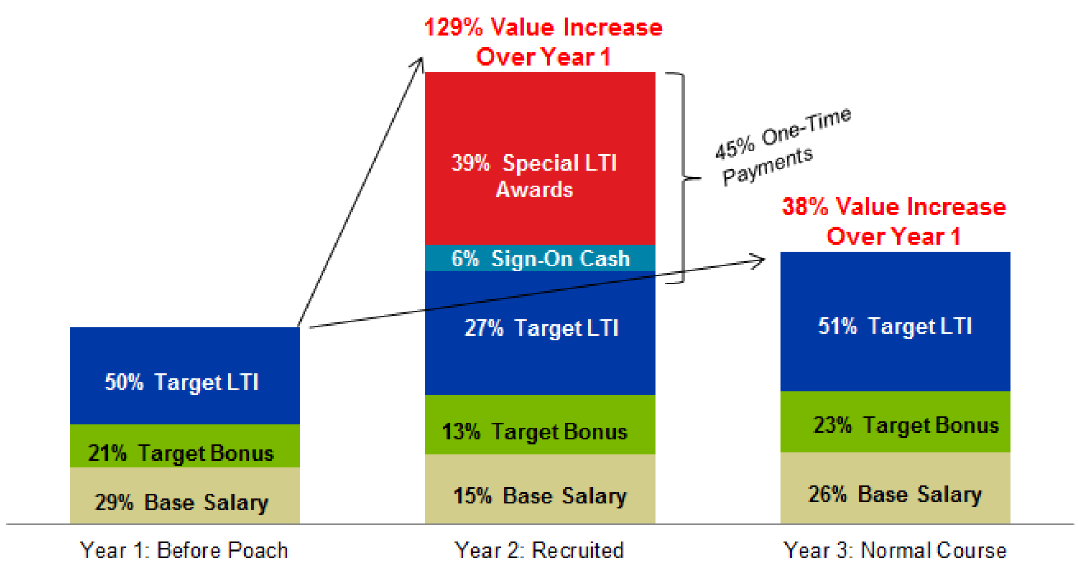
Analysis

Aon Hewitt examined proxies, press releases, and insider trading documents covering the compensation history of 22 chief financial officers (CFOs) who made lateral moves between 2009 and 2012. Compensation information was accessed from Aon Hewitt's Proxybase™ tool. CFOs were examined since they are required to be disclosed in a company's financial reports. Aon Hewitt defined a "lateral move" based on title, where disclosures indicated terminated employment at one company and within a year the incumbent showed up in another company disclosure with the same title. This analysis recognizes that when some of these CFO joined larger companies their positions became "bigger" and were not necessarily "lateral" in scope.

Key Findings

In order to successfully persuade an executive to join a company, a significant upfront investment in the employee was commonly made. Total compensation spiked during the year of recruitment, followed by a more moderate "normal" increase in the year after the move, as illustrated by the graph below showing the median increase and weight of each compensation element.

Aggregate Three-Year Compensation History: Poached Executives



Size of stacked columns represents median year-over-year increases for each component, and percentages for each stack represent the percent of total target annual compensation package

The initial increase can be explained by executives receiving significant one-time cash and/or equity awards (inducements, "make whole," and/or new-hire equity awards). When these special awards are included, the research illustrates that, at median levels, pay was roughly two-times the previous pay during the year of recruitment. In fact, "special" awards" (defined as non-annual long-term incentives grants and sign-on cash bonuses) accounted for almost one-half (45%) of overall compensation during the year the executive was recruited. Going forward, the executive was given a median 38% increase over his/her previous compensation, with a pay mix slightly weighted towards incentives.

Additionally, Aon Hewitt examined the companies' profiles in terms of revenue size, stock performance, retention alignment, and industry for those included in the study.

- **Company Size:** As expected, the majority of executives left their previous companies to join larger ones. On average, the poaching company was more than three times in size (3.1×) based on revenues. The majority of companies that successfully poached (54%) were above the 2.5× revenue ceiling that some investor advisory groups use to construct peer groups for executive compensation evaluation.

  A minority of the executives (23%) actually joined companies that were smaller in terms of revenues. These of these executives joined either newly formed companies (presumably with the potential for high stock price growth) or higher performing companies relative to the former employer.
- **Stock Performance:** Unlike company size, there is no clear trend towards better performing companies successfully poaching. Almost one-half of the companies (41%) that poached performed worse on a three-year total shareholder return basis. It should be noted that some of the successful poaching companies were large "blue chip" companies restructuring and hiring a new executive team from the outside.
- **Retention Alignment:** Time-vested restricted shares, as opposed to stock options or long-term performance plans, are the most retentive award for executives since some amount of value is realized as long as employment is continued. In aggregate, the value of restricted stock as a percent of the executives' total pay package was much higher in the group that poached talent (24% of total target pay) versus the group that lost talent (9%). In terms of prevalence, 74% of the poaching companies offered restricted shares in the "normal course" year (and 86% granted restricted shares during the "poached" year) whereas only 55% of the group that lost talent offered restricted shares.
- **Industry:** Nearly one-half (42%) of lateral moves examined stayed within the same sector. For example, an executive left one information technology company to join another. Only two executives in the study were poached from a company in the proxy-disclosed benchmarking peer group.

Conclusion

Lateral recruitments are rare relative to other promotions both internal and external. This implies that many programs provide strong incentives promoting retention. That said, in the majority of the cases included in our study, it is clear that the poached companies' compensation philosophies were simply "overwhelmed" by that of the larger company with its competitive advantage in recruiting talent.

While organizations should continue to benchmark using a wide revenue range and industry criteria to gain insight into its broad employment market and compensation practices, this alone may not provide an effective method against recruitment. Companies larger than those in the typical peer group construction criteria tend to do the poaching and if compensation decision-makers have specific retention concerns, Aon Hewitt recommends supplementing traditional "position-by-position" benchmarking with retention-specific analytics in the form of a realizable pay analysis, unvested equity ownership analysis, or a qualitative assessment of the programs' popularity among participants. These will help to determine the extent to which an executive team (or individual executive) is poachable and offers possible remedies.

* * * * *

Aon Hewitt's Market Insights provides perspective into the market forces and trends affecting executive compensation and corporate governance. These periodic reports are intended to cover many of the wide-ranging issues that compensation practitioners face when designing and administering executive compensation arrangements. For more information contact your Aon Hewitt Executive Compensation Consultant, or visit us at www.aonhewitt.com or www.totalcompensationcenter.com.

SEC Charges Insiders for Violations of Section 16(a) and Section 13

By Annette De La Torre, Peter D. Fetzer, and Mark T. Plichta
16 September 2014

Legal News: Transactional & Securities
On September 10, 2014, the Securities and Exchange Commission announced charges against 28 officers, directors, and major shareholders for violating federal securities laws requiring them to report information about their holdings and transactions in company stock as required pursuant to Sections 16(a), 13(d), and 13(g) of the Securities Exchange Act of 1934. The SEC also charged six publicly-traded companies for failing to report their insiders' filing delinquencies or for contributing to their insiders' failures to file.

It is unusual for the SEC to bring so many actions at once, and follows on the heels of the SEC stating that it is actively policing compliance with these provisions of the Exchange Act. All of which sends a clear signal to insiders that they need to file Form 4, Schedule 13D and Schedule 13G in a timely fashion, or risk enforcement action. For public companies that voluntarily assist insiders in complying with these filing requirements, the SEC orders make it clear that failure to comply with this voluntary responsibility carries with it serious consequences.

The SEC enforcement staff used quantitative data sources and ranking algorithms to identify individuals and companies with especially high rates of filing deficiencies. The resulting charges targeted companies ranging from micro-cap public companies to major brand name public companies and investment firms.

The SEC announced settlements with all but one of the individuals and entities charged. The settlements included penalties ranging from $25,000 to $150,000 per person and totaling to $2.6 million.

The charges were brought pursuant to violations of Sections 16(a), 13(d), and 13(g) of the Securities and Exchange Act of 1934. The SEC's Section 16(a) actions focused on the failure to file Form 4. Under Section 16(a), officers, directors, and beneficial owners of more than 10 percent of a company's stock are required to report their transactions by filing a Form 4 with the SEC within 2 business days. Sections 13(d) and (g) require beneficial owners of more than 5 percent to report their holdings by filing a Schedule 13D within 10 days of becoming a beneficial owner (or alternatively, when eligible, file a Schedule 13G within 45 days following the end of the year). In addition to the reporting requirements for directors, officers, and shareholders, the SEC rules also require a publicly-traded company to disclose in their proxy statement and Form 10-K any insiders who failed to file their reports on time. These rules apply irrespective of profits or an individual's reasons for acquiring holdings or engaging in transactions and the failure to timely file the required reports, even if inadvertent, constitute a violation of the SEC rules.

The purpose of these disclosures is to prevent corporate insiders from profiting from their access to confidential information. Further, these ownership reports give investors the opportunity to evaluate whether the holdings and transactions of company insiders could be indicative of the company’s future prospects.

It is unusual for the SEC to bring so many actions at once, but it is consistent with the Commission’s recent strategy to pursue all types of federal securities violations. Andrew J. Ceresney, Director of the SEC’s Division of Enforcement announced that the SEC is “bringing these actions together to send a clear message about the importance of these filing provisions.” He further added that “inadvertence is no defense to filing violations, and [the SEC] will vigorously police these sorts of violations through streamlined actions.”

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