A&M

2019 / 2020

EXECUTIVE CHANGE IN CONTROL REPORT

ANALYSIS OF EXECUTIVE CHANGE IN CONTROL ARRANGEMENTS OF THE TOP 200 COMPANIES

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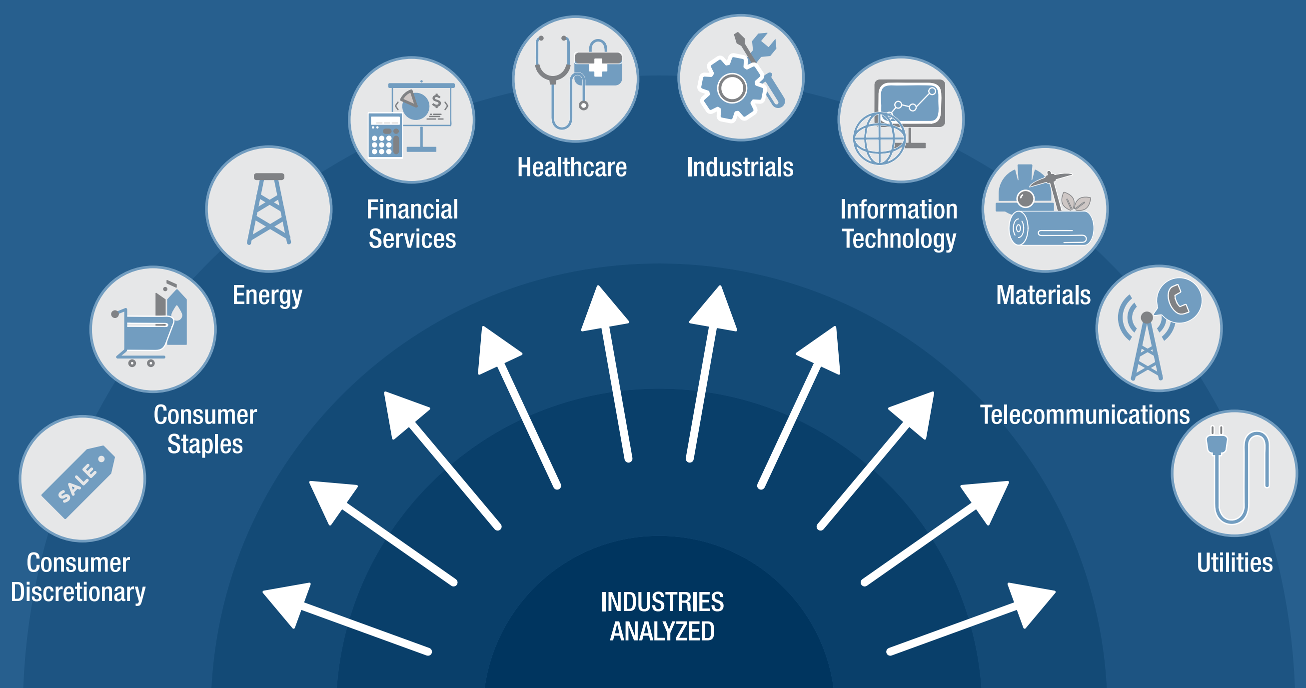

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INTRODUCTION

BACKGROUND

In recent years, external forces have continued to advocate for more transparency and change with respect to executive compensation. One area of executive compensation that is often embattled with criticism is change in control provisions.

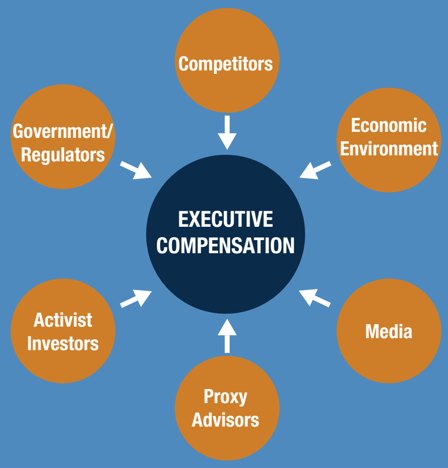
Prior to the enhanced proxy disclosure rules and the Dodd-Frank Act's Say-on-Pay advisory vote, executive change in control arrangements had often remained "under the radar" of shareholders, regulators and other interested parties until shortly before a change in control. However, public companies must quantify and disclose the magnitude of any potential parachute payments to top executives (such as severance payments, accelerated vesting of equity awards, fringe benefits, "gross-up" payments for excise tax, etc.). As a result of the Say-on-Pay advisory vote, shareholders now have a louder voice with which to communicate their satisfaction or displeasure with the company's compensation programs.

In this environment of heightened scrutiny, companies need to be prepared to stand firm behind their numbers. Boards and compensation committees do not want to be perceived as providing excessive change in control benefits relative to their peers or offering benefits that conflict with maximizing shareholder value.

Our mission is to assist companies in understanding the current environment regarding executive change in control arrangements.

***Alvarez & Marsal's Compensation and Benefits Practice** has partnered with **Equilar** and is pleased to provide this latest edition of our study on change in control arrangements among the top 200 publicly traded companies in the United States.*

FORCES INFLUENCING EXECUTIVE COMPENSATION



2019 / 2020 SURVEY

Benchmarking existing plans to the current market allows public company boards, their compensation committees and management to validate existing change in control benefits or identify opportunities for change. Creating greater transparency around change in control arrangements can be a positive step for companies if they have the data needed to perform a comparative analysis.

Accordingly, this study analyzes the benefits received by the CEOs and CFOs at 200 public companies (the 20 largest public companies in 10 different industries based on market capitalization). Our findings are intended to provide an overview of the current environment and identify market trends with regard to executive change in control arrangements. Observations and comparisons are made between this study and our prior 2015 and 2017 studies, as appropriate. However, it should be noted that changes to the Global Industry Classification Standard (GICS) in 2018 have caused some companies to switch industries, thereby increasing the variance across years, particularly in the Information Technology sector.

EXECUTIVE SUMMARY

While change in control (CIC) arrangements face increased scrutiny from regulators, activist shareholders and others, additional strategic reasons exist for management and compensation committees to provide and benchmark executive parachute payments.

The purpose of CIC arrangements is to ensure that executives evaluate every opportunity, including an acquisition, with an eye toward maximizing shareholder value, without considering how such an event will affect their personal circumstances. By addressing CIC provisions in executive compensation packages, boards can be assured that executives will be more likely to approach the intricacies of negotiation without the distraction of personal considerations.

Compensation committees need to utilize parachute payment arrangements as a tool to attract qualified candidates and to reward top performers for the successful results of their strategies.

Shareholders have increased concerns regarding corporate governance. By benchmarking and evaluating executive CIC arrangements, boards and their compensation committees can demonstrate a sense of accountability to both shareholders and regulators.

KEY FINDINGS

CEO

$27,886,556	*2019*	0.05% change
$27,871,606	*2017*	

CFO

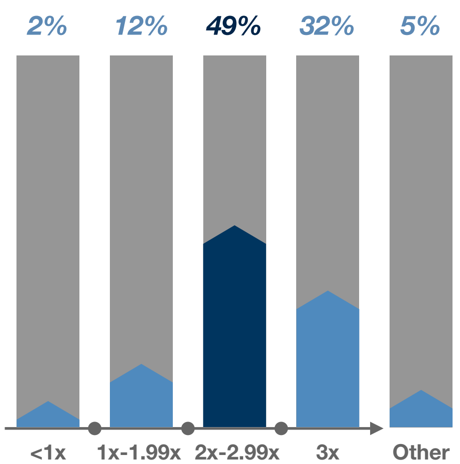
$9,880,993	*2019*	(7.02%) change
$10,627,357	*2017*	

Average total value of CIC benefits – CFO drop mainly driven by higher turnover rate than CEO.

0.10%

Average total value of CIC benefits for CEOs and CFOs as a percentage of market capitalization.

SEVERANCE



CIC Severance Multiples for CEOs
The most common cash CIC severance multiple for CEOs is between 2x and 2.99x compensation.

Percent of CEOs and CFOs entitled to receive a cash severance payment upon termination **with a CIC.**

77% CEO *79%* CFO

Percent of CEOs and CFOs entitled to receive a cash severance payment upon termination **without a CIC.**

58% CEO *61%* CFO

The prevalence of a 3x or higher severance multiple for CEOs slightly decreased from 33% in 2017 to 31% in 2019.

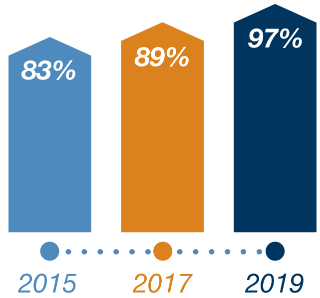
33% *2017* *31%* *2019*

EQUITY

Accelerated vesting of long-term incentives (LTI) comprises a large portion of the CIC benefits to which CEOs and CFOs are entitled.

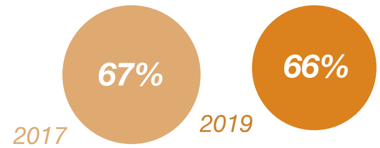
Approximately half of LTI is subject to **time-based vesting.**

The other half is subject to **performance-based vesting.**



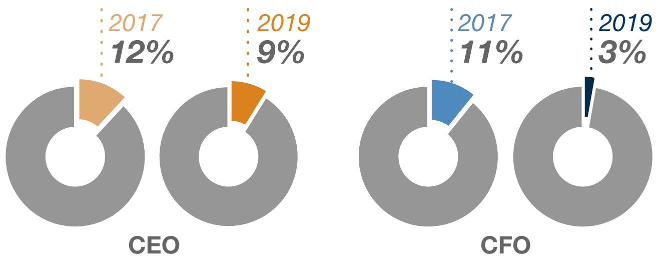
Percent of companies that have unvested equity awards with a **double trigger** (CIC and termination of employment) by year.

Approximately 66% of the average 2019 total CIC amounts for CEOs and CFOs is comprised of accelerated vesting of equity awards. This is down slightly from 67% in 2017.



EXCISE TAX

Percent of CEOs and CFOs that are entitled to excise tax gross-ups. The company pays the executive the amount of any excise tax imposed, thereby making the executive "whole" on an after-tax basis.



15%

Percent of top 20 mergers in 2019 **added a gross-up** for either the CEO or CFO during deal negotiations (average cost of approximately $8.6 million).

RECENT ACTUAL TRANSACTIONS

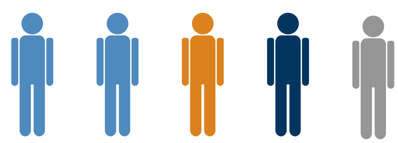
5 notable deals in 2019

1. The Walt Disney Company / Twenty-First Century Fox
2. Occidental Petroleum / Anadarko Petroleum
3. Fidelity National Information Services / Worldpay
4. IBM / Red Hat
5. Fiserv / First Data

$127,964,721

Average of the total CIC payments provided to each company's CEO and CFO combined.

EXCISE TAX PROTECTION



- 2 of the 5 companies had existing gross-ups for their CEOs
- 1 of the 5 companies added a gross-up as part of the deal negotiations
- 1 of the 5 companies offered its CEO a valley provision
- 1 of the 5 companies did not disclose excise tax treatment

RECENT ACTUAL TRANSACTIONS

Once again A&M is pleased to partner with ***Equilar***, which has offered the following independent commentary on pages 4 and 5 to provide additional color and context around how companies approach CIC benefits when an actual transaction is in the works.

VALUE OF BENEFITS

In Equilar's recent research of 61 mergers with transaction values between $1 and $5 billion, we found results consistent with this report in terms of aggregate payout. However, we observed a **higher portion** attributable to the accelerated vesting of LTI awards. This is likely due to the deal premiums which increase equity values during a real transaction. We also noted that our sample shows both CEOs and CFOs receiving a **higher portion** of payouts attributable to **excise tax gross-ups.** This may be because our sample contains smaller-sized companies; however, as discussed on the next page, we have also found evidence of companies adding gross-up provisions during merger negotiations, which may account for the difference.

5 notable deals in 2019

1. The Walt Disney Company / Twenty-First Century Fox
2. Occidental Petroleum / Anadarko Petroleum
3. Fidelity National Information Services / Worldpay
4. IBM / Red Hat
5. Fiserv / First Data

35%

Average Deal Premium Upon Announcement for 5 notable deals of 2019

LONG-TERM INCENTIVES

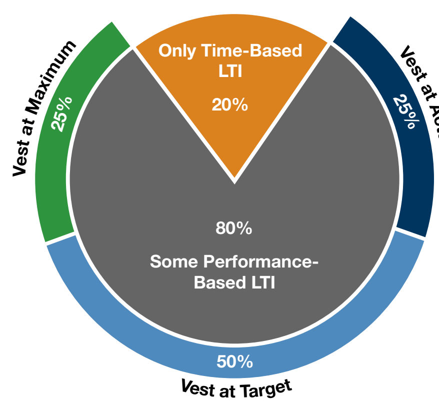
While the prominence of equity awards has increased in recent years, the potential realizable value of outstanding LTI awards decreased since the last survey — however, these amounts do not include deal premiums typically observed with actual transactions. These **premiums can be quite sizeable** and often significantly increase the value of executives' LTI awards.

While the treatment of double-trigger time-based awards upon a CIC is relatively straight forward, **double-trigger performance-based awards present additional challenges** due to the interruption of the performance period. Companies choose to handle this issue in different ways, but the most common alternatives generally are:

- Convert to time-based award at the target performance level;
- Convert to time-based award based on actual performance as of the CIC date; or
- Defer to Board's discretion.

4 out of 5 of the target companies in the notable deals of 2019 granted performance-based awards to their executives.

For purposes of either converting or settling the awards, 50% of the companies with performance-based grants valued the awards at the target level upon the CIC, 25% valued the awards based on actual performance at the CIC, and 25% valued the awards at the maximum level.



EXCISE TAX GROSS-UPS

We have seen many companies amending CIC arrangements prior to the completion of a merger. In a recent study of 150 mergers in the healthcare industry between 2013 and 2018, we observed **22 companies (15% of total studied)** introduce tax gross-ups to their CIC arrangements during merger negotiations. As shown in the chart below, this practice has fluctuated in prevalence over the years.

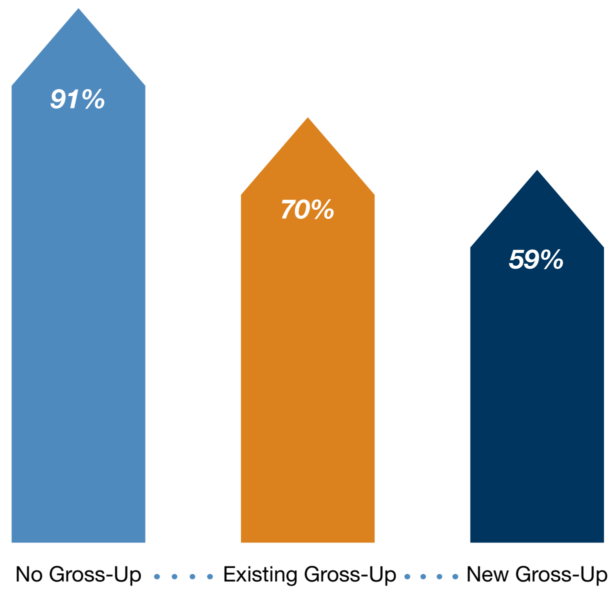
Year	Companies Studied	New Gross-Up	Prevalence
2013	24	0	0%
2014	24	3	13%
2015	29	6	21%
2016	18	5	28%
2017	34	5	15%
2018	21	3	14%
Total	150	22	15%

In our study, we observed that new gross-ups tend to be more costly (39% higher, on average) than existing gross-ups. With a **strong stock market,** the acceleration of executives' LTI has become more valuable, thereby increasing the size of the executives' tax liabilities absent gross-ups. However, even in light of the higher price tags, boards may feel pressure to incorporate gross-ups in order to make the executives whole and keep them focused on completing the merger. The chart below shows the value of new gross-ups compared to existing gross-ups.

Type of Gross-Up	Average Value	Median Value
New	$4,363,844	$2,618,544
Existing	$3,148,832	$1,812,454

Adding gross-ups did not go unnoticed. In the 2013-2018 study, the companies that introduced gross-ups had lower Say-on-Parachute approval rating as shown in the chart below.

SAY-ON-PARACHUTE APPROVAL RATINGS



The question then is whether issuers face any consequences for going back on their implied Section 280G pledges. Data shows that some pushback exists, but little to no consequences materialize. For mergers that require a special shareholder vote, investors get one last opportunity to sound off on pay in the form of a Say-on-Parachute vote. The vote non-binding, has no consequences for failure, and the target company typically ceases to exist shortly after the vote. In other words, **the vote is toothless for the company.**

EQUILAR

AVERAGE CHANGE IN CONTROL BENEFIT – CEOs

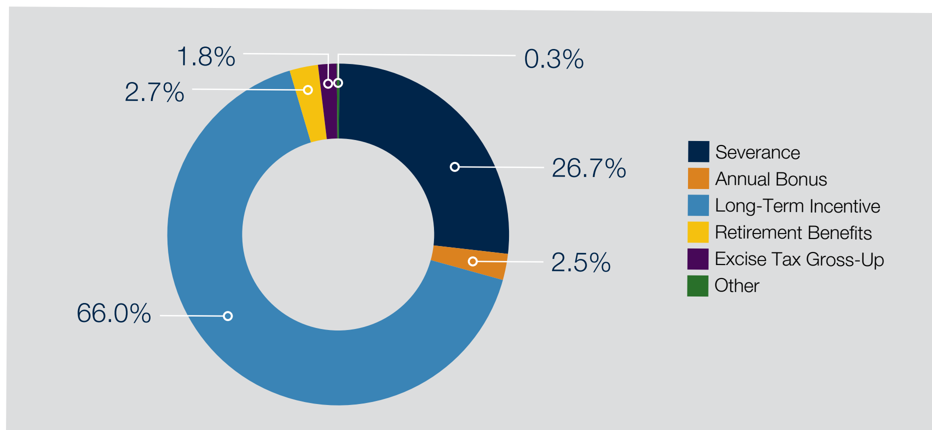
*The average CIC benefit provided to CEOs in 2019 remains flat at **$27,886,556** as compared to $27,871,606 in 2017.*

The main value driver is the accelerated vesting of LTI awards.

RANGE OF CHANGE IN CONTROL BENEFITS

Based on the disclosures required by the SEC, we calculated the average value of typical parachute payments. These averages were calculated separately for CEOs and CFOs.

The chart below illustrates the average value of each type of benefit to which the CEOs are entitled in all 10 industries.



The largest component of the CIC packages for CEOs is by far the accelerated vesting of LTI.

The "Other" category is composed of health and welfare benefits, outplacement services, life insurance, financial / legal services, etc.

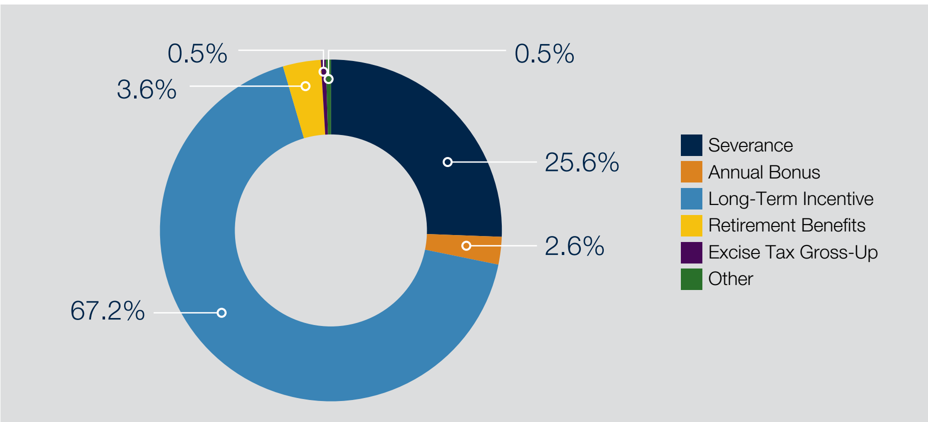
The table below displays the 2019 averages for each type of parachute payment by industry, including a company weighted average for all 10 industries. For comparison purposes, information related to 2015 and 2017 is also shown below. This information was generally found in the executive compensation disclosures in the companies' proxy statements. As previously mentioned, changes to GICS classifications in 2018 have caused some companies to switch industries, thereby increasing the volatility between years, particularly for the Information Technology sector.

2019 CHANGE IN CONTROL BENEFIT VALUES FOR CEOs

	Severance	Annual Bonus	Long-Term Incentive	Retirement Benefits	Excise Tax Gross-Up	Other	2019 Average Total Benefit	2017 Average Total Benefit	2015 Average Total Benefit
Consumer Discretionary	$5,983,575	$549,856	$19,697,514	$134,292	-	$36,026	$26,401,262	$29,336,036	$36,564,586
Consumer Staples	3,137,971	510,319	16,135,400	83,094	-	165,030	20,031,815	23,559,530	18,167,945
Energy	6,608,882	633,667	8,621,764	890,385	557,197	56,257	17,368,151	33,640,047	30,170,005
Financial Services	5,490,102	665,667	16,870,637	17,200	-	34,799	23,078,404	34,062,202	39,102,895
Healthcare	8,720,495	213,535	26,202,559	199,470	-	55,339	35,391,397	24,543,268	36,897,778
Industrials	8,291,346	976,543	12,450,368	1,370,343	-	71,921	23,160,521	25,983,338	31,136,643
Information Technology	4,666,167	522,921	40,509,506	-	-	26,820	45,725,413	38,284,409	40,919,625
Materials	10,006,834	611,192	13,364,950	2,967,666	1,526,458	79,900	28,556,999	26,785,085	27,373,526
Telecommunications	13,422,278	1,793,983	20,167,871	813,464	-	47,305	36,244,901	19,726,494	13,435,242
Utilities	8,138,101	449,468	10,360,211	1,030,192	2,804,573	124,145	22,906,690	22,795,652	28,263,205
2019 Weighted Average	**$7,446,575**	**$692,715**	**$18,438,078**	**$750,611**	**$488,823**	**$69,754**	**$27,886,556**	**N/A**	**N/A**
2017 Weighted Average	**$6,821,537**	**$725,719**	**$18,579,506**	**$1,015,180**	**$636,913**	**$92,750**	**N/A**	**$27,871,606**	**N/A**
2015 Weighted Average	**$6,497,139**	**$649,055**	**$21,220,852**	**$1,109,472**	**$649,580**	**$137,525**	**N/A**	**N/A**	**$30,263,623**

AVERAGE CHANGE IN CONTROL BENEFIT – CFOs

The chart below illustrates the average value for each type of benefit to which the CFOs are entitled in all 10 industries. The percentages observed were similar between CEOs and CFOs.



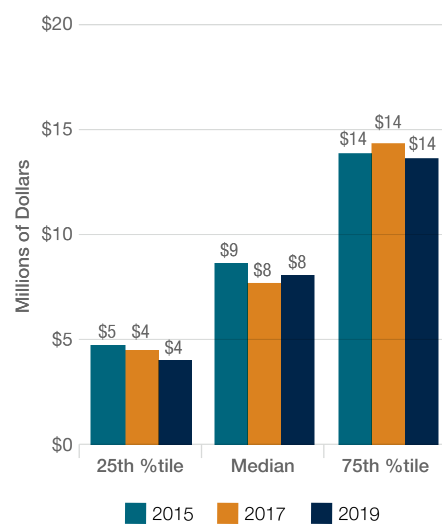
The table below displays the 2019 averages for each type of parachute payment by industry, including a company weighted average for all 10 industries. For comparison purposes, information related to 2015 and 2017 is also shown below.

Observations From Average CIC Benefits for Both CEOs and CFOs

- Overall, there was very little change in the aggregate benefit level for the CEOs, whereas the aggregate benefit level for CFOs has decreased by approximately 7% since 2017.
  - This drop is partially explained by the higher rate of turnover we observed for CFOs relative to CEOs.
  - Another major contributor to this decline is an increase in retirement-eligible CFOs who are now effectively vested in some or all of their LTI awards and therefore do not receive any incremental benefit upon a CIC.
- While excise tax gross-ups have continued to decline, retirement and other benefits have also experienced significant decreases. On the other hand, CEO severance is the only category with a material uptick in values.

*The average CIC benefit provided to CFOs decreased to **$9,880,993** in 2019 as compared to $10,627,357 in 2017.*

RANGE OF CHANGE IN CONTROL BENEFITS



2019 CHANGE IN CONTROL BENEFIT VALUES FOR CFOs									
	Severance	Annual Bonus	Long-Term Incentive	Retirement Benefits	Excise Tax Gross-Up	Other	2019 Average Total Benefit	2017 Average Total Benefit	2015 Average Total Benefit
Consumer Discretionary	$2,117,615	$227,483	$6,905,699	$88,411	-	$42,288	$9,381,496	$11,729,986	$22,940,101
Consumer Staples	1,469,029	204,082	6,341,847	18,460	-	18,514	8,051,932	8,979,223	9,135,352
Energy	2,508,285	156,065	3,369,815	514,865	211,811	46,715	6,807,557	12,075,662	10,467,245
Financial Services	2,219,335	240,000	6,237,433	32,231	-	31,172	8,760,170	9,869,529	11,652,919
Healthcare	3,792,356	92,154	7,930,993	562,705	-	57,443	12,435,650	20,052,288	12,496,325
Industrials	2,337,674	243,031	6,408,563	769,062	-	54,719	9,813,049	9,708,422	10,221,533
Information Technology	1,563,376	245,415	14,735,211	-	-	17,722	16,561,723	12,246,559	11,556,095
Materials	3,307,978	232,146	4,186,709	993,832	-	66,578	8,787,243	9,148,410	8,247,012
Telecommunications	3,165,396	826,331	6,791,539	29,614	-	55,653	10,868,533	5,366,354	5,502,602
Utilities	2,808,582	117,727	3,554,293	532,080	241,223	88,669	7,342,574	7,097,136	7,160,371
2019 Weighted Average	**$2,528,963**	**$258,443**	**$6,646,210**	**$354,126**	**$45,303**	**$47,947**	**$9,880,993**	**N/A**	**N/A**
2017 Weighted Average	**$2,499,787**	**$248,780**	**$7,274,261**	**$399,718**	**$147,610**	**$57,201**	**N/A**	**$10,627,357**	**N/A**
2015 Weighted Average	**$2,446,534**	**$243,866**	**$8,391,796**	**$415,081**	**$237,366**	**$67,063**	**N/A**	**N/A**	**$11,801,706**

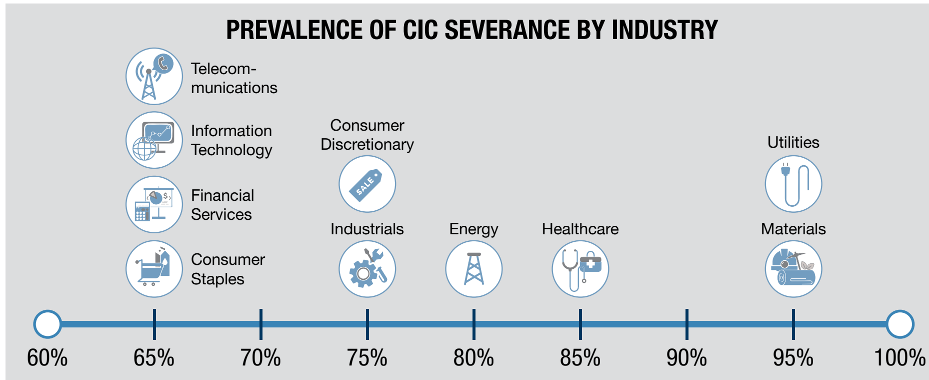
CASH SEVERANCE PAYMENTS – CEOs

__77%__ of CEOs receive a cash severance payment upon termination in connection with a CIC.

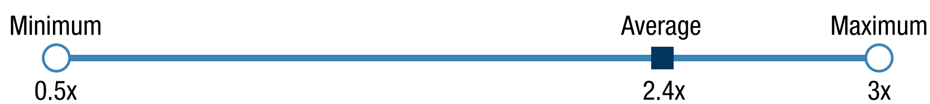
Most common multiple: __2x – 2.99x__

For the __first time__ since the inception of this report in 2006, we did not observe any severance multiples greater than 3x.

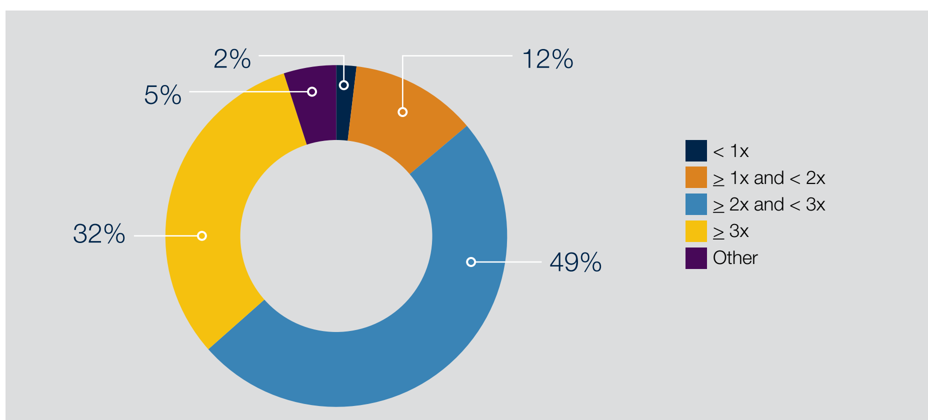
Most agreements or policies with CIC protection provide for a cash severance payment. 77% of CEOs are entitled to receive a cash severance payment upon termination in connection with a CIC, but its prevalence varies significantly by industry:



Severance is usually expressed as a multiple of compensation. The multiple is generally different at various levels within an organization. The most common cash severance payment multiple for CEOs is between 2 and 2.99 times compensation. However, the range of severance multiples observed varied greatly as shown below:



The chart below identifies the most common severance multiples provided to CEOs upon a termination in connection with a CIC across all industries.



The "Other" category includes severance payments that are not based on a multiple of compensation (e.g., an absolute dollar amount, a continuation of compensation through the end of the contract term, or a specific formula). See page 6 for the value of this benefit for CEOs.

The definition of compensation used to determine the severance amount varies between companies (see page 10).

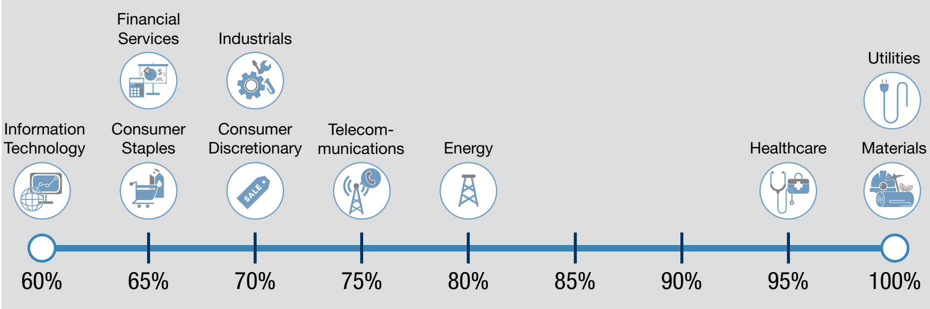
CASH SEVERANCE PAYOUT FOR CEOs BY INDUSTRY

	< 1x	≥ 1x and < 2x	≥ 2x and < 3x	≥ 3x	Other
Consumer Discretionary	7%	0%	87%	7%	0%
Consumer Staples	0%	31%	54%	8%	8%
Energy	13%	6%	31%	44%	6%
Financial Services	0%	15%	54%	8%	23%
Healthcare	0%	18%	41%	41%	0%
Industrials	0%	7%	60%	33%	0%
Information Technology	0%	23%	69%	8%	0%
Materials	0%	0%	26%	74%	0%
Telecommunications	0%	15%	38%	38%	8%
Utilities	0%	5%	32%	58%	5%
2019 Average	**2%**	**12%**	**49%**	**32%**	**5%**
2017 Average	**1%**	**12%**	**49%**	**33%**	**5%**
2015 Average	**1%**	**10%**	**46%**	**37%**	**6%**

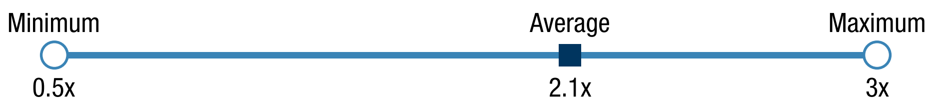
CASH SEVERANCE PAYMENTS – CFOs

For CFOs, 79% are entitled to receive a cash severance payment in connection with a CIC. The prevalence of this benefit varies by industry as shown in the table below:

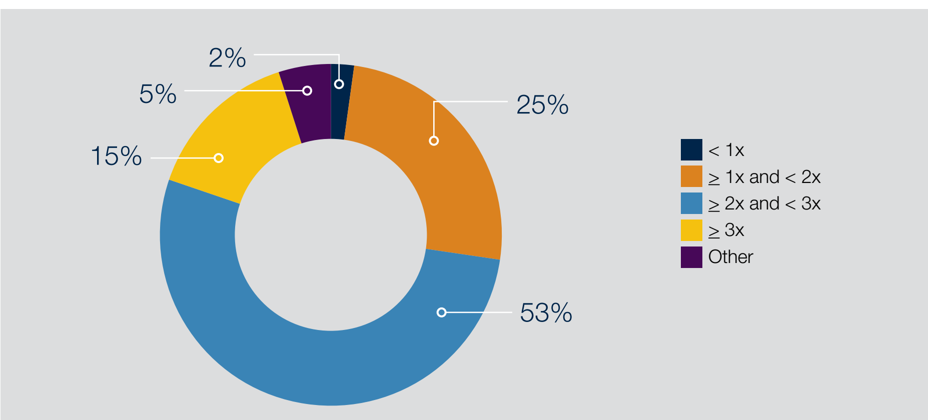
PREVALENCE OF CIC SEVERANCE BY INDUSTRY



Similar to CEOs, the most common cash severance payment provided to CFOs is between 2 and 2.99 times compensation. The range of severance multiples observed varied greatly as shown below:

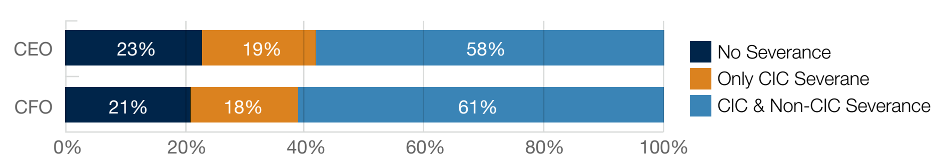


The chart below identifies the most common severance multiples provided to CFOs upon a termination in connection with a CIC across all industries.



Non-Change in Control Severance

We also gathered data on the prevalence and value of non-CIC cash severance payments and compared that to cash severance payments received upon a CIC for CEOs and CFOs, as shown below.



For CEOs and CFOs, the value of severance paid upon termination in connection with a CIC is on average 1.34 times and 1.38 times the value of severance paid upon a termination without a CIC, respectively.

***79%** of CFOs receive a cash severance payment upon termination in connection with a CIC.*

*Most common multiple: **2x – 2.99x***

*Only **59%** of CEOs and CFOs are entitled to non-CIC severance.*

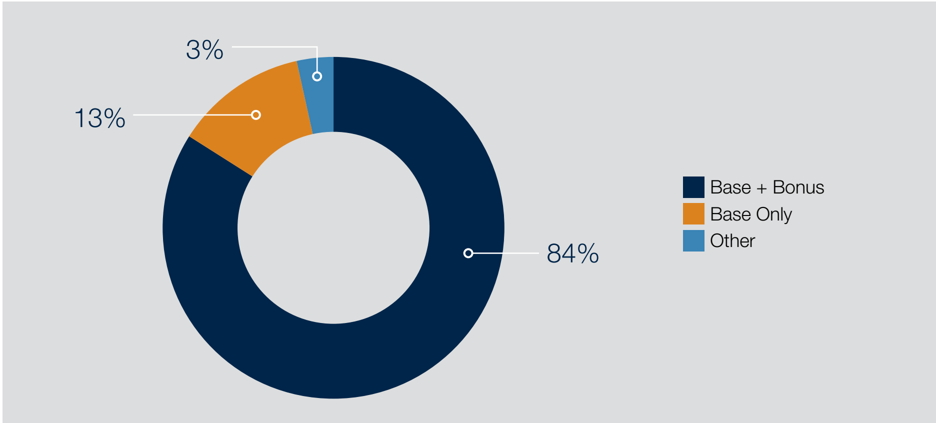
CASH SEVERANCE PAYOUT FOR CFOs BY INDUSTRY

	< 1x	≥ 1x and < 2x	≥ 2x and < 3x	≥ 3x	Other
Consumer Discretionary	7%	21%	71%	0%	0%
Consumer Staples	0%	23%	69%	0%	8%
Energy	6%	13%	50%	31%	0%
Financial Services	0%	38%	31%	8%	23%
Healthcare	0%	26%	47%	26%	0%
Industrials	0%	36%	57%	7%	0%
Information Technology	8%	50%	42%	0%	0%
Materials	0%	10%	55%	35%	0%
Telecommunications	0%	33%	53%	0%	13%
Utilities	0%	5%	50%	40%	5%
2019 Average	**2%**	**25%**	**53%**	**15%**	**5%**
2017 Average	**2%**	**24%**	**53%**	**14%**	**7%**
2015 Average	**2%**	**18%**	**54%**	**19%**	**7%**

COMPENSATION DEFINITION FOR CASH SEVERANCE PAYMENTS

*The definition of compensation for purposes of determining the cash severance amount is generally **base salary plus annual bonus** (84%).*

The most common definition of compensation used to determine CIC cash severance payments is base salary plus annual bonus, followed by base salary only. Some companies include other forms of compensation in their definition such as the value of equity awards and the value of perquisites or simply use W-2 income. The table at bottom left identifies the common definitions of compensation by industry while the chart below shows the aggregate results for all industries.



When annual bonus is included in the definition of compensation, the bonus is usually defined in the agreement or policy.

- Most companies utilize target bonus for purposes of calculating severance.
- Some companies define the annual bonus amount by reference to historical bonuses paid. Examples of this approach include:
    - Higher of multiple compensation definitions over a set period of time (e.g., higher of target or actual, highest actual bonus in the last 3 years, etc.);
    - Average bonus paid over a particular time period (e.g., preceding 5 year period); and
    - Bonus paid for the most recent fiscal year end.
- Some companies' proxy statements did not specify the definition to be used in determining the annual bonus amount.

The table below illustrates the different definitions of annual bonus utilized by companies and their prevalence. Because some companies have different definitions for their CEO and CFO, the prevalence adds up to more than 100%.

ANNUAL BONUS DEFINITION	PREVALENCE
Target	57%
Higher of	23%
Average	20%
Most Recent Bonus	3%
Other / Not Specified	1%

COMPENSATION DEFINITION BY INDUSTRY

	Base + Bonus	Base Only	Other
Consumer Discretionary	88%	13%	0%
Consumer Staples	57%	43%	0%
Energy	75%	19%	6%
Financial Services	64%	29%	7%
Healthcare	95%	5%	0%
Industrials	100%	0%	0%
Information Technology	100%	0%	0%
Materials	85%	0%	15%
Telecommunications	81%	13%	6%
Utilities	95%	5%	0%
2019 Average	**84%**	**13%**	**3%**
2017 Average	**81%**	**16%**	**4%**
2015 Average	**85%**	**14%**	**2%**

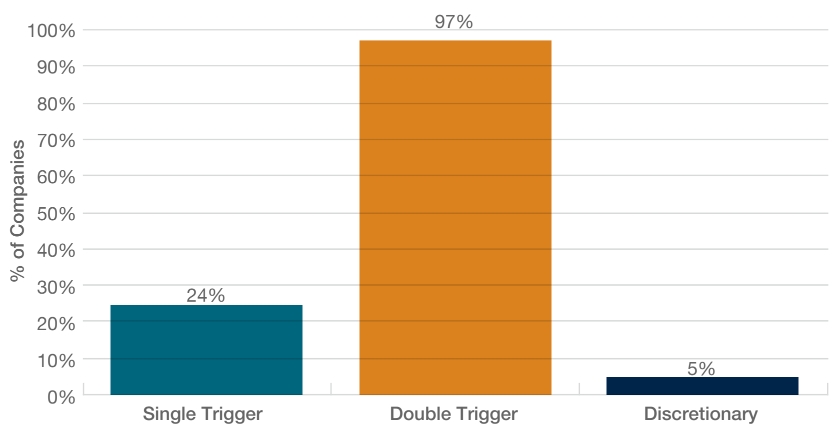
CHANGE IN CONTROL TRIGGERS FOR EQUITY AWARDS

There are generally three types of CIC payout triggers for equity awards:

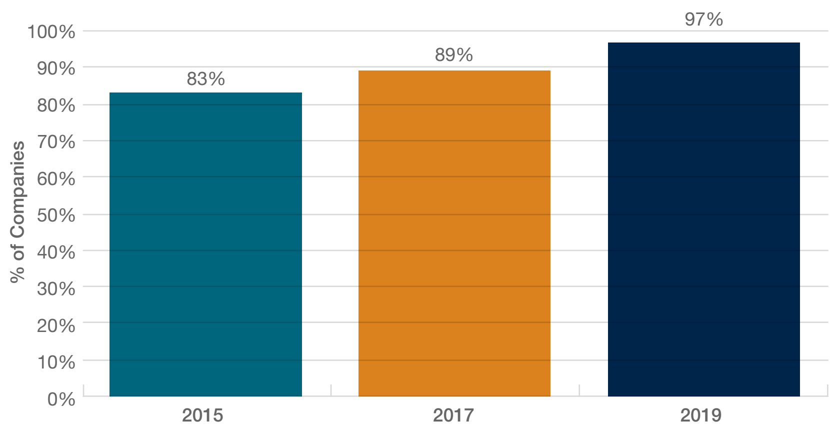
TRIGGER	DESCRIPTION
Single	Only a CIC must occur for vesting to be accelerated.
Double*	A CIC plus termination without cause or resignation for "good reason" must occur within a certain period after the CIC.
Discretionary	The board has the discretion to trigger the payout of an award after a CIC.

* Sometimes companies allow for single trigger vesting if the acquiring company does not assume the equity awards, but require double trigger vesting if the awards are assumed by the acquirer. For the purposes of this study, this treatment was included in the double trigger vesting category.

The chart below and table at the bottom right show the prevalence of CIC triggers for outstanding equity awards. Because some companies have multiple equity awards outstanding with different equity triggers, the prevalence adds up to more than 100%.



From 2015 to 2019, double trigger vesting has continued to increase for equity awards where now almost all companies have double trigger vesting for some or all of their awards as shown in the chart below.



Approximately 50% of the LTI on a value basis consists of time-based awards, and the other 50% is performance-based.

From 2015 to 2019, double trigger vesting has continued to increase for equity awards where ***now almost all companies have double trigger vesting*** *for some or all of their awards as shown in the chart below.*

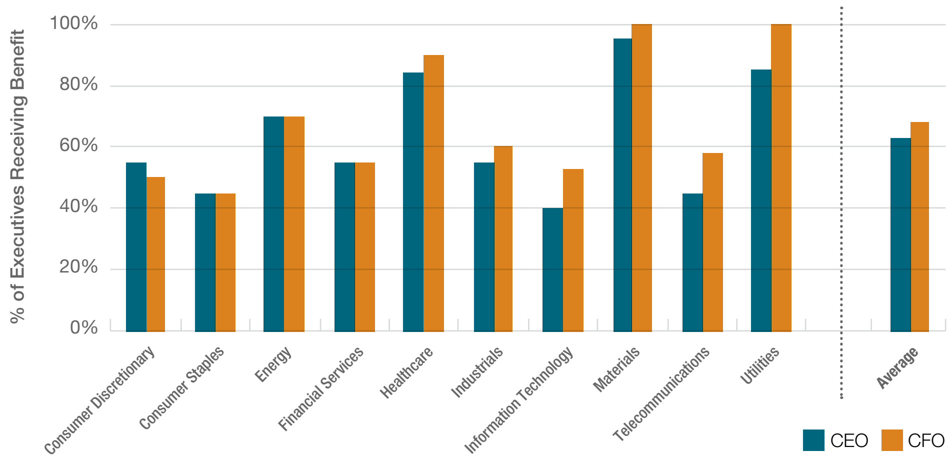
CHANGE IN CONTROL TRIGGERS BY INDUSTRY

	Single Trigger	Double Trigger	Discretionary
Consumer Discretionary	15%	100%	0%
Consumer Staples	37%	100%	11%
Energy	53%	68%	5%
Financial Services	11%	100%	0%
Healthcare	10%	100%	10%
Industrials	20%	100%	5%
Information Technology	21%	100%	5%
Materials	30%	100%	5%
Telecommunications	6%	100%	0%
Utilities	40%	100%	5%
2019 Average	**24%**	**97%**	**5%**
2017 Average	**28%**	**89%**	**9%**
2015 Average	**42%**	**83%**	**13%**

HEALTH AND WELFARE BENEFITS CONTINUATION

__63%__ of CEOs and __68%__ of CFOs receive an extension of health and welfare benefits upon termination of employment in connection with a CIC.

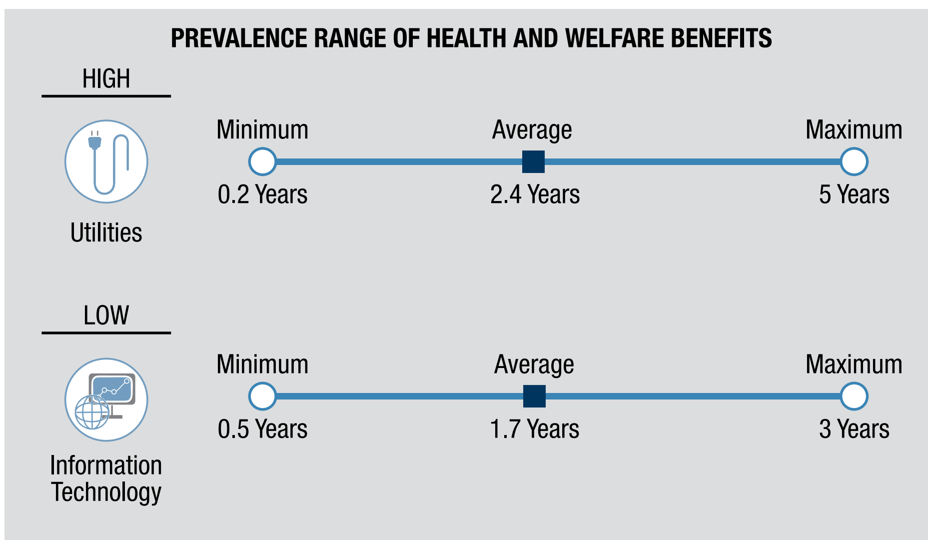
CEOs and CFOs often receive continuation of health and welfare benefits upon termination of employment in connection with a CIC. The prevalence of this benefit varies between industries as summarized in the following chart.



- In six industries, this benefit is provided to CFOs more often than CEOs. This usually occurs when the CEO is entitled to retiree medical benefits or in a foreign country with nationalized healthcare (versus a CFO in the US) so no incremental benefit is received upon a CIC. This also occurs when the CFO still has a legacy agreement providing this benefit, but a newly hired CEO does not.
- Only one company provides health and welfare benefits for a continuation period greater than 3 years. Most companies that provide benefit continuation cease providing the benefits when the executive commences subsequent employment that provides similar benefits. The table at the bottom left shows the prevalence of health and welfare benefit continuation periods by industry.
- The industries with the highest and lowest average benefit continuation period for all executives are shown below.

HEALTH AND WELFARE BENEFITS BY INDUSTRY

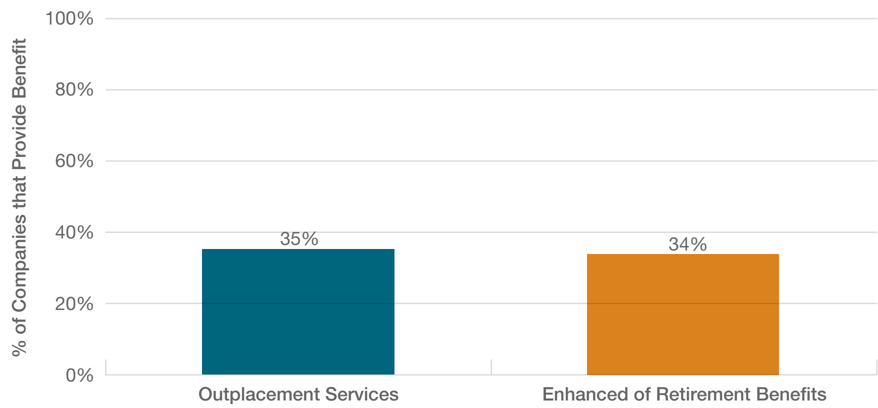
	< 1 years	≥ 1 years and < 2 years	≥ 2 years and < 3 years	≥ 3 years	Other
Consumer Discretionary	10%	24%	48%	10%	10%
Consumer Staples	0%	22%	67%	11%	0%
Energy	7%	39%	7%	43%	4%
Financial Services	9%	18%	45%	9%	18%
Healthcare	6%	24%	26%	26%	18%
Industrials	0%	30%	22%	48%	0%
Information Technology	11%	39%	39%	6%	6%
Materials	0%	33%	26%	41%	0%
Telecommunications	0%	35%	40%	20%	5%
Utilities	5%	14%	38%	38%	5%
2019 Average	**5%**	**28%**	**36%**	**25%**	**6%**
2017 Average	**3%**	**30%**	**34%**	**26%**	**7%**
2015 Average	**2%**	**22%**	**34%**	**37%**	**5%**



Other common types of benefits provided to executives upon a CIC include:

- Outplacement services and
- Enhanced retirement benefits.

If the company offered the benefit to its CEO or CFO, it is included in the prevalence percentages in the chart below and in the industry table at the bottom right.



- **Outplacement Services:** Companies sometimes provide this benefit through an outplacement agency to help executives find suitable employment. Outplacement services are generally capped at a certain dollar amount or only offered for a certain period of time after the executive's termination. Prevalence varies among industries as shown below:

PREVALENCE RANGE OF OUTPLACEMENT SERVICES

LOW – 15%: Information Technology, Telecommunications

HIGH – 80%: Utilities

- **Enhanced Retirement Benefits:** This type of benefit can be provided in the form of an increase to a retirement account, additional age and years of service credit, and/or accelerated vesting of a retirement benefit. For purposes of reporting enhanced retirement benefits, we did not include the mere paying out of a retirement benefit or the informal funding of a retirement benefit (e.g., through a Rabbi Trust) upon a CIC. The chart below shows the wide spectrum of prevalence between the industries.

PREVALENCE RANGE OF ENHANCED RETIREMENT BENEFITS

LOW – 5%: Information Technology

HIGH – 90%: Utilities

Other common CIC benefits include ***outplacement services (35%) and enhanced retirement benefits (34%).***

OTHER BENEFITS BY INDUSTRY

	Outplacement Services	Enhanced Retirement Benefits
Consumer Discretionary	35%	10%
Consumer Staples	20%	25%
Energy	30%	40%
Financial Services	25%	15%
Healthcare	50%	30%
Industrials	30%	45%
Information Technology	15%	5%
Materials	50%	65%
Telecommunications	15%	15%
Utilities	80%	90%
2019 Average	**35%**	**34%**
2017 Average	**34%**	**40%**
2015 Average	**33%**	**42%**

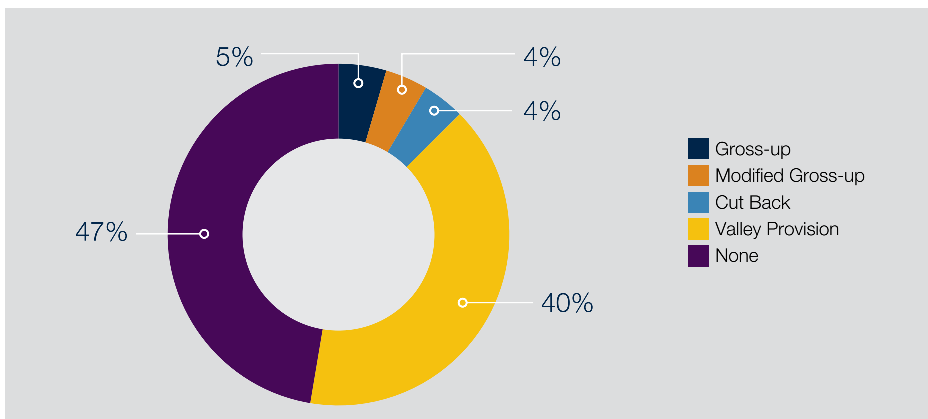
EXCISE TAX PROTECTION – CEOs

*Gross-ups (including modified gross-ups) continue to be phased out with **only 9%** of CEOs entitled to this benefit in 2019.*

The "Golden Parachute" rules impose a 20% excise tax on an executive if the executive receives a parachute payment greater than the "safe harbor" limit. See page 18 for a more detailed explanation of the Golden Parachute rules. Companies may address this excise tax issue in one of the following ways:

PROVISION	DESCRIPTION
Gross-up	The company pays the executive the full amount of any excise tax imposed. The gross-up payment thereby makes the executive "whole" on an after-tax basis. The gross-up includes applicable federal, state, and local taxes resulting from the payment of the excise tax.
Modified Gross-up	The company will gross-up the executive if the payments exceed the "safe harbor" limit by a certain amount (e.g., $50,000) or percentage (e.g., 10%). Otherwise, payments are cut back to the "safe harbor" limit to avoid any excise tax.
Cut Back	The company cuts back parachute payments to the "safe harbor" limit to avoid any excise tax.
Valley Provision (Best-Net)	The company cuts back parachute payments to the "safe harbor" limit if it is more financially advantageous to the executive. Otherwise, the company does not adjust the payments and the executive is responsible for paying the excise tax.
None	Some companies do not address the excise tax; therefore, executives are solely responsible for the excise tax.

The prevalence of these provisions for CEOs is illustrated in the chart below and is shown by industry in the table at bottom left. See page 6 for the quantified values of this benefit for CEOs.



The prevalence of the companies providing gross-ups or modified gross-ups to their CEO varies by industry as shown below:

PREVALENCE OF GROSS-UPS BY INDUSTRY

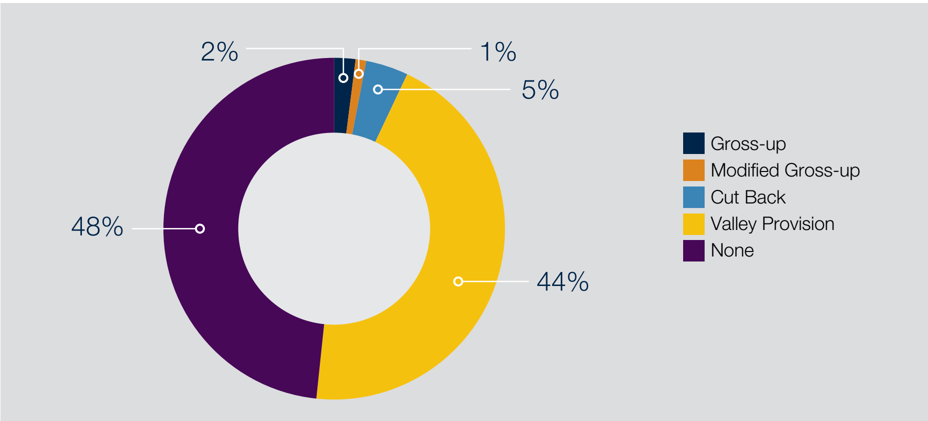
LOW 0%	Information Technology; Consumer Discretionary; Industrials
HIGH 35%	Utilities

EXCISE TAX PROTECTION FOR CEOs BY INDUSTRY

	Gross-up	Modified Gross-up	Cut Back	Valley Provision	None
Consumer Discretionary	0%	0%	10%	45%	45%
Consumer Staples	5%	0%	10%	35%	50%
Energy	5%	5%	0%	45%	45%
Financial Services	0%	5%	0%	30%	65%
Healthcare	0%	5%	0%	47%	47%
Industrials	0%	0%	10%	35%	55%
Information Technology	0%	0%	5%	40%	55%
Materials	15%	5%	0%	60%	20%
Telecommunications	0%	5%	0%	35%	60%
Utilities	20%	15%	5%	30%	30%
2019 Average	**5%**	**4%**	**4%**	**40%**	**47%**
2017 Average	**7%**	**5%**	**5%**	**41%**	**42%**
2015 Average	**8%**	**9%**	**4%**	**39%**	**40%**

The prevalence of excise tax protection provisions for CFOs is illustrated in the chart below and is shown by industry in the table at bottom right. See page 7 for the quantified values of this benefit for CFOs.

Similar to CEOs, gross-ups (including modified gross-ups) continue to be phased out with ***only 3%*** *of companies providing this benefit to their CFOs in 2019.*

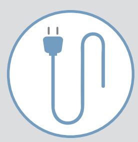


Only three industries still have companies that provide gross-ups or modified gross-ups to their CFOs as shown below:

PREVALENCE OF GROSS-UPS BY INDUSTRY


Materials
5%


Energy
10%


Utilities
15%

Observations From Both CEO and CFO Excise Tax Protection Provisions

Many of the largest companies were the first to phase out excise tax gross-ups. This was likely due to the fact that these companies were so large that they recognized there was little chance of undergoing a CIC.

While providing no excise tax protection is prevalent, 41% of these occurrences are in companies that do not have any severance provisions (CIC or non-CIC related). When analyzing only companies that maintain a formal severance program, valley provisions are almost twice as prevalent as no protection at all.

EXCISE TAX PROTECTION FOR CFOs BY INDUSTRY

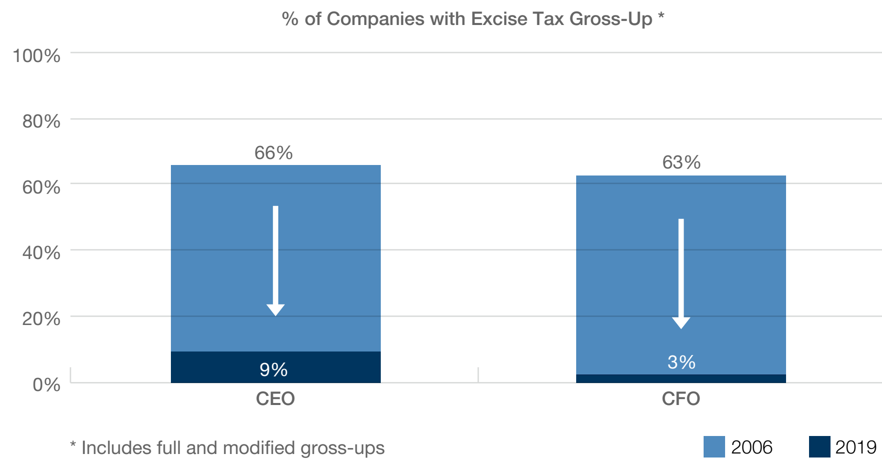
	Gross-up	Modified Gross-up	Cut Back	Valley Provision	None
Consumer Discretionary	0%	0%	10%	45%	45%
Consumer Staples	0%	0%	10%	40%	50%
Energy	5%	5%	0%	45%	45%
Financial Services	0%	0%	0%	35%	65%
Healthcare	0%	0%	0%	50%	50%
Industrials	0%	0%	10%	35%	55%
Information Technology	0%	0%	5%	37%	58%
Materials	5%	0%	0%	75%	20%
Telecommunications	0%	0%	0%	42%	58%
Utilities	10%	5%	10%	40%	35%
2019 Average	**2%**	**1%**	**5%**	**44%**	**48%**
2017 Average	**7%**	**4%**	**4%**	**43%**	**42%**
2015 Average	**11%**	**7%**	**4%**	**37%**	**41%**

TRENDS IN EXCISE TAX PROTECTION

***94%** of companies that currently provide a gross-up or modified gross-up state that they will stop doing so in the future.*

*However, we observed **gross-ups being added at the 11th hour** during actual deal negotiations at **15% of the top 20 deals** during 2019.*

The chart below illustrates the decline in the prevalence of excise tax gross-up protection for CEOs and CFOs since we began conducting this survey in 2006.



- Companies that have removed their excise tax gross-up provisions have generally moved to a valley provision or no protection.
- Many companies have disclosed that they will approach excise tax protection differently in the future (e.g., no excise tax gross-ups, use of valley provision, etc.) for new executives and/or new agreements. This is likely in response to pressure from shareholder advisory firms to eliminate the use of excise tax gross-ups.
- With the decline of the gross-up, fewer executives are protected from the impact of the excise tax levied under Sections 280G and 4999. Coupled with the trend that performance-based equity vehicles are increasing in popularity (which are generally costlier under Section 280G), more executives have the potential to be hit with a large and unexpected tax bill.
- Accordingly, whenever an actual transaction is on the horizon, it is important to think about potential mitigation alternatives, such as:
  - Pre-CIC Reasonable Compensation;
  - Post-CIC Reasonable Compensation; and
  - Base Amount Planning.
- Another consideration for target companies is whether to seek to add gross-up provisions as part of the deal negotiations. During 2019, 15% of the top 20 mergers added a gross-up for either the CEO or CFO during deal negotiations. Acquiring companies may have little appetite for these extra expenses at the end, but depending on the facts and circumstances, they may be necessary to get the deal done.
- Acquiring companies will also now have to deal with the added complexities of the interplay between Sections 162(m) and 280G, which can be even more costly to the acquirer thanks to new tax reform legislation.

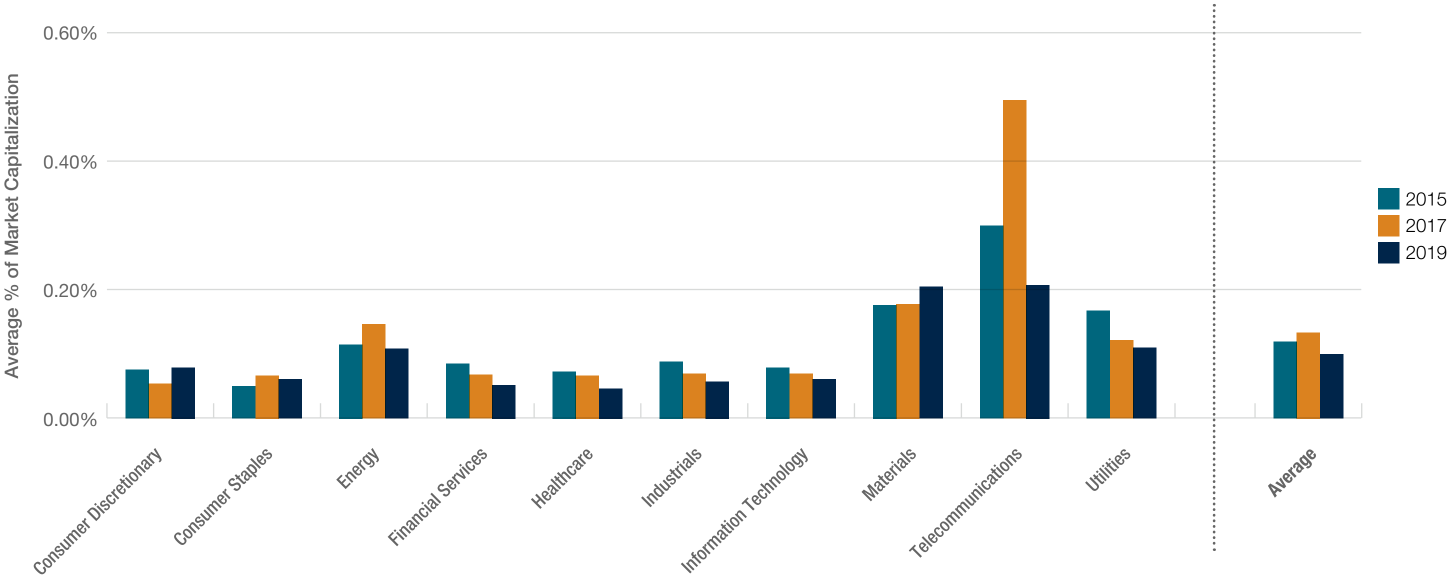
CHANGE IN CONTROL BENEFITS RELATIVE TO MARKET CAPITALIZATION

While the dollar amounts of CIC benefits for CEOs and CFOs are large, they only represent a ***small percentage of the overall deal value*** *(0.10% of market capitalization on average for CEOs and CFOs).*

As shown throughout this study, executives are often entitled to numerous benefits upon a CIC and/or involuntary termination of their employment, which can be quite sizeable. These CIC benefits have historically been a point of contention between executives and investors due to their magnitude.

To gain a better understanding of how the value of these benefits compares to the size of a transaction, we calculated the total value of CIC benefits provided to the CEO and the CFO and compared the value to each company's market capitalization.

- On average in 2019, the total value of CIC benefits provided to CEOs and CFOs represents 0.10% of market capitalization. This is a slight decrease from 0.13% in 2017, driven mainly by the increased value of the companies since the prior study.
- Overall, the results show that the value of CIC benefits for the CEOs and CFOs was relatively negligible compared to the market capitalizations of the companies. Upon an actual transaction, this percentage would likely be even smaller if the typical "deal premium" is present.
- The chart below shows the ratio of the CIC benefits to market capitalization for each industry in 2019 as well as for 2015 and 2017.



OVERVIEW OF GOLDEN PARACHUTE RULES – SECTION 280G

*Under the Golden Parachute provisions of the Internal Revenue Code, a payment to an executive exceeding the "safe harbor" limit results in **large penalties** to both the corporation and key executives.*

When a corporation is acquired by another company, both the corporation and key executives could become subject to significant adverse tax consequences under the Golden Parachute provisions of the Internal Revenue Code (the "Code"). Under these provisions, a payment to an executive exceeding the Golden Parachute "safe harbor" limit triggers significant or potentially large tax consequences to both the corporation and key executives. Depending on the circumstances and the number of executives affected, the cost to the company and the executives could be substantial.

The "safe harbor" limit is equal to 300% of the executive's average gross compensation over the most recent calendar years ending before the date of the CIC. The most typical situations where the Golden Parachute penalties could be triggered include:

- A company that has significant equity-based compensation awards outstanding (e.g., stock options, restricted shares, performance shares, stock appreciation rights) that accelerate upon a CIC;
- Severance payments triggered by a CIC, which typically pay 2x - 3x annual salary and bonus; and
- New hires or newly promoted executives whose base amounts do not yet reflect their current position.

When the executive receives payments exceeding the "safe harbor" limit, the Code imposes a 20% excise tax on the executive and no deduction is allowed to the corporation. In addition, a key executive may have a clause in his employment contract stating the corporation must "gross up" the executive for any Golden Parachute excise tax. Consequently, the corporation would be liable for the excise tax penalty to the executive, the lost corporate deduction, and all federal and state income taxes that the executive would be required to pay related to the excise tax. These tax consequences could occur even if the key executive remains employed with the company.

The following illustration shows how a parachute payment to an executive can potentially cost the corporation and/or the executive hundreds of thousands of dollars.

	SCENARIO 1 No Golden Parachute Penalty	**SCENARIO 2** Golden Parachute Penalty	**SCENARIO 3** Golden Parachute Penalty with Gross-Up
Total compensation paid on account of a CIC	$1,499,999	$1,500,000	$1,500,000
Average "Base Compensation" received in prior 5 years	500,000	500,000	500,000
Excess parachute payment	N/A (1)	$1,000,000	$1,000,000
Excise Tax penalty to executive (20%)		$200,000	$0
Initial lost tax deduction to corporation (40%)		$400,000	$400,000
Amount necessary to gross-up executive for tax penalty *		$0	$571,429
TOTAL COST TO CORPORATION		$400,000 (2)	$971,429 (3)

* Assumes executive is in a 45% marginal tax bracket, in addition to the 20% excise tax penalty.

(1) In scenario 1, neither the executive nor the corporation is subject to excise tax penalties since payments do not exceed the golden parachute "safe harbor" limit.

(2) In scenario 2, the payment of an additional $1 causes the executive to be liable for a $200,000 penalty and the corporation to lose $400,000 in tax benefits.

(3) In scenario 3, the corporation provides a gross-up payment to the executive for the amount of the excise tax. As the gross-up is itself a parachute payment, it will cost the corporation an additional $571,429 to pay the $200,000 excise tax.

COMPANY LIST

CONSUMER DISCRETIONARY
Amazon.com Inc.
Booking Holdings Inc.*
Carnival Corporation
Dollar General Corporation*
Dollar Tree, Inc.*
eBay Inc.*
Ford Motor Company
General Motors Company
Lowe's Companies, Inc.
Marriott International, Inc.*
McDonald's Corporation
NIKE, Inc.
O'Reilly Automotive, Inc.*
Ross Stores, Inc.*
Starbucks Corporation
Target Corporation
The Home Depot, Inc.
The TJX Companies, Inc.
V.F. Corporation*
YUM! Brands, Inc.*

CONSUMER STAPLES
Altria Group Inc.
Archer-Daniels-Midland Company
Brown-Forman Corporation*
Colgate-Palmolive Company
Constellation Brands, Inc.
Costco Wholesale Corporation
General Mills, Inc.
Hormel Foods Corporation*
Kimberly-Clark Corporation
Mondelez International, Inc.
Monster Beverage Corporation*
PepsiCo, Inc.
Philip Morris International, Inc.
Sysco Corporation
The Coca-Cola Company
The Estée Lauder Companies Inc.
The Kraft Heintz Company
The Procter & Gamble Company
Walgreens Boots Alliance, Inc.
WalMart Inc.

ENERGY
Anadarko Petroleum Corporation
Baker Hughes, a GE company
Chevron Corporation
Concho Resources Inc.
ConocoPhillips
Diamondback Energy, Inc.*
EOG Resources, Inc.
Exxon Mobil Corporation
Halliburton Company
Hess Corporation
Kinder Morgan, Inc.
Marathon Oil Corporation*
Marathon Petroleum Corporation
Occidental Petroleum Corporation
ONEOK, Inc.*
Phillips 66
Pioneer Natural Resources Company
Schlumberger Limited
The Williams Companies, Inc.
Valero Energy Corporation

FINANCIAL SERVICES
American Express Company
Bank of America Corporation
Berkshire Hathaway Inc.
BlackRock, Inc.
Capital One Financial Corporation
Chubb Limited
Citigroup Inc.
CME Group Inc.*
Intercontinental Exchange, Inc.*
JPMorgan Chase & Co.
Marsh & McLennan Companies, Inc.*
MetLife, Inc.
Morgan Stanley
S&P Global Inc.*
The Bank of New York Mellon Corporation
The Charles Schwab Corporation
The Goldman Sachs Group, Inc.
The PNC Financial Services Group, Inc.
U.S. Bancorp
Wells Fargo & Company

HEALTHCARE
Abbott Laboratories
AbbVie Inc.
Amgen Inc.
Anthem Inc.*
Becton, Dickinson and Company*
Biogen Inc.
Bristol-Myers Squibb Company
Cigna Corporation*
CVS Health Corporation
Danaher Corporation
Eli Lilly and Company
Gilead Sciences Inc.
Intuitive Surgical, Inc.*
Johnson & Johnson
Medtronic pic
Merck & Co., Inc.
Pfizer Inc.
Stryker Corporation
Thermo Fisher Scientific, Inc.
UnitedHealth Group Incorporated

INDUSTRIALS
3M Company
Caterpillar Inc.
CSX Corporation
Deere & Company
Delta Air Lines, Inc.
Emerson Electric Co.
FedEx Corporation
General Dynamics Corporation
General Electric Company
Honeywell International Inc.
Illinois Tool Works Inc.
Lockheed Martin Corporation
Norfolk Southern Corporation
Northrop Grumman Corporation
Raytheon Company
The Boeing Company
Union Pacific Corporation
United Parcel Service, Inc.
United Technologies Corporation
Waste Management, Inc.*

INFORMATION TECHNOLOGY
Accenture pic
Adobe Inc.
Apple Inc.
Automatic Data Processing, Inc.
Broadcom Ltd.
Cisco Systems, Inc.
Cognizant Technology Solutions Corporations*
Intel Corporation
International Business Machines Corporation
Intuit Inc.*
MasterCard Incorporated
Micron Technology, Inc.
Microsoft Corporation
NVIDIA Corporation
Oracle Corporation
Paypal Holdings, Inc.
QUALCOMM Incorporated
salesforce.com, inc.
Texas Instruments Incorporated
Visa Inc.

MATERIALS
Air Products and Chemicals, Inc.
Ball Corporation
Celanese Corporation
CF Industries Holdings, Inc.*
DowDuPont Inc.
Eastman Chemical Company
Ecolab Inc.
FMC Corporation*
Freeport-McMoRan Inc.
International Flavors & Fragrances Inc.*
International Paper Company
Linde plc*
LyondellBasell Industries N.V.
Martin Marietta Materials, Inc.
Newmont Goldcorp Corporation
Nucor Corporation
PPG Industries, Inc.
The Mosaic Company
The Sherwin-Williams Company
Vulcan Materials Company

TELECOMMUNICATIONS
Activision Blizzard, Inc.*
Alphabet Inc.
AT&T Inc.
CBS Corporation*
CenturyLink, Inc.
Charter Communications, Inc.
Comcast Corporation
Discovery, Inc.*
DISH Network Corporation*
Electronic Arts Inc.*
Facebook, Inc.
Netflix, Inc.
Omnicom Group Inc.*
Take-Two Interactive Software, Inc.*
The Interpublic Group of Companies, Inc.*
The Walt Disney Company
TripAdvisor, Inc*
Twitter, Inc*
Verizon Communications Inc.
Viacom Inc*

UTILITIES
Ameren Corporation
American Electric Power Co., Inc.
American Water Works Company Inc*
Consolidated Edison, Inc.
Dominion Energy, Inc.
DTE Energy Company
Duke Energy Corporation
Edison International
Entergy Corporation
Energy, Inc.*
Eversource Energy
Exelon Corporation
FirstEnergy Corp.
NextEra Energy, Inc.
PPL Corporation
Public Service Enterprise Group Incorporated
Sempra Energy
The Southern Company
WEC Energy Group, Inc.
Xcel Energy Inc.

INDUSTRY STATISTICS (IN MILLIONS)

	Revenue		Market Capitalization	
	Median	Average	Median	Average
Consumer Discretionary	$22,853	$51,857	$35,761	$92,396
Consumer Staples	26,099	62,448	52,054	81,946
Energy	17,545	49,277	29,251	52,440
Financial Services	27,450	46,751	62,235	112,322
Healthcare	27,254	50,782	87,467	122,661
Industrials	36,755	43,917	49,993	67,590
Information Technology	20,729	43,030	103,432	180,905
Materials	10,893	16,533	15,930	27,692
Telecommunications	14,902	41,684	24,858	112,767
Utilities	11,612	13,096	22,834	30,316
2019 Average	**$21,610**	**$41,937**	**$48,381**	**$88,104**
2017 Average	**$21,465**	**$37,377**	**$52,824**	**$79,214**
2015 Average	**$23,609**	**$40,255**	**$51,276**	**$73,705**

* New company for 2019 Survey. Of the 200 companies included in the 2017 survey, 21.5% were replaced in 2019.

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ACKNOWLEDGMENTS

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