2017/2018

EXECUTIVE CHANGE IN CONTROL REPORT

Analysis of Executive Change in Control Arrangements of the Top 200 Companies

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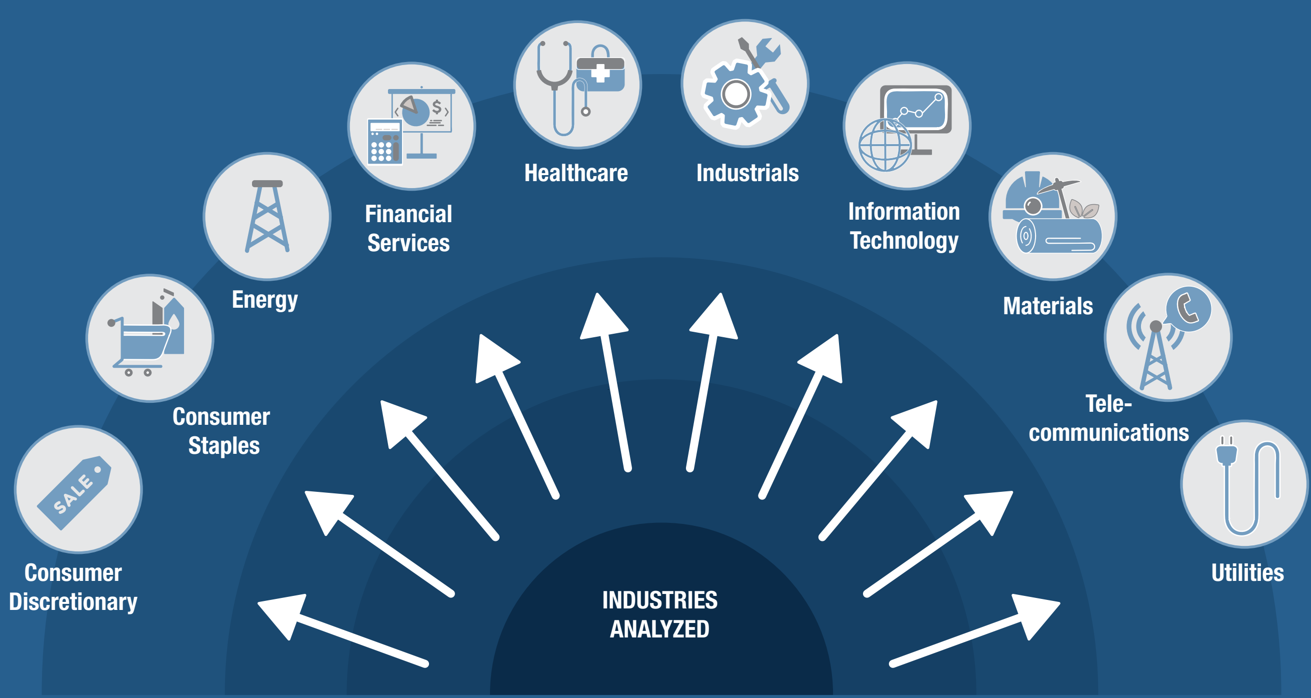


2017/2018 EXECUTIVE CHANGE IN CONTROL REPORT

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

INTRODUCTION

BACKGROUND

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

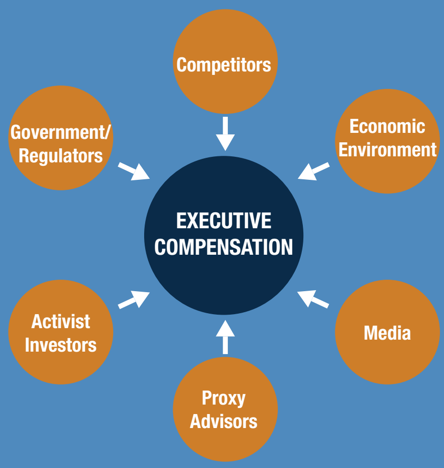
Prior to the enhanced proxy disclosure rules and the Dodd-Frank Act's Say-on-Pay advisory vote, executive change in control arrangements had often remained "under the radar" of shareholders, regulators and other interested parties until shortly before a change in control. However, now public companies must quantify and disclose the magnitude of any potential parachute payments to top executives (such as severance payments, acceleration of equity awards, fringe benefits and/or any "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 edition of our study on change in control arrangements among the top 200 publicly traded companies in the United States.*

FORCES INFLUENCING EXECUTIVE COMPENSATION



2017/2018 SURVEY

By benchmarking existing plans against other companies, public company boards, their compensation committees and management will be able 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 other named executive officers ("Other NEOs") at 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 regards to executive change in control arrangements. Observations and comparisons are made between this study and our prior 2013 and 2015 studies, as appropriate.

EXECUTIVE SUMMARY

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

The purpose of these 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 change in control provisions in executive compensation packages, boards can be assured that executives will 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 change in control arrangements, boards and their compensation committees can demonstrate a sense of accountability to both shareholders and regulators.

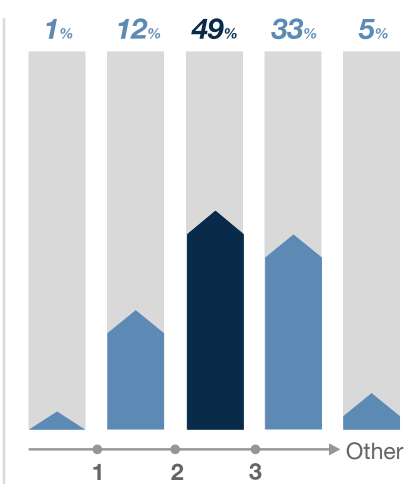
KEY FINDINGS

Average total value of change in control benefits.

0.23%

Average total value of change in control benefits for CEOs and Other NEOs as a percentage of market capitalization.

SEVERANCE

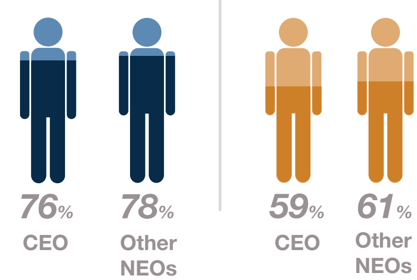


CIC Severance Multiples for CEOs

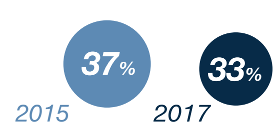
The most common cash CIC severance multiple for CEOs is between two and three times compensation.

Percent of CEOs and Other NEOs entitled to receive a cash severance payment upon termination **with a change in control.**

Percent of CEOs and Other NEOs entitled to receive a cash severance payment upon termination **without a change in control.**

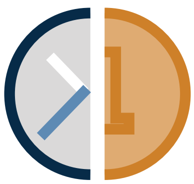


The prevalence of a three times or higher severance multiple for CEOs has fallen from 37% in 2015 to 33% in 2017.



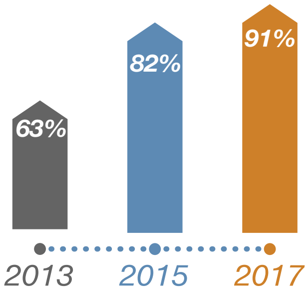
EQUITY

Long-term incentives (LTI) comprise a large portion of the change in control benefits to which CEOs and Other NEOs are entitled.

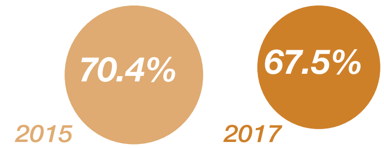


Approximately half of LTI is subject to **time-based vesting.**

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



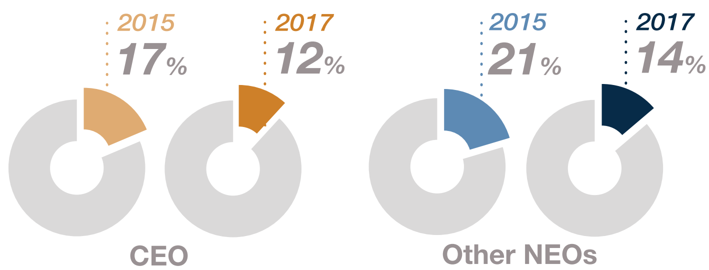
Percent of companies that have unvested equity awards with a **double trigger** (change of control and termination of employment) by year.

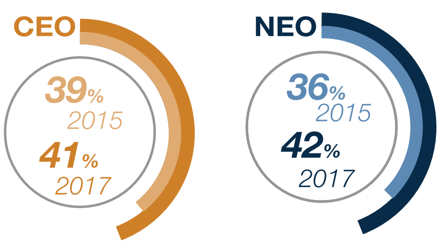


67.5% of the average 2017 total CIC amounts for CEOs and Other NEOs is made up of equity awards. This is down slightly from 70.4% in 2015.

EXCISE TAX

Percent of CEOs and Other NEOs 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.





Percent of CEOs and Other NEOs with a “best net” or “valley” provision. The company cuts back parachute payments or does not adjust the payments, depending on what is more financially advantageous to the executive.

90%

Percent of companies that currently provide an excise tax gross-up or modified gross-up payment have indicated that they **intend to phase out or completely eliminate excise tax gross-up provisions in the future.**

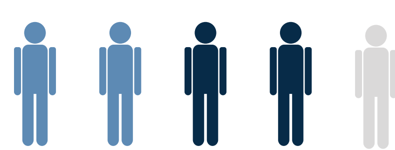
RECENT ACTUAL TRANSACTIONS

5 notable deals in 2017

1. General Electric/Baker Hughes
2. Abbott Laboratories/St. Jude Medical
3. Sunoco Logistics/Energy Transfer Partners
4. Enbridge/Spectra Energy
5. Amazon/Whole Foods

$60,324,452

Average of the total CIC payments given to each company’s top five executives.



- 2 out of 5 companies offered their executives valley provisions
- 2 out of 5 companies offered their executives gross-ups
- Not disclosed

RECENT ACTUAL TRANSACTIONS

This year A&M is pleased to partner with ***Equilar*** who has offered the following independent commentary on pages 4 and 5 to provide additional color and context around how companies approach change in control benefits when an actual transaction is in the works.

VALUE OF BENEFITS

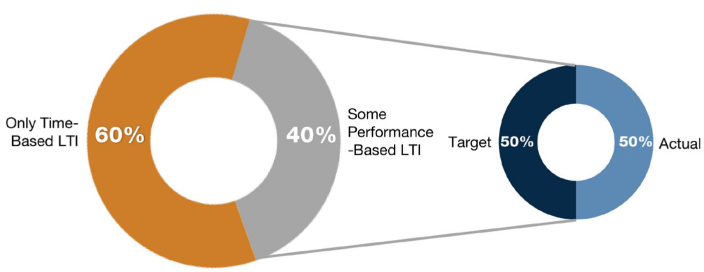
Equilar conducted a study of actual CIC payments taken from golden parachute tables disclosed in public filings following 54 mergers occurring between 2013 and 2015 — in that research, we found results that are very consistent with this report in terms of both aggregate payout and the portion comprised of long-term incentive awards. The most notable difference is that our sample shows both CEOs and Other NEOs receiving a **higher portion** of payouts attributable to **excise tax gross-ups**. This may be because our sample contains smaller-sized companies — the transactions we reviewed were between \$2 billion and \$6 billion. As discussed on the next page, however, we have also found evidence of companies adding gross-up provisions during merger negotiations which may account for the difference.

5 notable deals in 2017

1. General Electric/Baker Hughes
2. Abbott Laboratories/St. Jude Medical
3. Sunoco Logistics/Energy Transfer Partners
4. Enbridge/Spectra Energy
5. Amazon/Whole Foods

21%

Average Deal Premium Upon Announcement



2 out of the 5 target companies granted performance-based awards to their executives. *There was an even split among the performance-based grants with half converting at the target level and half converting based on actual performance at the CIC.*

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 change in control 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 change in control date; or
- Defer to Board's discretion.

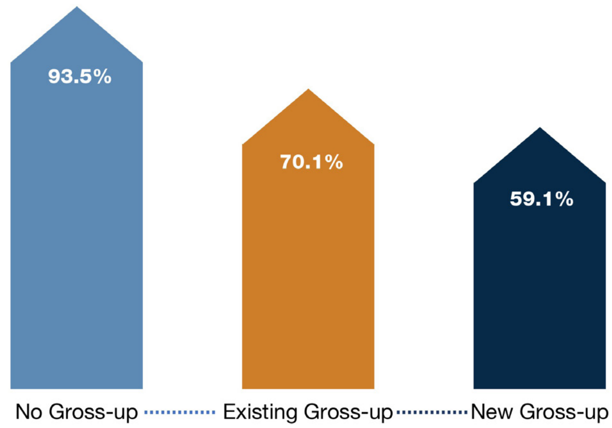
EXCISE TAX GROSS-UPS

We have seen many companies amending CIC arrangements just prior to an acquisition. In a recent study of 107 mergers in the healthcare industry since 2013, we found that **16 companies (15 percent of total studied)** introduced tax gross-ups to their CIC arrangements during merger negotiations. This didn't go unnoticed. The companies that introduced gross-ups had a lower Say-on-Parachute approval rating as shown in the chart to the right.

It's possible that issuers had previously removed gross-ups to avoid shareholder scrutiny, assuming that CIC payments in the future wouldn't exceed the limit anyway. However, a **strong stock market** over the last few years has forced the hand of some boards which have had to deal with the prospect of executives paying excise taxes or seeing reduced payouts, and many have chosen to make the executives whole with a gross-up payment. The chart below shows how the new gross-ups are generally more expensive than existing gross-ups based on this study.

	NEW GROSS-UP	EXISTING GROSS-UP
Companies	16	11
Executives	50	19
Average Value	$4,566,604	$1,895,505
Median Value	$2,737,963	$1,316,677

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. This vote is non-binding, has no consequences for failure, and issuers typically cease to exist shortly after the vote. In other words, the **vote is toothless for the company.**

OTHER PRE-MERGER CHANGES

Pre-merger changes aren't always controversial. Executives will sometimes accept special cash or equity awards in exchange for relinquishing certain protections under their CIC agreements. A high-profile example of this is Michael Pearson's agreement made in connection with the merging of **Biovail and Valeant Pharmaceuticals**. He agreed to waive the accelerated vesting of his outstanding equity awards in exchange for a new award of performance stock units valued at **$3.6 million**.

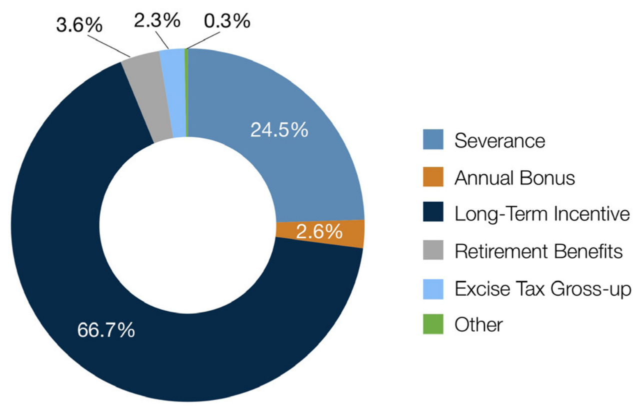
AVERAGE CHANGE IN CONTROL BENEFIT – CEOs

*The average change in control benefit provided to CEOs dropped to **$27,871,606** in 2017 as compared to $30,263,623 in 2015.*

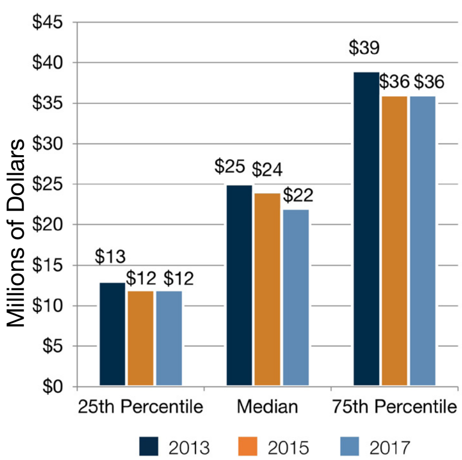
The main value driver is long-term incentive packages.

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 Other NEOs.

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



RANGE OF CHANGE IN CONTROL BENEFITS



The largest component of the change in control packages for CEOs is by far the long-term incentives.

The “other” category is comprised of health and welfare benefits, outplacement services, life insurance, financial/legal services, etc.

The table below displays the 2017 averages for each type of parachute payment by industry, including a company weighted average for all 10 industries. For comparison purposes, information related to 2013 and 2015 is also shown below.

This information was generally found in the “Potential Payments upon Termination or Change in Control” section of the “Compensation Discussion and Analysis” section as well as other sections of the executive compensation disclosures in the companies’ proxy statements.

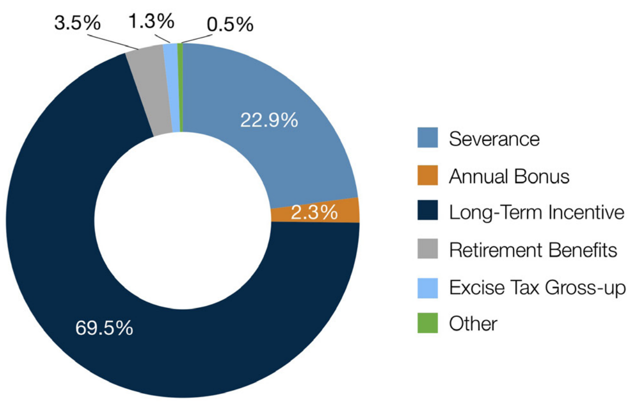
2017 CHANGE IN CONTROL BENEFIT VALUES FOR CEOs

	Severance	Annual Bonus	Long-Term Incentive	Retirement Benefits	Excise Tax Gross-Up	Other	2017 Average Total Benefit	2015 Average Total Benefit	2013 Average Total Benefit
Consumer Discretionary	$8,120,996	$1,752,027	$19,167,807	$211,065	$0	$84,142	$29,336,036	$36,564,586	$43,863,022
Consumer Staples	5,361,133	573,773	17,278,734	141,428	0	204,463	23,559,531	18,167,945	27,254,642
Energy	7,988,303	706,446	19,658,742	3,934,026	1,269,620	82,910	33,640,047	30,170,005	30,932,662
Financial Services	5,623,414	721,500	27,563,590	61,229	0	92,470	34,062,202	39,102,895	34,055,788
Healthcare	8,250,072	355,266	15,694,709	155,533	0	87,688	24,543,268	36,897,778	29,406,730
Industrials	8,888,686	785,157	15,223,568	942,760	0	143,168	25,983,338	31,136,643	27,245,226
Information Technology	3,612,907	432,850	34,217,165	0	0	21,488	38,284,409	40,919,625	25,751,376
Materials	8,452,436	567,679	13,349,678	1,589,587	2,766,620	59,084	26,785,085	27,373,526	40,446,272
Telecommunications	4,107,838	944,655	14,643,181	5,580	0	25,241	19,726,494	13,435,242	17,535,906
Utilities	7,809,591	417,840	8,997,890	3,110,595	2,332,891	126,845	22,795,652	28,263,205	21,423,089
2017 Weighted Average	$6,821,537	$725,719	$18,579,506	$1,015,180	$636,913	$92,750	$27,871,606	N/A	N/A
2015 Weighted Average	$6,497,139	$649,055	$21,220,852	$1,109,472	$649,580	$137,525	N/A	$30,263,623	N/A
2013 Weighted Average	$6,556,098	$704,087	$20,044,749	$1,548,273	$749,457	$250,393	N/A	N/A	$29,853,057

AVERAGE CHANGE IN CONTROL BENEFIT – OTHER NEOs

Similarly, we calculated the average value of typical parachute payments for the Other NEOs.

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



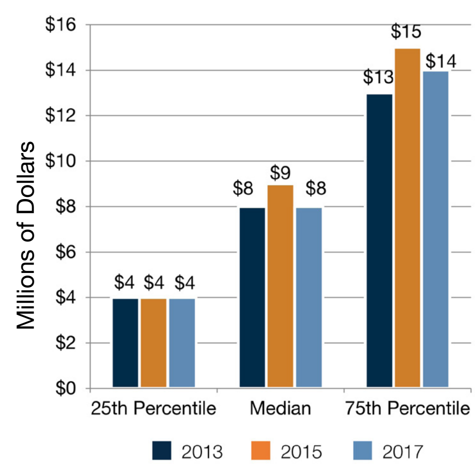
*Other NEOs are entitled to change in control benefits of **$11,113,533** on average, which falls in between our observations in 2015 ($12,308,581) and 2013 ($10,965,718).*

The table below displays the 2017 averages for each type of parachute payment broken out by industry, including an executive weighted average for all 10 industries. For comparison purposes, information related to 2013 and 2015 is also shown below.

Observations from Average CIC Benefits for both CEOs & Other NEOs

- Overall, the aggregate benefit level has decreased since 2015, which is mainly driven by the decrease in long-term incentive values.
  - The lower long-term incentive values were caused primarily by a downturn in certain industries, turnover in executives and an increase in retirement-eligible executives.
- While excise tax gross-ups have declined, severance and annual bonus amounts have increased.
- For both CEOs and Other NEOs, the information technology industry had the largest average benefit whereas the telecommunications industry offered the smallest average benefit.

RANGE OF CHANGE IN CONTROL BENEFITS



2017 CHANGE IN CONTROL BENEFIT VALUES FOR OTHER NEOs

	Severance	Annual Bonus	Long-Term Incentive	Retirement Benefits	Excise Tax Gross-Up	Other	2017 Average Total Benefit	2015 Average Total Benefit	2013 Average Total Benefit
Consumer Discretionary	$3,375,718	$636,267	$10,180,822	$88,309	$0	$53,111	$14,334,227	$13,217,003	$22,940,101
Consumer Staples	2,010,162	194,193	6,231,599	57,853	169,170	60,047	8,723,025	10,265,590	9,135,352
Energy	2,744,660	198,193	6,255,048	994,424	523,480	68,109	10,783,915	10,162,528	10,467,245
Financial Services	2,694,540	428,586	9,465,367	90,094	0	76,711	12,755,297	13,505,567	11,652,919
Healthcare	3,495,733	108,894	8,172,911	501,200	0	63,737	12,342,475	17,985,288	12,496,325
Industrials	2,491,831	274,325	5,856,375	423,765	0	67,410	9,113,705	11,033,232	10,221,533
Information Technology	1,284,896	138,359	20,479,212	0	0	16,596	21,919,062	23,501,853	11,556,095
Materials	2,860,166	178,028	4,229,665	756,965	489,276	53,614	8,567,714	9,709,791	8,247,012
Telecommunications	1,624,647	292,951	3,747,629	2,340	0	22,482	5,690,049	4,149,947	5,502,602
Utilities	2,884,409	139,374	2,636,044	886,743	247,036	80,333	6,873,939	9,108,705	7,160,371
2017 Weighted Average	$2,548,843	$257,533	$7,721,747	$384,401	$144,757	$56,253	$11,113,533	N/A	N/A
2015 Weighted Average	$2,481,962	$226,783	$8,768,909	$461,741	$305,004	$70,679	N/A	$12,308,581	N/A
2013 Weighted Average	$2,813,300	$262,450	$6,802,529	$611,693	$354,744	$121,002	N/A	N/A	$10,965,718

CASH SEVERANCE PAYMENTS – CEOs

***76%** of CEOs receive a cash severance payment upon termination in connection with a change in control.*

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

Larger multiples are being replaced with more modest ones.

CASH SEVERANCE PAYOUT FOR CEOs WITH SEVERANCE BY INDUSTRY	<1	≥ 1 and <2	≥ 2 and <3	≥ 3	Other
Consumer Discretionary	8%	15%	62%	0%	15%
Consumer Staples	0%	25%	50%	19%	6%
Energy	6%	0%	27%	67%	0%
Financial Services	0%	0%	77%	0%	23%
Healthcare	0%	11%	44%	39%	6%
Industrials	0%	7%	50%	43%	0%
Information Technology	0%	20%	70%	10%	0%
Materials	0%	5%	28%	67%	0%
Telecommunications	0%	33%	40%	27%	0%
Utilities	0%	5%	37%	58%	0%
2017 Average	**1%**	**12%**	**49%**	**33%**	**5%**
2015 Average	**1%**	**10%**	**46%**	**37%**	**6%**
2013 Average	**1%**	**8%**	**43%**	**42%**	**6%**

Most agreements or policies with change in control protection provide for a cash severance payment. 76 percent of CEOs are entitled to receive a cash severance payment upon termination in connection with a change in control, but its prevalence varies significantly by industry:

INDUSTRY PREVALENCE RANGE

LOW
Information Technology
50%

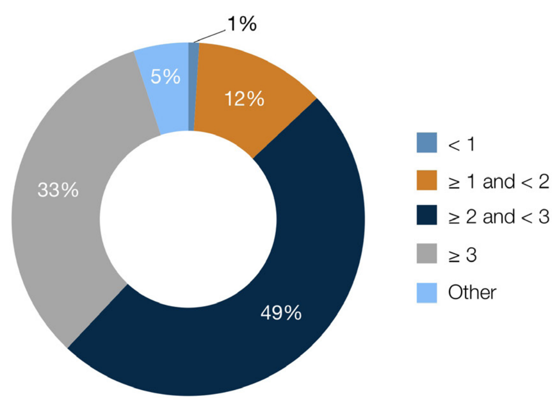
HIGH
Utilities
95%

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:

Minimum	Average	Maximum
0.5x	2.39x	5x

The company with a multiple of five only uses base salary for purposes of calculating severance and does not include a bonus component. This company was the only one with a multiple in excess of three.

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



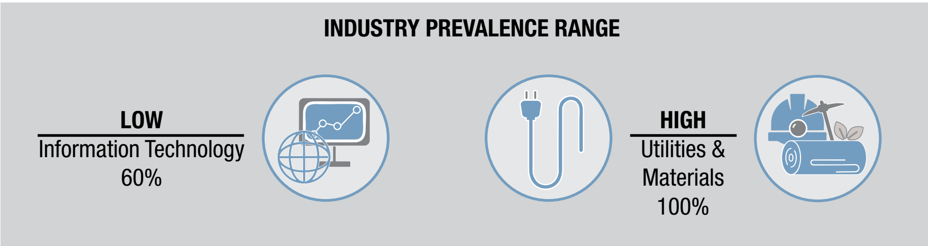
The "Other" category includes severance payments that are not based on a multiple of compensation (e.g., an absolute dollar amount, a continuation of compensation through the end of the contract term, or a specific formula). See page 6 for the value of this benefit for CEOs.

The definition of compensation used to determine the severance amount varies between companies. See page 10 for the most common definitions of compensation used in determining severance amounts.

The table to the left shows the prevalence of severance multiples for CEOs by industry.

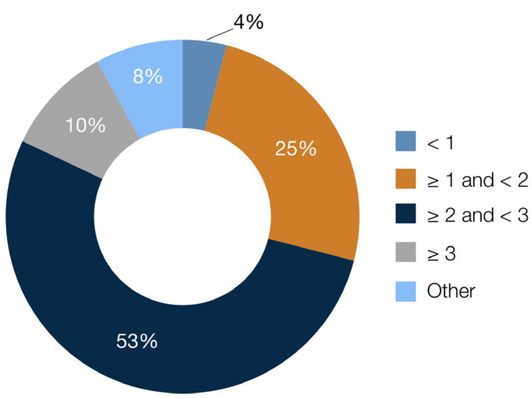
CASH SEVERANCE PAYMENTS – OTHER NEOs

We also evaluated the change in control severance provided to Other NEOs. 78 percent of Other NEOs are entitled to receive a cash severance payment in connection with a change in control. The prevalence of this benefit varies by industry as shown in the table below:



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

This chart illustrates the prevalence of severance multiples used to determine the cash severance amount paid to Other NEOs in the event of a termination in connection with a change in control. A table containing the severance multiples for Other NEOs by industry is at bottom right.



Non-Change in Control Severance

We also gathered data on the prevalence and value of non-change in control cash severance payments and compared that to cash severance payments received upon a change in control for CEOs and Other NEOs.

- 40 percent of CEOs and Other NEOs are not entitled to severance upon a termination without a change in control. Moreover, 24 percent of CEOs and 22 percent of Other NEOs are not entitled to any severance, under any circumstances (change in control or non-change in control).
- For CEOs and Other NEOs, the value of severance paid upon termination in connection with a change in control is on average 1.43 times and 1.36 times the value of severance paid upon a termination without a change in control, respectively.

78% of Other NEOs receive a cash CIC severance payment upon termination in connection with a change in control.

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

*Only **60%** of CEOs & Other NEOs are entitled to non-CIC severance.*

CASH SEVERANCE PAYOUT FOR OTHER NEOs WITH SEVERANCE BY INDUSTRY

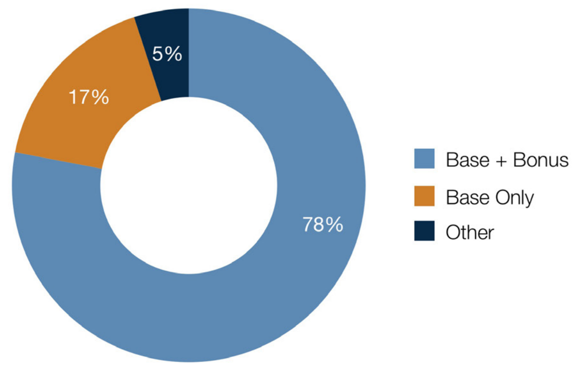
	<1	≥ 1 and <2	≥ 2 and <3	≥ 3	Other
Consumer Discretionary	7%	47%	33%	0%	13%
Consumer Staples	0%	44%	50%	0%	6%
Energy	7%	0%	53%	40%	0%
Financial Services	0%	15%	54%	0%	31%
Healthcare	0%	26%	58%	11%	5%
Industrials	0%	27%	67%	6%	0%
Information Technology	8%	42%	33%	0%	17%
Materials	0%	15%	65%	20%	0%
Telecommunications	18%	35%	47%	0%	0%
Utilities	0%	5%	70%	20%	5%
2017 Average	**4%**	**25%**	**53%**	**10%**	**8%**
2015 Average	**4%**	**19%**	**55%**	**14%**	**8%**
2013 Average	**1%**	**17%**	**60%**	**16%**	**6%**

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*** *(78%).*

COMPENSATION DEFINITION BY INDUSTRY	Base + Bonus	Base Only	Other
Consumer Discretionary	56%	31%	13%
Consumer Staples	65%	35%	0%
Energy	80%	13%	7%
Financial Services	57%	29%	14%
Healthcare	89%	11%	0%
Industrials	100%	0%	0%
Information Technology	82%	18%	0%
Materials	90%	0%	10%
Telecommunications	72%	28%	0%
Utilities	90%	5%	5%
2017 Average	**78%**	**17%**	**5%**
2015 Average	**81%**	**17%**	**2%**
2013 Average	**85%**	**13%**	**2%**

The most common definitions of compensation used to determine change in control cash severance payments are 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:
  - Highest bonus paid over a set period of time (e.g., most recent three years);
  - Average bonus paid over a particular time period (e.g., preceding five 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.

ANNUAL BONUS DEFINITION	PREVALENCE
Target	59%
Average	27%
Higher Of	19%
Most Recent Bonus	4%
Other / Not Specified	4%

CHANGE IN CONTROL TRIGGERS FOR EQUITY AWARDS

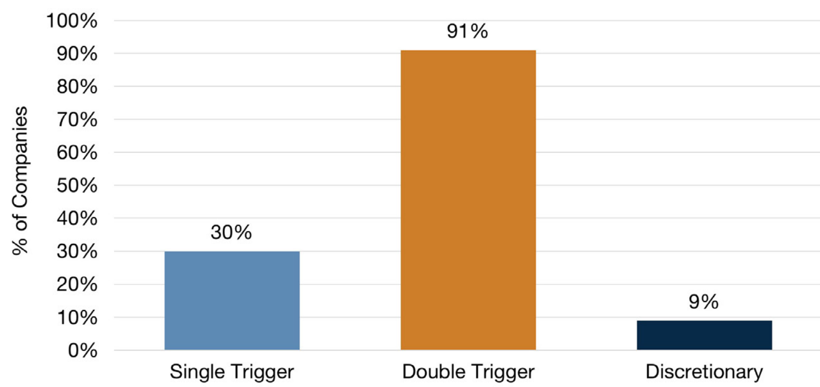
There are generally three types of change in control payout triggers for equity awards:

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

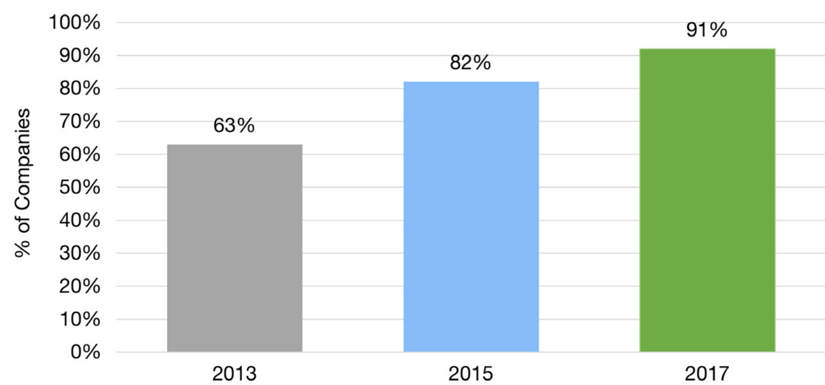
* Sometimes companies allow for single trigger vesting if the acquiring company does not assume the equity awards, but require double trigger vesting if the awards are assumed by the acquirer. For the purposes of this study, this treatment was included in the double trigger vesting category.

***Double trigger** acceleration has continued to grow **increasingly popular**, while single trigger has gradually become less prevalent.*

The chart below and table at the bottom right show the prevalence of change in control 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 percent.



From 2013 to 2017, double trigger vesting has significantly increased for equity awards as shown in the chart below.



Approximately 50 percent of the long-term incentives consist of time-based awards and the other 50 percent are performance-based.

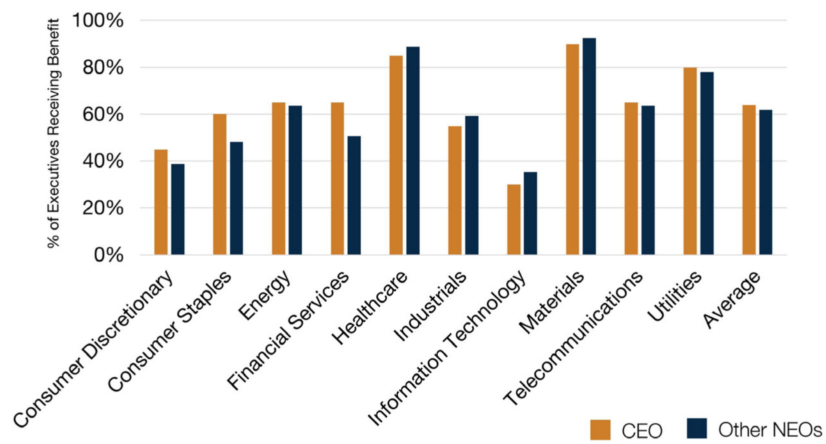
CHANGE IN CONTROL TRIGGERS BY INDUSTRY

	Single	Double	Discretionary
Consumer Discretionary	30%	90%	20%
Consumer Staples	37%	84%	5%
Energy	53%	74%	5%
Financial Services	11%	100%	0%
Healthcare	25%	90%	15%
Industrials	20%	100%	5%
Information Technology	6%	100%	6%
Materials	50%	100%	5%
Telecommunications	32%	74%	26%
Utilities	35%	95%	5%
2017 Average	**30%**	**91%**	**9%**
2015 Average	**43%**	**82%**	**13%**

HEALTH AND WELFARE BENEFITS CONTINUATION

***64%** of CEOs and **62%** of Other NEOs receive an extension of health and welfare benefits upon termination of employment in connection with a change in control.*

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



- In the Healthcare, Information Technology, Industrials and Materials industries, this benefit is provided to Other NEOs more often than CEOs. This usually occurs when Other NEOs still have legacy agreements providing this benefit, but a newly hired CEO does not.
- Only one company provides health and welfare benefits for a continuation period greater than three years. Most companies that provide health and welfare benefits 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 year	≥ 1 and <2 years	≥ 2 and <3 years	≥ 3 years	Other
Consumer Discretionary	0%	33%	45%	0%	22%
Consumer Staples	8%	21%	50%	13%	8%
Energy	0%	23%	19%	58%	0%
Financial Services	8%	20%	48%	8%	16%
Healthcare	0%	26%	31%	26%	17%
Industrials	0%	30%	18%	52%	0%
Information Technology	0%	57%	29%	7%	7%
Materials	0%	34%	29%	37%	0%
Telecommunications	8%	38%	42%	12%	0%
Utilities	6%	17%	37%	37%	3%
2017 Average	**3%**	**30%**	**35%**	**25%**	**7%**
2015 Average	**2%**	**22%**	**34%**	**36%**	**6%**
2013 Average	**2%**	**19%**	**34%**	**37%**	**8%**

INDUSTRY RANGES

HIGH
Energy

Minimum	Average	Maximum
1.5 years	2.47 years	3 years

LOW
Telecommunications

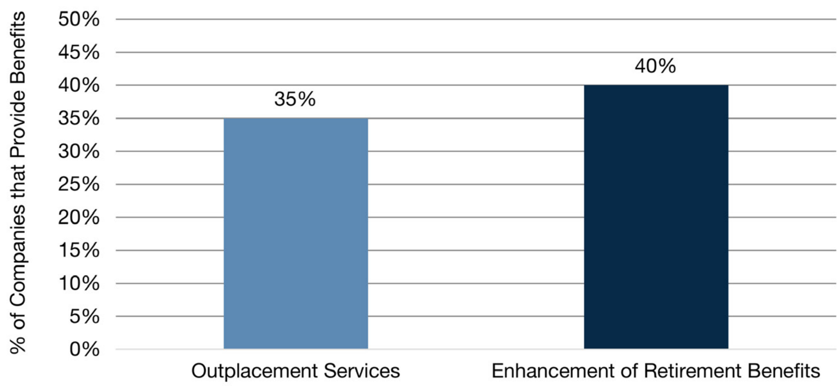
Minimum	Average	Maximum
0.25 year	1.71 years	3 years

OTHER BENEFITS

Other common types of benefits provided to executives upon a change in control include:

- Outplacement services; and
- Enhancement of retirement benefits.

If the company offered the benefit to any of its executives, 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:

INDUSTRY PREVALENCE RANGE

LOW
Consumer Discretionary & Information Technology 15%

HIGH
Utilities
80%

- **Enhancement of 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 change in control. The chart below shows the wide spectrum of prevalence between the industries.

INDUSTRY PREVALENCE RANGE

LOW
Information Technology
5%

HIGH
Utilities
95%

*Other common change in control benefits include **enhancement of retirement benefits** (40%) and **outplacement services** (35%).*

OTHER BENEFITS BY INDUSTRY

	Outplacement Services	Enhancement of Retirement Benefits
Consumer Discretionary	15%	20%
Consumer Staples	20%	40%
Energy	35%	55%
Financial Services	15%	25%
Healthcare	45%	35%
Industrials	35%	45%
Information Technology	15%	5%
Materials	55%	70%
Telecommunications	30%	10%
Utilities	80%	95%
2017 Average	**35%**	**40%**
2015 Average	**33%**	**43%**
2013 Average	**36%**	**46%**

EXCISE TAX PROTECTION – CEOs

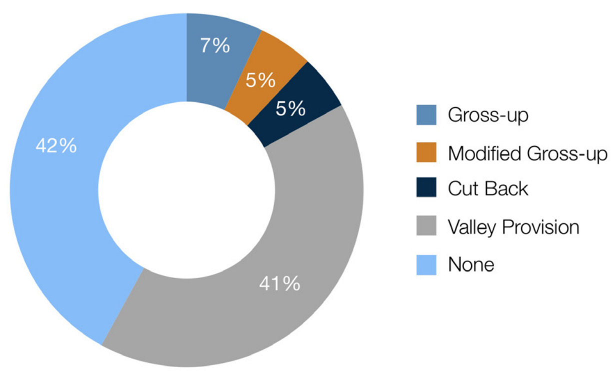
*Gross-ups (including modified gross-ups) continue to be phased out with **only 12%** of CEOs entitled to this benefit in 2017.*

*Between 2015 and 2017, there was a **29% decrease** in gross-ups or modified gross-ups.*

The “Golden Parachute” rules impose a 20 percent 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	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 greatly by industry as shown below:

INDUSTRY PREVALENCE RANGE

LOW
Information Technology
0%

HIGH
Utilities
35%

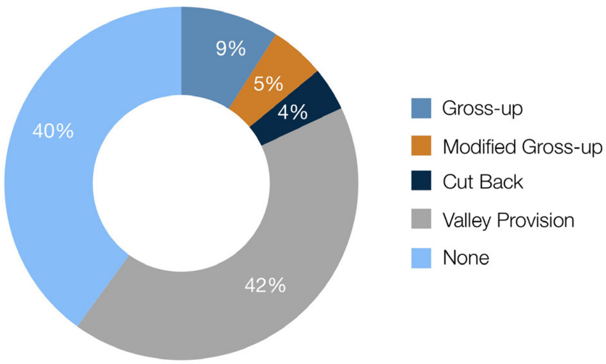
EXCISE TAX PROTECTION FOR CEOs BY INDUSTRY

	Gross-up	Modified Gross-up	Cut Back	Valley Provision	None
Consumer Discretionary	5%	0%	0%	50%	45%
Consumer Staples	5%	5%	15%	30%	45%
Energy	10%	5%	0%	40%	45%
Financial Services	0%	5%	0%	35%	60%
Healthcare	0%	5%	0%	60%	35%
Industrials	5%	0%	15%	30%	50%
Information Technology	0%	0%	0%	35%	65%
Materials	20%	10%	0%	45%	25%
Telecommunications	5%	0%	10%	55%	30%
Utilities	20%	15%	10%	35%	20%
2017 Average	**7%**	**5%**	**5%**	**41%**	**42%**
2015 Average	**8%**	**9%**	**4%**	**39%**	**40%**
2013 Average	**17%**	**13%**	**5%**	**27%**	**38%**

EXCISE TAX PROTECTION – OTHER NEOs

The prevalence of excise tax protection provisions for Other NEOs 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 Other NEOs.

Occasionally, a company offers different excise tax protection provisions for different executives. In these cases, the most generous provision provided by the company was included in the percentages below. Accordingly, other NEOs have a slightly higher prevalence of gross-ups and modified gross-ups compared to CEOs.



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

INDUSTRY PREVALENCE RANGE

LOW
Financial Services
0%

HIGH
Materials
40%

Observations from both CEOs & Other NEOs 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 change in control. Of the 20 largest companies in this report, only one still provides a gross-up to any executive.

While providing no excise tax protection is prevalent, 42 percent of these occurrences are from companies that do not have any severance provisions (change in control or non-change in control related). When analyzing only companies that maintain a formal severance program, valley provisions are almost twice as prevalent as no protection at all.

*Similar to CEOs, gross-ups (including modified gross-ups) continue to be phased out with **only 14%** of companies providing this benefit to one or more of their Other NEOs in 2017.*

*Between 2015 and 2017, there was a **33% decrease** in gross-ups or modified gross-ups.*

EXCISE TAX PROTECTION FOR OTHER NEOs BY INDUSTRY

	Gross-up	Modified Gross-up	Cut Back	Valley Provision	None
Consumer Discretionary	5%	0%	0%	50%	45%
Consumer Staples	10%	5%	15%	30%	40%
Energy	15%	5%	0%	35%	45%
Financial Services	0%	0%	0%	35%	65%
Healthcare	5%	5%	0%	60%	30%
Industrials	5%	0%	15%	30%	50%
Information Technology	5%	0%	0%	35%	60%
Materials	25%	15%	0%	50%	10%
Telecommunications	5%	0%	5%	55%	35%
Utilities	15%	15%	10%	40%	20%
2017 Average	**9%**	**5%**	**4%**	**42%**	**40%**
2015 Average	**13%**	**8%**	**4%**	**36%**	**39%**
2013 Average	**16%**	**14%**	**5%**	**28%**	**37%**

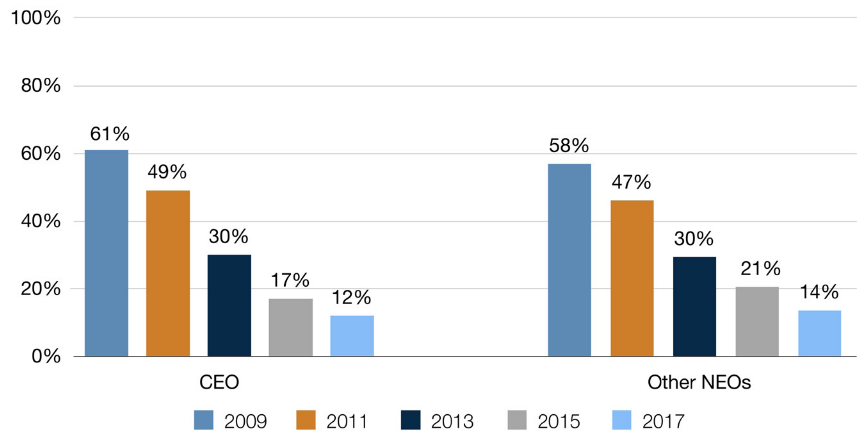
TRENDS IN EXCISE TAX PROTECTION

***90%** of companies that currently provide a gross-up or modified gross-up state that they will stop doing so in the future.*

*Whenever an actual transaction is on the horizon, it is important to think about **potential mitigation alternatives** since Section 280G impacts both the acquirer and the executives.*

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. The decline in the prevalence of excise tax gross-up protection for CEOs and Other NEOs is illustrated in the chart below.

% OF COMPANIES WITH EXCISE TAX GROSS-UP*



*Includes full and modified gross-ups

- Since this report captures whether or not a company provides a gross-up to any of its Other NEOs, the results show a higher prevalence of gross-ups for Other NEOs than for CEOs. This is likely because one or two Other NEOs at a company may still have legacy gross-ups whereas the newer CEO does not. Some CEOs have also relinquished their gross-ups either voluntarily or in exchange for a different type of compensation, where the Other NEOs have maintained their legacy gross-up protections.
- Companies that have removed their excise tax gross-up provisions have generally moved to a valley provision or to no protection.
- 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.

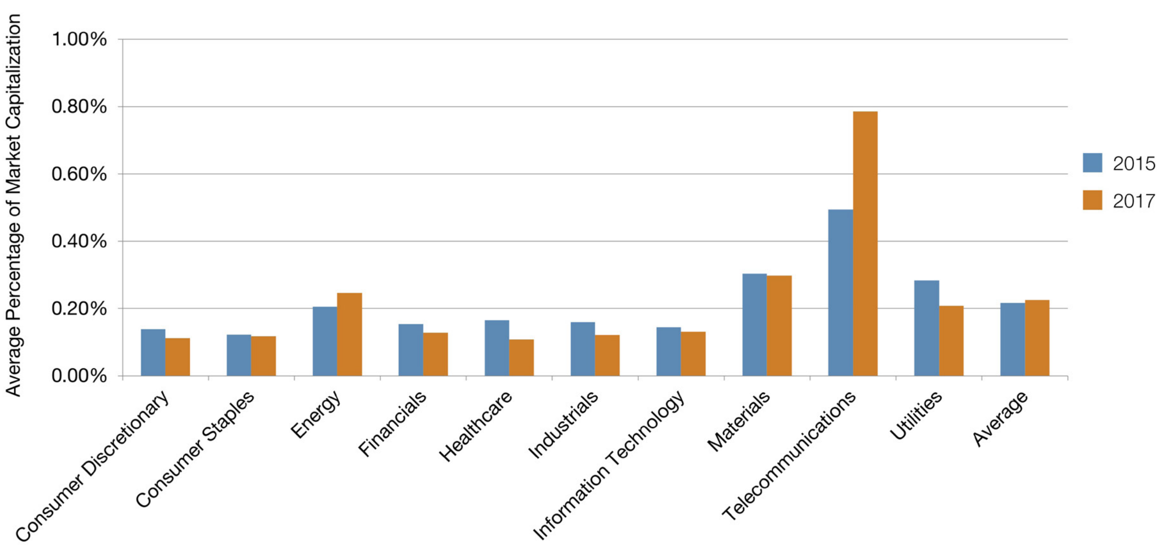
CHANGE IN CONTROL BENEFITS RELATIVE TO MARKET CAPITALIZATION

While the dollar amounts of change in control benefits can seem large, they only represent a ***small percentage of the overall deal value*** *(0.23% of market capitalization on average).*

As shown throughout this study, executives are often entitled to numerous benefits that can be quite sizeable upon a change in control and/or involuntary termination of their employment. These change in control 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 transaction, we calculated the total value of change in control benefits provided to the CEO and the Other NEOs and compared the value to each company's market capitalization.

- On average in 2017, the total value of change in control benefits provided to CEOs and Other NEOs represents 0.23 percent of market capitalization. This is relatively flat from 0.22 percent in 2015.
- Overall, the results showed that the value of change in control benefits for the CEOs and Other NEOs 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 change in control benefits to market capitalization for each industry for both 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 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 significant.

The "safe harbor" limit is equal to 300 percent of the executive's average gross compensation over the five most recent taxable years ending before the date of the change in control. 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 change in control;
- Severance payments triggered by a change in control, which typically pay two to three times annual salary and bonus; and
- Other change in control benefits such as enhanced pension benefits and continuation of welfare benefits.

When the executive receives payments exceeding the "safe harbor" limit, the Code imposes a 20 percent 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 change in control	$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 percent marginal tax bracket, in addition to the 20 percent 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.
Carnival Corporation
Charter Communications*
Comcast Corporation
Ford Motor Co.
General Motors Company
Las Vegas Sands Corp.*
Lowe's Companies Inc.
McDonald's Corp.
Netflix, Inc.*
Nike, Inc.
Starbucks Corporation
Target Corp.
Tesla Motors*
The Home Depot, Inc.
The Priceline Group Inc.
The TJX Companies, Inc.
The Walt Disney Company
Time Warner Inc.
Twenty-First Century Fox, Inc.

CONSUMER STAPLES
Altria Group Inc.
Archer-Daniels-Midland Company
Colgate-Palmolive Co.
Constellation Brands, Inc.*
Costco Wholesale Corporation
CVS Health Corporation
General Mills, Inc.
Kimberly-Clark Corporation
Kraft Heinz Co.*
Mondelez International, Inc.
Pepsico, Inc.
Philip Morris International, Inc.
Reynolds American Inc.
Sysco Corporation
The Coca-Cola Company
The Estée Lauder Companies Inc.
The Kroger Co.
The Procter & Gamble Company
Walgreens Boots Alliance, Inc.
Wal-Mart Stores Inc.

ENERGY
Anadarko Petroleum Corporation
Apache Corp.
Baker Hughes Incorporated
Chevron Corporation
Concho Resources*
ConocoPhillips
Continental Resources, Inc.*
Devon Energy Corporation
EOG Resources, Inc.
Exxon Mobil Corporation
Halliburton Company
Hess Corporation
Kinder Morgan, Inc.
Marathon Petroleum Corporation
Occidental Petroleum Corporation
Phillips 66
Pioneer Natural Resources Co.
Schlumberger Limited
Valero Energy Corporation
Williams Companies, Inc.

FINANCIAL SERVICES
American Express Company
American International Group, Inc.
American Tower Corporation
Bank of America Corporation
Berkshire Hathaway Inc.
BlackRock, Inc.
Capital One Financial Corporation
Chubb Ltd.*
Citigroup Inc.
JPMorgan Chase & Co.
MetLife, Inc.
Morgan Stanley
Prudential Financial, Inc.
Simon Property Group 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.
Aetna Inc*
Allergan*
Amgen Inc.
Biogen Inc.
Bristol-Myers Squibb Company
Celgene Corporation
Danaher Corporation
Eli Lilly and Company
Express Scripts Holding Company
Gilead Sciences Inc.
Johnson & Johnson
Medtronic*
Merck & Co. Inc.
Pfizer Inc.
Regeneron Pharmaceuticals, Inc.
Stryker Corporation
Thermo Fisher Scientific, Inc.
UnitedHealth Group Incorporated

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

INFORMATION TECHNOLOGY
Accenture
Adobe Systems Incorporated*
Alphabet Inc.
Apple Inc.
Automatic Data Processing, Inc.
Broadcom Ltd.*
Cisco Systems, Inc.
Facebook, Inc.
Hewlett-Packard*
Intel Corporation
International Business Machines Corporation
MasterCard Incorporated
Microsoft Corporation
Nvidia Corp*
Oracle Corporation
Paypal Holdings*
QUALCOMM Incorporated
Salesforce.com, Inc.
Texas Instruments Inc.
Visa Inc.

MATERIALS
Air Products & Chemicals Inc.
Ball Corporation
Celanese Corporation*
Du Pont
Eastman Chemical Co.
Ecolab Inc.
Freeport-McMoRan Inc.
International Paper Company
LyondellBasell Industries
Martin Marietta Materials, Inc.*
Monsanto Company
Newmont Mining Corporation
Nucor Corporation
PPG Industries, Inc.
Praxair Inc.
The Dow Chemical Company
The Mosaic Company
The Sherwin-Williams Company
Vulcan Materials Company*
WestRock Co*

TELECOMMUNICATIONS
AT&T, Inc.
Atlantic Tele-Network, Inc.
CenturyLink, Inc.
Cincinnati Bell Inc.*
Cogent Communications Holdings, Inc.
Consolidated Communications Holdings Inc.
Frontier Communications Corporation
Globalstar Inc.
Iridium Communications Inc.
Level 3 Communications, Inc.
SBA Communications Corp.
Shenandoah Telecommunications Co.
Sprint Corporation
Telephone & Data Systems Inc.
T-Mobile US, Inc.
United States Cellular Corporation
Verizon Communications Inc.
Vonage Holdings Corporation
Windstream Holdings, Inc.
Zayo Group Holdings, Inc.*

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

INDUSTRY STATISTICS (IN MILLIONS)

	Revenue		Market Capitalization	
	Median	**Average**	**Median**	**Average**
Consumer Discretionary	$30,131	$53,043	$67,103	$90,628
Consumer Staples	34,274	73,347	75,114	91,059
Energy	10,227	32,494	34,949	65,492
Financial Services	31,044	46,618	64,680	115,519
Healthcare	22,107	38,537	84,250	98,460
Industrials	34,514	39,568	51,101	70,543
Information Technology	25,596	42,177	104,398	175,251
Materials	12,504	14,302	20,406	26,235
Telecommunications	2,830	20,818	3,441	31,813
Utilities	11,422	12,865	22,797	27,138
2017 Average	**$21,465**	**$37,377**	**$52,824**	**$79,214**
2015 Average	**$23,609**	**$40,255**	**$51,276**	**$73,705**
2013 Average	**$20,052**	**$36,677**	**$33,538**	**$52,792**

* New company for 2017 Survey. Of the 200 companies included in the 2015 survey, 13% were replaced in 2017.

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Equilar benchmarking solutions within the Insight platform provide unlimited access to the most comprehensive executive and board compensation database available. Equilar TrueView seamlessly integrates high quality, verifiable Top 5 proxy data with the Equilar Top 25 Survey to provide a single, reliable data source unrivaled in the marketplace. Publicly traded companies and top institutional investors rely on the Equilar Pay for Performance analysis to assess and measure alignment. Equilar Shareholder Engagement solutions assist companies with powerful tools to measure, plan and manage how pay strategies are viewed by government entities, institutional investors and the public. In addition, the Incentive Plan Analytics Calculator (IPACsm), recently launched in partnership with the Center On Executive Compensation, provides companies with a better way to design and analyze executive compensation.

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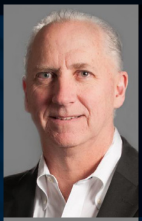

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