# Executive Stock Ownership Guidelines Report

2013

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FREDERIC W. COOK & CO., INC.

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## Executive Summary

When shareholders invest in a company, they want to make sure that the interests of the leadership team are aligned with their own. One aspect of this is making sure that the leadership team has a financial stake in the company. Since a significant portion of most executives' compensation is tied to equity awards, it stands to reason that an executive's net compensation would rise or fall with the performance of the company's stock. This financial stimulus creates the necessary alignment and mutual ownership between shareholders and executives. However, if an executive sells most of his or her shares upon the vesting of the awards, that individual's tangible alignment with shareholder interests may decrease.

One way to make sure that executives have a stake in company performance is by introducing some form of share ownership policy, the two most common policies being ownership guidelines and holding requirements. Ownership guidelines require executives to obtain a specific amount of shares, usually within a set time frame. Holding requirements, on the other hand, require an executive to retain a certain amount of shares following the vesting of stock or exercise of options. The aim of both is to ensure executives hold a substantial amount of equity at all times.

Equilar examined the design of executive ownership guidelines and holding requirements among Fortune 100 companies for fiscal years 2010, 2011, and 2012. This analysis, covering several aspects of the design of share-retention policies, is a useful tool for compensation professionals seeking to adopt or amend ownership guidelines and/or holding requirements for companies of all sizes. Assorted company disclosures are highlighted throughout the report in order to provide specific examples of current practices.

- **More companies disclose share ownership policies.** The prevalence of Fortune 100 companies with publicly disclosed executive stock ownership policies increased from 86.3% in 2011 to 89.4% in 2012. This figure includes companies with ownership guidelines and/or holding requirements, or both.
- **Using a combination of methods is increasingly common**. Between 2010 and 2012, the number of companies that used both ownership guidelines and holding requirements as their share retention method increased by 6.0%.
- **Ownership guideline designs often revolve around a salary multiple**. Ownership guidelines that define ownership targets as a multiple of base salary are the most prevalent guideline design. In 2012, 82.3% of Fortune 100 companies used such a structure. Ownership guidelines that define ownership targets as a fixed number of shares are used by 12.7% of sample companies.
- **Stock options are rarely included in ownership definitions**. Among companies with ownership guidelines, only 11.4% include options in determining ownership guideline compliance, compared with 43.0% that explicitly exclude options.
- **Pre-ownership guideline holding requirements continue to have high prevalence**. In 2012, 73.1% of companies with holding requirements had at least one holding requirement that requires executives to hold shares until guidelines are reached. For 63.5% of companies with holding requirements, this was their only policy.
- **CEO target ownership levels decrease slightly**. At Fortune 100 companies, the median value of target stock ownership for chief executive officers was approximately $7.0 million in 2012, a decrease from 2011, when the median target value was $7.2 million.
- **Companies disclosing hedging restrictions continue to rise**. For the past three years, company disclosure of hedging restrictions has grown. This past year, 90.4% of all Fortune 100 companies disclosed an anti-hedging and/or insider trading policy.

## Report Scope and Methodology

Equilar's 2013 Executive Stock Ownership Guidelines study is primarily derived from data disclosed in fiscal 2012 proxy filings of Fortune 100 companies. Additional information, if available, was collected from the corporate governance section of company websites. For fiscal 2012, this study includes information from 94 public companies.

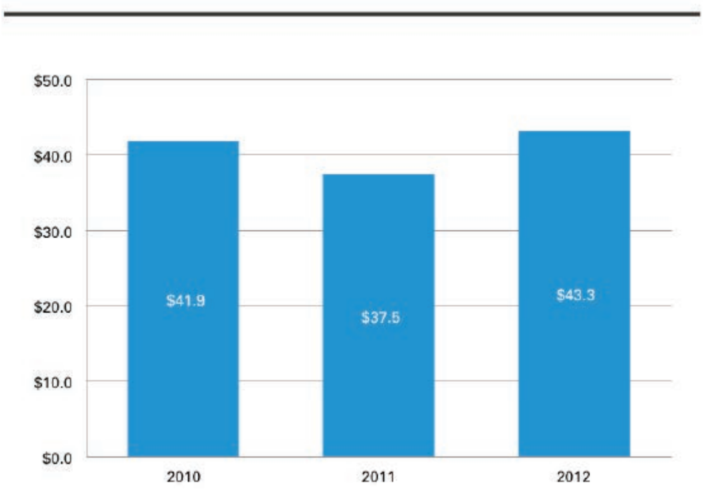
Due to changes in the Fortune 100 over the years, slight changes in prevalence can be caused by the replacement of a company on the list with another. These companies have not necessarily changed their policies, so any trends exhibited herein will be subject to a small amount of noise. This report will try to point out where this plays a role.

Prevalence data throughout this report is, in some cases, calculated only for companies with ownership guidelines and/or holding requirements. In these instances, data is labeled accordingly

### Fiscal Year-End Market Capitalization

In 2012, publicly-traded Fortune 100 companies had a median fiscal year-end market capitalization of approximately $43.3 billion. This is a 15.5% increase from the 2011 median value of approximately $37.5 billion.

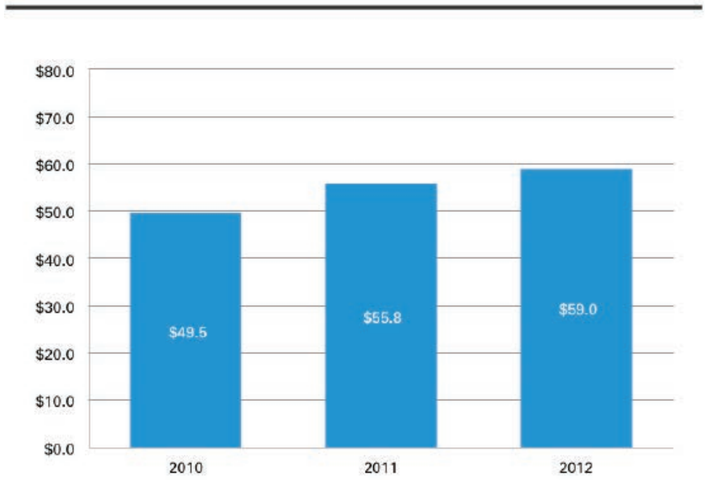
Median Market Cap ($BB)




### Annual Revenues

Median annual revenues for Fortune 100 companies have steadily increased in the past three years. From 2010 to 2012 median annual revenues increased by approximately 19.0%, to $59 billion.

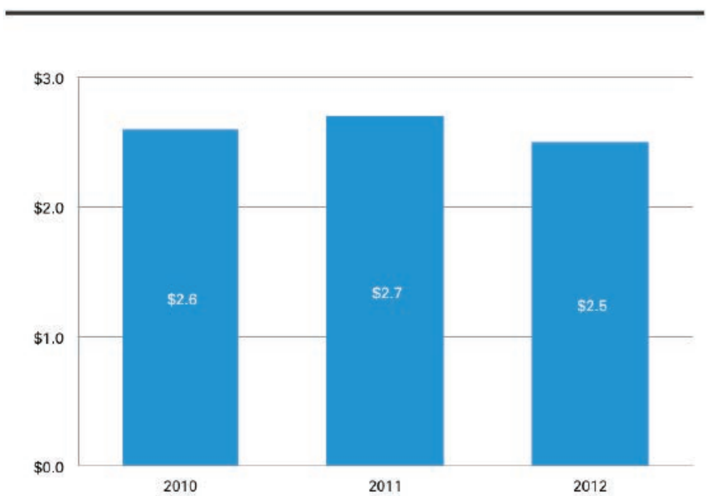
Median Revenues ($BB)




### Net Income

Median net income has remained relatively stable over the past three fiscal years. However, it decreased slightly from $2.7 billion in 2011 to $2.5 billion in 2012.

Median Net Income ($BB)




## Definitions

- **Ownership Guidelines**
  Ownership guidelines typically require executives to achieve pre-determined equity ownership goals within a specified period of time (usually three to five years). Ownership goals are typically defined as a multiple of base salary, but can also be expressed as a fixed number or value of shares.

- **Ownership Guideline Structures**
  For this analysis, ownership guideline design structures will be categorized into the following four groups:
  - **Multiple of Base Salary**
    Most ownership policies require executives to achieve a target ownership level defined as a multiple of base salary.
  - **Number of Shares**
    The second most prevalent ownership guideline structure defines target ownership levels for executives as a fixed number of shares. This structure is the least volatile type of ownership guideline because ownership goals do not fluctuate based on stock price.
  - **Value of Shares**
    The third most prevalent ownership guideline structure defines target equity ownership levels for executives as a specific dollar value of shares. This design type is more common among director stock ownership guidelines than among executive ownership guidelines.
  - **Other**
    Occasionally ownership guidelines will define target ownership levels for executives as a combination of the above structures. For example, some ownership levels are defined as the lesser of a fixed value of shares or a multiple of base salary. For this analysis, ownership guidelines that use a combination of design structures are classified as "other."
- **Holding Requirements**
  Also known as retention requirements, holding requirements typically require executives to retain a certain percentage of the shares they acquire through the exercise of stock options or the vesting of other stock-based awards.
- **Holding Requirement Structures**
  Companies often implement holding requirements in conjunction with ownership guidelines, and some holding requirements have different retention obligations before and after the achievement of equity ownership goals set by ownership guidelines. This analysis categorizes holding requirements into the following three groups:
  - **Pre-Guideline Holding Requirements**
    Prior to reaching an ownership guideline target, executives may be subject to a holding requirement. These pre-guideline holding requirements require executives to hold a large percentage of the stock and option awards they receive until they reach the stock ownership target.
  - **Post-Guideline Holding Requirements**
    Post-guideline holding requirements specify the percentage of shares executives must retain after they have achieved the targeted share ownership level.
  - **General Holding Requirements and Ownership Guidelines**
    Many companies disclose the use of both ownership guidelines and holding requirements but do not tie the retention level in the holding requirement to achieving an ownership goal. Rather, executives must comply with both the holding requirement and the ownership guideline.
- **Stock Ownership Policies**
  For this analysis, stock ownership policies include both ownership guidelines and holding requirements. A company with a stock ownership policy may have ownership guidelines, holding requirements, or both.
- **Target Ownership Level**
  The target ownership level is the dollar value of the required stock ownership as defined by the ownership guidelines.
- **Accumulation Period**
  The accumulation period is the amount of time starting when an executive becomes subject to stock ownership guidelines and ending when the targeted ownership level is reached.

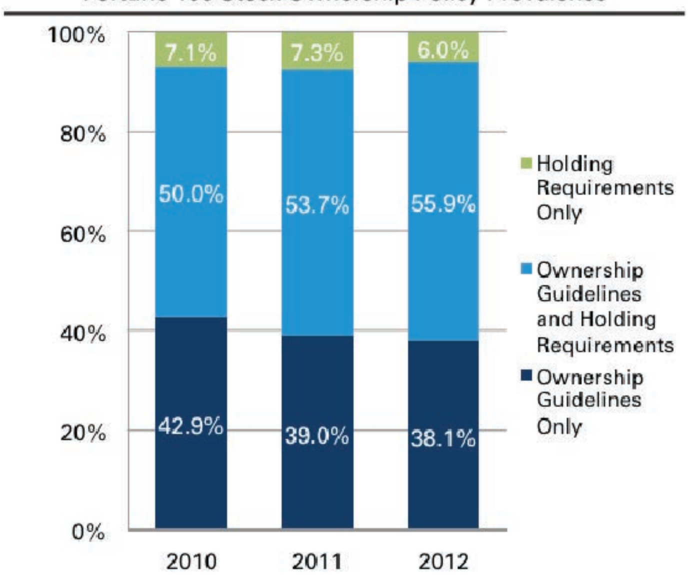
## Stock Ownership Policies

The prevalence of Fortune 100 companies with publicly-disclosed stock ownership policies for executives increased from 86.3% in 2011 to 89.4% in 2012. This value includes companies that disclosed ownership guidelines, holding requirements, or both. In 2012, 38.1% of these companies maintained ownership guidelines without formal holding requirements, while 6.0% of companies with ownership policies disclosed only holding requirements. The remaining 55.9% of companies had both ownership guidelines and holding requirements.

Among companies with policies, the prevalence of companies that had only ownership guidelines dropped to 38.1% in 2012, from 39.0% in 2011 and from 42.9% in 2010. Meanwhile, the prevalence of companies that had both ownership guidelines and holding requirements increased to 55.9% in 2012, up from 53.7% in 2011 and 50.0% in 2010. Additionally, the prevalence of companies having only holding requirements decreased to 6.0% in 2012 from 7.3% in 2011 and 7.1% in 2010. Although the prevalence of companies using only ownership guidelines decreased since 2010, the percentage of companies that use ownership guidelines and holding requirements together increased, suggesting that more companies are taking a holistic approach to equity ownership requirements.

The chart below displays the prevalence of ownership policy design among those Fortune 100 companies that disclosed an ownership policy.

Fortune 100 Stock Ownership Policy Prevalence

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"Retention ratio" designs in combination with traditional stock ownership guidelines obviate the need to have a timeframe by which executives must achieve the required ownership level. Under this type of combination design, until executives own the required number or value of shares, they are required to retain a certain percentage of "net profit shares" (i.e., shares remaining after payment of any exercise price and taxes owed at the exercise of stock options, vesting of restricted stock/RSUs, or earn out of performance shares). The primary benefit of this approach is that executives are not forced to make out-of-pocket purchases of shares or exercise stock options early. Rather, the existing equity compensation program, in combination with the retention ratio, facilitates achievement of the required ownership level.

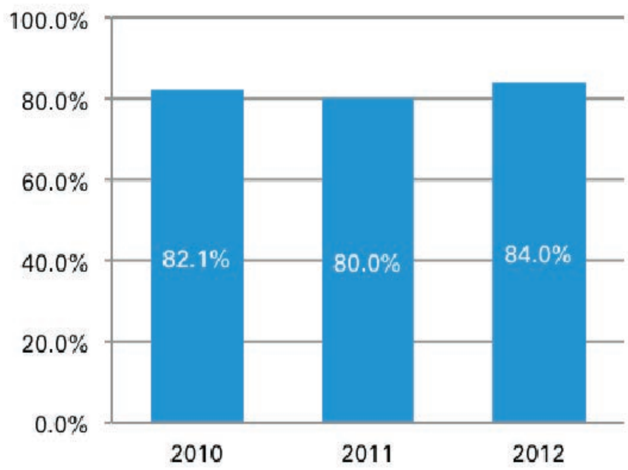
## Prevalence of Ownership Guidelines

Among Fortune 100 companies, the prevalence of executive stock ownership guidelines increased to 84.0% in 2012, up from 80.0% in 2011.

From 2011 to 2012, the number of Fortune 100 companies with publicly disclosed ownership guidelines increased from 76 to 79. This increase is explained in the methodology section of this report.

The following chart displays the prevalence of executive stock ownership guidelines at Fortune 100 companies for fiscal years 2010 to 2012.

Prevalence of Ownership Guidelines at Fortune 100 Companies




## Ownership Guideline Design

The design of ownership guidelines varies between companies. Some companies choose to define guidelines as a multiple of base salary, others choose to designate a target number of shares that executives must acquire, and a small number of companies choose to use both of these in a hybrid design.

The most common guideline structure, used by 82.3% of companies with ownership guidelines in 2012, defines target ownership levels as a multiple of base salary. From 2010 to 2012, the prevalence of ownership guidelines defined as a multiple of base salary increased by 1.5 percentage points.

The following table breaks down the most common ownership guideline designs employed by Fortune 100 companies.

**Ownership Guideline Design Prevalence**

| Type | 2010 | 2011 | 2012 |
|---|---|---|---|
| Multiple of Base Salary | 80.8% | 81.6% | 82.3% |
| Fixed Number of Shares | 15.4% | 14.5% | 12.7% |
| Mixed Salary and Shares | 2.6% | 2.6% | 3.8% |
| Other* | 1.3% | 1.3% | 1.3% |

*The “Other” category in 2010, 2011 and 2012 includes ownership guidelines that define target levels as a fixed dollar value of shares, or as a multiple of the sum of base salary and target annual bonus.

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One reason that multiple-of-salary ownership guidelines are more prevalent than other types could be that proxy advisory group Institutional Shareholder Services (ISS) evaluates the strength of a company’s ownership guideline for the CEO using a multiple of salary. Companies that use guidelines based on a fixed number of shares risk having ISS consider the guideline insufficient if share price drops below a certain level. Ownership guidelines based on a fixed number of shares can, however, be an effective design, especially for companies with volatile stock prices.

One approach we have seen to address the impact of stock price volatility on multiple-of-salary guidelines is the “once met, always met” rule. “Once met always met” means once an executive has achieved the required ownership level, future declines in share price will not impact the executive’s compliance with the guideline as long as the executive holds the number of shares he had at the time he achieved the required ownership level. In essence, this shifts the multiple-of-salary guideline to a fixed number of shares guideline at the time the executive achieves the ownership requirement. Another design approach used to mitigate volatility is to

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use the average closing prices over multiple days, weeks or even months to determine the price at which ownership is valued.

## Disclosure Examples

### Multiple of Base Salary

- **Safeway (SWY)**
  DEF 14A filed on April 1, 2013
  Link to Filing

  "We believe these guidelines, which are set forth in our Corporate Governance Guidelines, further link the interests of our executives and stockholders. Under these guidelines, the multiple of annual base salary to be owned in stock depends on the executive's role in the Company, as follows:"

| Position | Multiple of Base Salary |
|---|---|
| CEO | 10x |
| President | 4x |
| Executive Vice President | 4x |
| Senior Vice President | 2x |

### Fixed Number of Shares

- **Sysco (SYY)**
  DEF 14A filed on October 4, 2012
  Link to Filing

  "To align the interests of our executives with those of our stockholders, Sysco's Board of Directors concluded that our executive officers should have a significant financial stake in Sysco stock. To further that goal, for several years we have maintained stock ownership guidelines for our executives. In August 2011, we amended our Corporate Governance Guidelines in order to provide that, beginning in August 2016, the executives should own the number of shares, by position, as described in the following table. In May 2012, we further amended our Corporate Governance Guidelines in order to provide for the position of Executive Chairman."

| Position | Required to Own by Fifth Anniversary in Position |
|---|---|
| CEO | 175,000 shares |
| Executive Vice Presidents | 60,000 shares |
| Executive Chairman | 30,000 shares |
| Senior Vice Presidents | 20,000 shares |
| Other Section 16 Officers | 10,000 shares |

### Multiple of Base Salary or Fixed Number of Shares

- **Walgreen (WAG)**
  DEF 14A filed on November 19, 2012
  Link to Filing

  "The Board of Directors adopted executive share ownership guidelines in 2008. Under the guidelines, each NEO is expected to accumulate the lesser of the fixed and variable number of shares within the later of five years from commencement of senior executive status and November 1, 2013 as follows:"

| Executive Level | Fixed Number of Shares | Variable Number of Shares |
|---|---|---|
| Chief Executive Officer | 230,000 | 5x Salary |
| Executive Vice President | 60,000 | 3x Salary |
| Senior Vice President | 30,000 | 2x Salary |
| Other* | 1.3% | 1.3% |

### Other: Multiple of Salary and Target Bonus

- **International Business Machines (IBM)**
  DEF 14A filed on March 11, 2013
  Link to Filing

  "The Chairman, the CEO and SVPs are all required to own IBM shares or equivalents worth three times their individual target cash compensation (their base salary plus the incentive payment they would earn if they achieved their performance targets) within five years of hire or promotion. As of December 31, 2012, as a group, the CEO and SVPs owned approximately 1.1 million shares or equivalents valued at over $208 million; in fact, as of that date, this group held, on average, almost two times the amount of IBM shares or equivalents above what the Company requires. IBM shares or equivalents owned by Mr. Palmisano are not included in these amounts as he retired December 1, 2012.

  The remaining members of the Performance Team are required to hold IBM shares or equivalents worth one time their target cash compensation within five years of hire or promotion. Those who have been in place for at least five years have met or exceeded their personal IBM ownership requirements."

### Other: Average of Past Grants

- **Caterpillar (CAT)**
  DEF 14A filed on April 22, 2013
  Link to Filing

  "The Committee establishes stock ownership requirements for all NEOs receiving equity compensation. NEOs are required to own shares or share equivalents of Caterpillar stock equal to a minimum of 50 percent of the average number of shares or units granted to the NEO during the last five years. NEOs' vested unexercised awards are not considered in determining whether these requirements are met. Failure to meet these requirements results in automatic grant reductions equal to the percentage shortfall in meeting the ownership requirement. Exceptions in the case of compelling circumstances must be approved by the Committee. Our stock ownership requirements are in the upper quartile of our peer group, and currently, all NEOs exceed the stock ownership requirements."

## Definition of Stock

Defining the equity types that are counted toward the satisfaction of ownership guidelines is an important aspect of policy design. Companies consider many factors when making these decisions, including whether awards must be vested to count, or whether unvested awards are included as well. Companies may choose to include only a portion of some equity vehicles, while counting other equity types entirely.

In 2012, the prevalence of companies that disclosed the equity types they include in their ownership computations decreased to 81.0%, down from 84.2% in 2011.

In general, companies tend to exclude options from their ownership calculations. Among companies with ownership guidelines, the most common equity types to be included as a definition of stock were restricted stock units (RSUs) and deferred shares and common stock equivalents, with a prevalence of 44.3% each. On the other hand, 43.0% of Fortune 100 companies with ownership guidelines explicitly excluded stock options from ownership calculations in 2012.

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We find that companies tend not to count stock options as ownership since the shares are not (yet) owned by the executive. Similarly, unearned performance shares are typically not counted, since they have not been earned. In our experience, practices are mixed for time-vesting restricted stock and RSUs. The rationale for including them as ownership is that, but for the passage of time, these shares will ultimately be earned. When unexercised stock options and unvested/unearned restricted and performance shares are counted, we often see companies adjust the values to put the awards on equal footing with shares earned or purchased with after-

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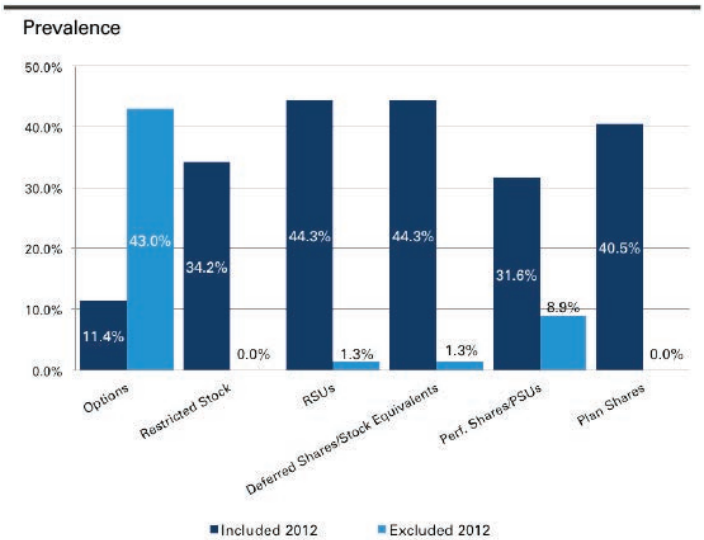
tax dollars. For example, some companies that count options do so based on the after-tax, "in-the-money" value. Those that count restricted stock and performance shares may do so based on the stock's after-tax value.

The chart below displays the inclusion and exclusion prevalence for various equity vehicles related to ownership guidelines at Fortune 100 companies in fiscal year 2012.

Definition of Stock for Fortune 100 Companies with Ownership Guidelines




## Disclosure Examples

- **Sprint (S)**
  10-K filed on February 28, 2013
  Link to Filing

  "Eligible shares and share equivalents counted toward ownership consist of:

  - common or preferred stock, including those purchased through our Employee Stock Purchase Plan;
  - restricted stock or RSUs;
  - intrinsic value (the excess of the current stock price over the option's exercise price) of vested, in-the-money stock options; and
  - share units held in our 401(k) plan and various deferred compensation plans."

- **ConocoPhillips (COP)**
  DEF 14A filed on March 28, 2013
  Link to Filing

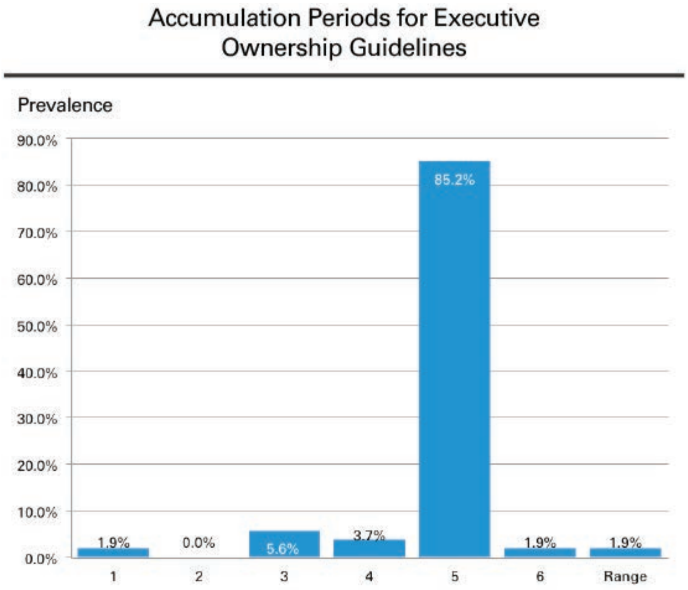
  "Holdings counted toward the guidelines include: (1) shares of stock owned individually or jointly, or in trusts controlled by employee; (2) restricted stock and restricted stock units; (3) shares owned in qualified savings or stock ownership plans; (4) stock or units in nonqualified deferred compensation plans, whether vested or not and (5) annual Performance Share Program target awards when approved by the Human Resources and Compensation Committee."

## Accumulation Period

In order to make sure that executives meet their ownership guidelines in a timely manner, some companies institute an accumulation period, a set amount of time in which executives must attain their specified ownership level. In 2012, 68.4% of companies that instituted ownership guidelines disclosed an accumulation period. These periods ranged from one to six years. General Electric assigned different holding periods ranging from three to five years, depending on the executive position.

Five-year accumulation periods continued to be the most common, with 85.2% of companies that mandated an accumulation period choosing this time frame. In 2011, a five-year accumulation period was also the most common. However, the prevalence increased in 2012, from 78.4% to the current 85.2%. The second most common accumulation period remains three years, even though its prevalence decreased from 9.8% in 2011 to 5.6% in 2012.

The following chart shows the distribution of accumulation periods among Fortune 100 companies that disclose this value.




## Disclosure Examples

- **Dell (DELL)**
  10 K/A filed on June 3, 2013
  Link to Filing

  "Prior to September 2011, each individual had three years to attain the specified minimum ownership position once the individual became subject to the guidelines. The guidelines were amended in September 2011 to allow new executive officers five years to meet the ownership guidelines. This change was implemented to reflect the change in PBU design that can result in zero payout if performance is not achieved."

- **Lockheed Martin (LMT)**
  Corporate Governance Web Page
  Link to Website

  "Key employees will be required to achieve the appropriate ownership level within five years and are expected to make continuous progress toward their target. Appointment to a new level will reset the five year requirement."

## Holding Requirement Design

Holding requirements are another share retention tool used by companies either alone or in conjunction with ownership guidelines. They require an executive to retain a specified number of shares for a set amount of time after the vesting of stock or exercise of options, which can range considerably. In 2012, the use of holding requirements for companies in the Fortune 100 increased slightly from 52.6% in 2011 to 55.3%.

There are several different models for holding requirements. The most common are guidelines that apply until ownership guidelines are met, also known as pre-ownership guideline holding requirements. Of the companies with holding requirements, 73.1% have at least one holding requirement that fits this model.

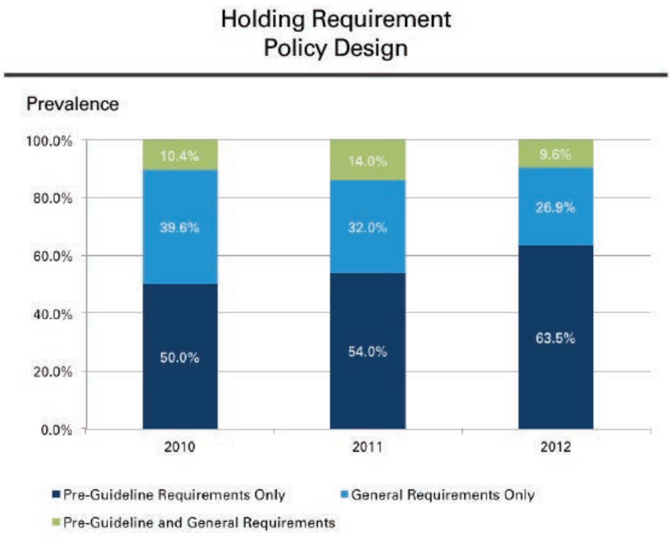
Some companies prefer to institute general holding requirements, which specify that shares acquired upon the vesting of stock or exercise of options must be held for a specific time frame. In 2012, these time frames ranged from as little as a year to as long as when the executive retires. Companies without ownership guidelines can still institute a general holding requirement, as did 9.6% of Fortune 100 companies with holding requirements. In addition, 19.1% percent of companies with both ownership guidelines and holding requirements instituted general requirements only.

Lastly, companies may choose to institute a combination of pre-guideline holding requirements and general holding requirements. In 2012, 9.6% of holding requirements in the Fortune 100 were a combination of pre-ownership holding requirements and general requirements. Three companies specified that these general requirements are in force once the ownership guidelines are achieved, also known as a post-ownership guideline holding requirement.

In 2012, having only a pre-guideline holding requirement was the most common model, with 63.5% of companies that use holding requirements choosing this method, a 13.5% increase since 2010. The second most common model is employing only general requirements, which 26.9% of companies use. Lastly, 9.6% of companies have a combination of holding requirements.

The following chart provides a three-year summary of holding requirement design prevalence among Fortune 100 companies that have holding requirements.

## Disclosure Examples




### Pre-Guideline and General Requirements

- **American Express (AXP)**
  DEF 14A filed on March 8, 2013
  Link to Filing

  "Our stock ownership guidelines require NEOs to own and maintain a substantial stake in the company. Our NEOs are required to accumulate a target number of shares (i.e., shares owned outright, not including unvested/unearned shares and unexercised stock options), and to retain a portion of the net after-tax shares received upon vesting or exercise of their equity awards as follows:

| Stock Ownership Guidelines | | | |
|---|---|---|---|
| NEO | Target Number of Shares | Holding Requirement: Before Target Met | Holding Requirement: After Target Met |
| K.I. Chenault | 500,000 | 75% of net shares until target number of shares is met | 50% of net shares for one year |
| E.P. Gilligan | 75,000 | | |
| S.J. Squeri | 75,000 | | |
| Other* | 1.3% | | |
| D.H. Schulman | 75,000 | | |
| D.T. Henry | 37,500 | | |

*In addition to these requirements, Mr. Chenault is required to hold, one year beyond his retirement from the company, a significant portion of his 2010, 2011 and 2012 year-end AIA and PG payouts delivered in RSUs."

- **Mondelez International (MDLZ)**
  DEF 14A filed on April 3, 2013
  Link to Filing

  "Our NEOs are required to hold 100% of all shares acquired from stock option exercises and restricted stock and performance shares awarded, net of shares withheld for taxes or payment of exercise price, until they meet stock ownership guidelines. Once an NEO meets stock ownership requirements, the NEO is required to hold 100% of the shares, net of shares withheld for taxes or payment of exercise price, for at least one year after the stock option exercise or restricted stock or LTIP performance share award vests. Special Holding Requirements Following Spin-Off: For the first full year after the Spin-Off, our continuing NEOs have agreed to hold 100% of net Kraft Foods Group shares acquired through stock option exercises or the vesting of restricted stock awards."

## General Requirements Only

- **Bank of America (BAC)**
  DEF 14A filed on March 28, 2013
  Link to Filing

  "Beginning with awards granted for 2012, the Corporate Governance Guidelines require:"

| Executive Level | Minimum Shares of Common Stock Owned | Retention |
|---|---|---|
| Chief Executive Officer | 500,000 shares | 50% of net after-tax shares received from equity compensation awards retained until one year after retirement |
| Other Executive Officers | 300,000 shares | 50% of net after-tax shares received from equity compensation awards retained until retirement |

- **Honeywell (HON)**
  DEF 14A filed on March 7, 2013
  Link to Filing

  "In addition, the stock ownership guidelines require officers to hold for at least one year the 'net shares' from an RSU vesting or the 'net gain shares' of Common Stock that they receive by exercising stock options. 'Net shares' means the number of shares obtained from an RSU vesting, less the number of shares withheld or sold to pay applicable taxes. 'Net gain shares' means the number of shares obtained by exercising the option, less the number of shares the officer sells to cover the exercise price of the options and pay applicable taxes. After the one-year holding period, officers may sell net shares or net gain shares, provided that, following any sale, they continue to hold shares of Common Stock in excess of the prescribed minimum stock ownership level."

## Pre-Guideline Requirements Only

- **DuPont (DD)**
  DEF 14A filed on March 15, 2013
  Link to Filing

  "In 2012, the Committee updated its stock ownership guidelines to add a retention ratio until the ownership expectation is met. Under the new policy, until the required ownership is reached, executives are required to retain 75% of net shares acquired upon any future vesting of stock units and/or exercise of stock options, after deducting shares used to pay applicable taxes and/or exercise price."

- **General Dynamics (GD)**
  DEF 14A filed on March 15, 2013
  Link to Filing

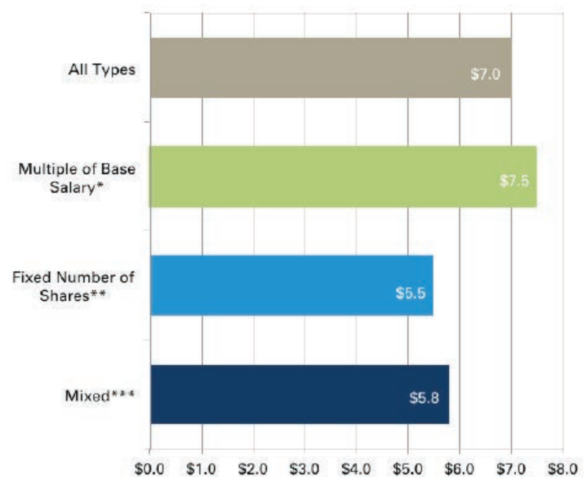
  "When exercising options, executives who have not yet met the ownership guideline may sell shares acquired upon exercise to cover transaction costs and taxes and are expected to hold any remaining shares until the guidelines are met. Similarly, shares received upon release of restricted stock and RSUs may not be sold until the ownership guidelines are met."

## CEO Ownership Goals

At Fortune 100 companies with ownership guidelines, the median value of target stock ownership levels for CEOs was approximately $7.0 million in 2012. A closer look at guideline design reveals that ownership targets determined using a multiple of base salary had the highest median value at $7.5 million. This value is $2 million higher than the median value of CEO stock ownership targets using the second most prevalent design, fixed number of shares, which was $5.5 million.

The target value of ownership includes those Fortune 100 companies that disclose an ownership target for their CEO, and is calculated using certain assumptions, depending on guideline design. The following chart displays the median dollar value of CEO ownership targets in 2012, for each of the three major ownership design models.

Median Value of CEO Stock Ownership Targets ($MM)




* Assumes fiscal year 2012 base salary.

** Assumes year-end stock price for fiscal year 2012.

*** In some cases, the lesser of multiple of base salary or fixed number of shares is used, as stated in the guidelines.

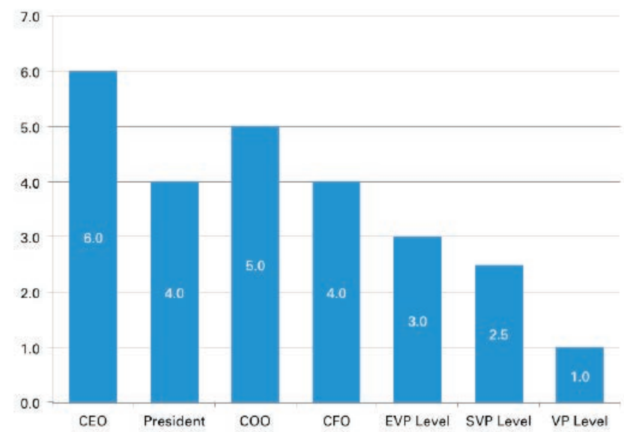
## Base Salary Multiples by Position

Ownership guidelines are not limited to the CEO level, and many apply to executives several tiers below the C-Suite. Since 82.3% of ownership guidelines at Fortune 100 companies are structured as a multiple of base salary, examining how ownership requirements vary across executive positions can provide insight into the relationship between position responsibility and required equity ownership levels.

In general, ownership requirements increase with job responsibility. The median ownership multiple for CEOs was 6.0 times base salary, while the median multiple at the vice president level was 1.0 times base salary.

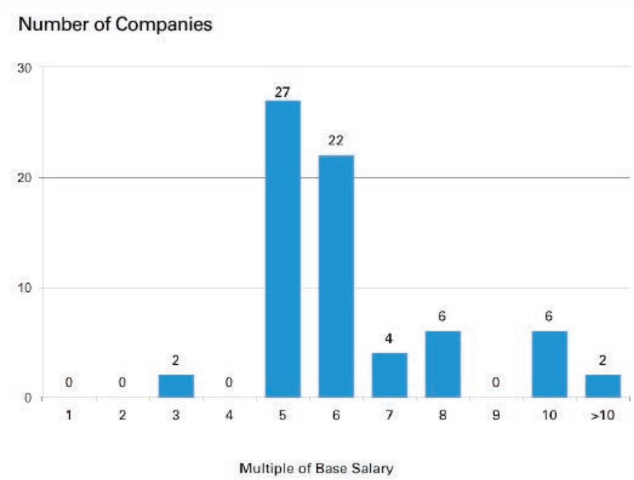
The following chart displays the median base salary multiple for key executive positions at Fortune 100 companies in 2012.

Median Salary Multiple by Position

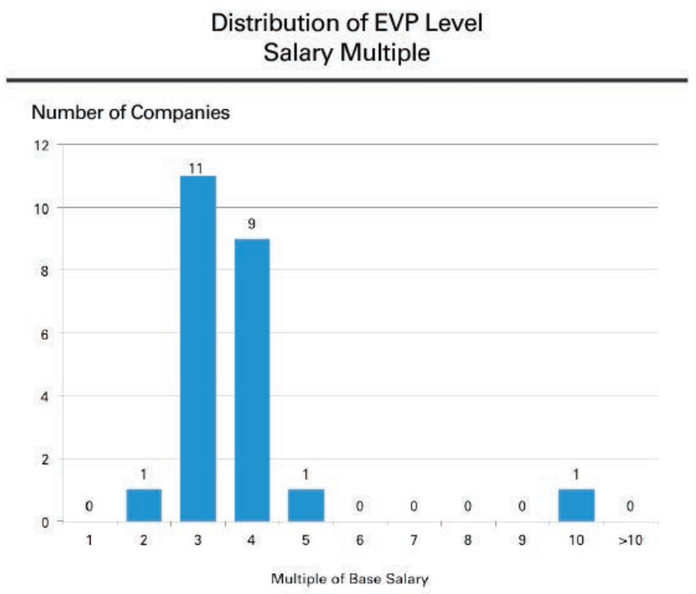


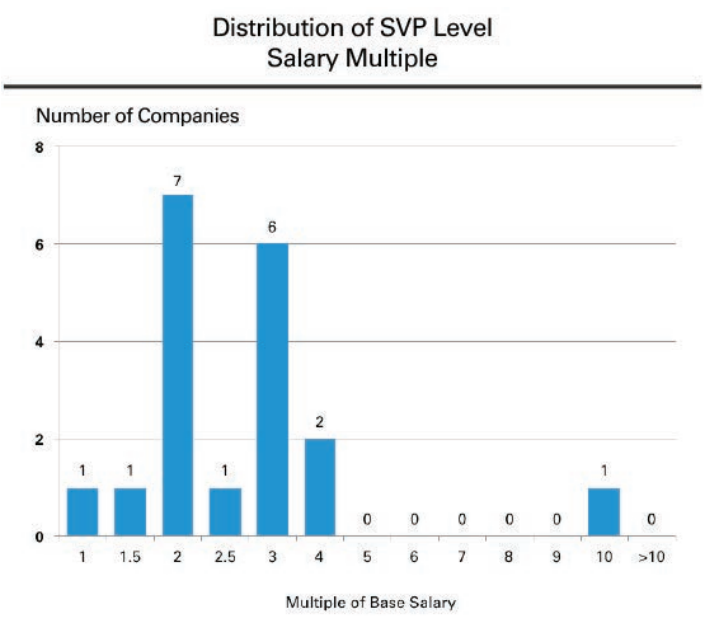

Target ownership levels ranged from three to 15 times base salary for CEOs at Fortune 100 companies. The chart below displays the distribution of base salary multiples for CEOs.

Distribution of CEO Salary Multiple




The target multiples of base salary gradually decrease from the top executives down through the Vice President level. This can be seen in the charts below, which display the distribution of target multiples for the Executive Vice President, Senior Vice President, and Vice President levels.




## Compliance Status

To illustrate to shareholders where their executives stand regarding their fulfillment of ownership requirements, some companies choose to disclose the compliance status of their executives. In 2012, 83.5% of companies disclosed a compliance status, which explained whether or not all the NEOs had met their ownership requirements and/or why executives had not met the guidelines. This is slightly higher than last year's prevalence of 80.3%.

### Disclosure Examples

- **Allstate (ALL)**
  DEF 14A filed on April 10, 2013
  Link to Filing

  "The chart below shows the salary multiple guidelines and the equity holdings that count towards the requirement."

| Name | Guideline | Status |
|---|---|---|
| Mr. Wilson | 6x salary | ✓ Meets guideline |
| Mr. Shebik | 3x salary | ✓ Meets guideline |
| Mr. Civgin | 3x salary | ✓ Meets guideline |
| Ms. Greffin | 3x salary | ✓ Meets guideline |
| Mr. Gupta | 3x salary | Must hold 75% of net after-tax shares until guideline is met |
| Mr. Winter | 3x salary | Must hold 75% of net after-tax shares until guideline is met |

- **Johnson Controls (JCI)**
  DEF 14A filed on December 10, 2012
  Link to Filing

  "As of November 5, 2012, each NEO above exceeded his respective ownership requirement. Collectively, the NEOs own nearly 1.7 million shares of Johnson Controls stock with a value in excess of $45.8 million (based on $27.40 stock price as of September 28, 2012)."

## Non-Compliance Penalties

Some companies disclose a definitive consequence for not meeting ownership requirements within a given time frame. These consequences can vary and include paying out annual incentives in equity instead of cash, increased holding requirements, or a prohibition on the sale of shares until guideline levels are met. Although companies may decide what to do on an individual basis with an executive not in compliance, these penalties are rarely disclosed to shareholders. Only 12.7% of companies with ownership guidelines disclosed these penalties.

### Disclosure Examples

- **Boeing (BA)**
  DEF 14A filed on March 15, 2013
  Link to Filing

  "The Compensation Committee may, in its discretion, elect at any time to pay some or all performance awards in stock, including for executives who are currently not in compliance with the applicable ownership requirement."

- **McKesson (MCK)**
  DEF 14A filed on June 21, 2013
  Link to Filing

  "The Company reserves the right to restrict sales of the underlying shares of vesting equity awards if executives fail to meet the ownership requirements specified in our Stock Ownership Policy"

- **Tyson Foods (TSN)**
  Corporate Governance Web Page
  Link to Website

  "Officers that don't meet these levels by the end of the fourth year will be granted 25% of their annual cash bonus in the form of a restricted stock grant, which will be included in their ownership levels."

## Hardship Provisions

Companies recognize that sometimes a substantial drop in the company's stock price or events in an executive's life may impact his or her ability to fulfill the share retention requirement. For these cases, some companies institute hardship provisions, in which the company modifies the ownership requirement in cases where it would put undue hardship on the executive. The prevalence of these requirements has increased slightly over the past three years. For Fortune 100 companies with ownership guidelines, 17.7% disclosed hardship provisions in 2012 compared to 16.7% in 2010. It is interesting to note that hardship provisions have decreased for directors. This may represent a convergence to a similar percentage for both executives and directors. In 2012, 22.1% of companies disclosed hardship provisions for directors, down from earlier years.

### Disclosure Examples

- **Johnson & Johnson (JNJ)**
  Corporate Governance Web Page
  Link to Website

  "Share prices of all companies are subject to market volatility. The Board believes that it would be unfair to require an executive or Board member to buy more shares simply because J&J's stock price drops temporarily. In the event there is a significant decline in the J&J stock price that causes a Director's or executive's holdings to fall below the applicable threshold, the Director or executive will not be required to purchase additional shares to meet the threshold, but such Director or executive shall not sell or transfer any shares until the threshold has again been achieved."

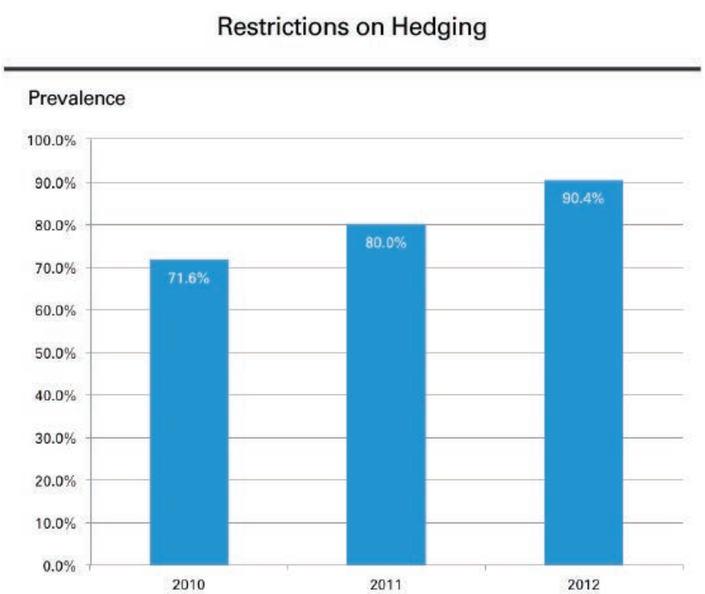
- **World Fuel Service (INT)**
  DEF 14A filed on April 15, 2013
  Link to Filing

  "Furthermore, the Compensation Committee, in its discretion, may determine the appropriate hardship relief, if any, for non-compliance including: allowing named executive officers additional time to regain compliance and suspending ownership requirements in the event of extreme volatility in the Company's stock price."

## Restrictions on Hedging

Hedging of a company's shares by members of its leadership team is often seen as poor corporate governance and is taken into consideration by proxy advisory firms when determining voting recommendations for a company. Companies desiring to showcase their governance practices to proxy advisory firms and shareholders may disclose prohibitions against the hedging or pledging of company's shares. The number of companies prohibiting such behavior by executives has increased steadily over the past three years. In 2012, 90.4% of all Fortune 100 companies disclosed a policy regarding the hedging of company shares or an insider trading policy, which is 26.3% higher than just three years previously. Companies may be voluntarily adding this disclosure before a possible mandatory implementation under the Dodd-Frank Act.

The following chart shows the prevalence of hedging restrictions among Fortune 100 companies over the past three years.




**Frederic W. Cook & Co. Analysis**

In our experience, insider trading policies in place at most companies prohibit executives and board members from hedging company shares, including short sales, puts, calls or other derivatives. However, many companies have only recently expanded their policies to also prohibit pledging company shares as collateral for loans, including holding company shares in margin accounts. Like hedging, pledging is viewed by proxy advisory firms and many institutional investors as a poor governance practice. Hedging can be viewed as "betting against the company," and

**Frederic W. Cook & Co. Analysis**

therefore negating the alignment of interests between shareholders and the executive. Pledging can be problematic if the executive is forced to sell shares to meet a margin call or cover a loan, which could put negative pressure on the stock price and encourage further stock sales. In addition, the forced stock sales could occur during a black-out period, which would violate insider trading laws.

## Disclosure Examples

- **Aetna (AET)**
  DEF 14A filed on April 5, 2013
  Link to Filing

  "The Company's Code of Conduct prohibits all employees (including executives) and Directors from engaging in hedging strategies using puts, calls or other types of derivative securities based upon the value of our Common Stock. No Directors or Executive Officers entered into a pledge of Common Stock in 2012."

- **Delta Airlines (DAL)**
  DEF 14A filed on April 30, 2013
  Link to Filing

  "As part of an update to its insider trading policy in 2012, Delta expanded and clarified prohibitions related to transactions in short-term or highly leveraged transactions. Under the updated policy, Delta prohibits employees from engaging in transactions in Delta securities involving publicly traded options, short sales and hedging transactions because they may create the appearance of unlawful insider trading and, in certain circumstances, present a conflict of interest. In addition, Delta expanded its insider trading policy to prohibit employees from holding Delta securities in a margin account or otherwise pledging Delta securities as collateral for a loan."

- **UnitedHealth Group (UNH)**
  DEF 14A filed on April 24, 2013
  Link to Filing

  "In general, SEC rules prohibit uncovered short sales of our common stock by our executive officers, including the named executive officers. Accordingly, our insider trading policy prohibits short sales of our common stock by all employees and directors. Our insider trading policy was amended in 2012 to prohibit hedging transactions by all directors and employees and to require advance approval of the Compensation Committee of any pledging of common stock by directors, executive officers and other members of management, although pledges existing at the time of the amendment were grandfathered. In 2012, no executive officer or director sought or received advance approval from the Compensation Committee regarding pledging transactions."

## Recent Changes in Ownership Provisions

Although ownership guidelines do not typically change dramatically from year to year, companies do make adjustments to strengthen their share retention policies and corporate governance. As seen in the section above, disclosure of hedging requirements continues to increase. However, other changes may include raising the target multiple or adding holding requirements.

### Disclosure Examples

- **Coca-Cola (KO)**
  DEF 14A filed on March 11, 2013
  Link to Filing

  "In February 2013, the Compensation Committee approved a new share retention policy for the Company's executive officers which requires the retention of 50% of the shares (after paying taxes) obtained from option exercises or from the release of PSUs or restricted stock awards for at least one year after exercise/release of shares or separation from the Company. Shares may be sold after separation from the Company and the policy includes limited exceptions such as donations of stock to charities, educational institutions or family foundations and sales or divisions of property in the case of divorce, disability or death, and the Compensation Committee is authorized to grant waivers in other exceptional circumstances. This policy applies to equity awards granted in and after February 2013 and is in addition to the share ownership guidelines described above."

- **Supervalu (SVU)**
  DEF 14A filed on June 3, 2013
  Link to Filing

  "During fiscal 2013, the Committee modified the Executive Stock Ownership and Retention Program such that until the executive has met the ownership multiple set forth above, such executive is now required to retain shares equal to 50% of the net after-tax profit received from stock option exercises or the vesting of restricted stock, whereas they were formerly required to retain 100% of their net after-tax shares. This 50% retention requirement can be satisfied on either an individual basis for each stock option exercise or restricted stock vesting event, or on a cumulative basis by aggregating all shares held from the exercise of stock options or the vesting of restricted stock from the date the executive first met our stock ownership requirement."

- **Tesoro (TSO)**
  DEF 14A filed on March 21, 2013
  Link to Filing

  "The CEO's ownership guideline was increased, effective January 1, 2013, to change the requirement from five-times annual base salary to six-times annual base salary."

# EQUILAR

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**Report Partner**

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