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2023 Executive Change-in-Control (CIC) and Non-CIC Severance Practices

FW COOK

2023 EXECUTIVE CHANGE-IN-CONTROL (CIC) AND NON-CIC SEVERANCE PRACTICES

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INTRODUCTION

Executive severance provisions provide for payments and other benefits to senior executives in connection with a termination of employment, where the supporting rationale often differs based on circumstance.

Severance protection is commonly provided in the context of a change-in-control ("CIC") to ensure that executives view every merger and acquisition ("M&A") opportunity with an eye toward maximizing shareholder value without considering how such a transaction could affect personal circumstances (e.g., loss of employment).

Severance provided outside the context of a change-in-control ("Non-CIC") serves as a financial bridge between jobs for executives who lose their employment due to job elimination, change in company strategy/leadership, and/or other circumstances that do not constitute Cause[1]. The value of Non-CIC severance is usually lower than CIC severance given the nature of the termination (i.e., often for performance reasons or lack of company fit, rather than the result of role redundancy following a merger).

Executive severance practices have evolved over the last decade, with changes influenced in part by large institutional investors and proxy advisors. In general, cash severance multiples have declined, and provisions such as single trigger[2] severance protections and excise tax gross-ups are generally only found in legacy arrangements.

This report provides a summary of current market severance practices for Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs), with specific focus on arrangement types, qualifying termination definitions, cash severance, equity treatment, continued health and welfare benefit duration, excise tax treatment, and restrictive covenants.

[1] Definitions vary but commonly refers to conviction or plea of guilty or no contest to a felony, gross negligence or willful misconduct in connection with participant's duties, an act of fraud, embezzlement or theft, violation of company policy that has a detrimental impact, etc.
[2] "Single trigger" refers to a situation where a CIC entitles an executive to severance benefits without requiring an involuntary termination of employment.

KEY TAKEAWAYS

Severance Prevalence

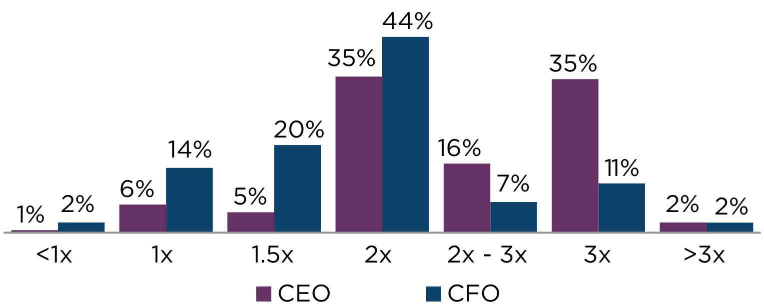
CIC Severance: CEO

Non-CIC Severance: CEO

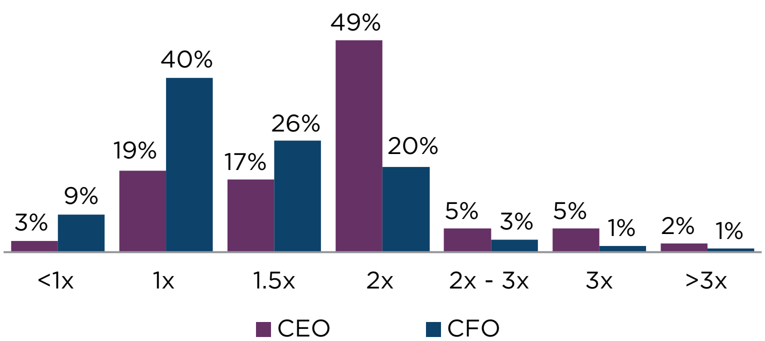
About 85% of companies provide CEO CIC severance, while about 75% provide CEO Non-CIC severance, with prevalence for both increasing since FW Cook's 2016 study (+4 and +10 percentage points, respectively).

Cash Severance

CIC Cash Multiples

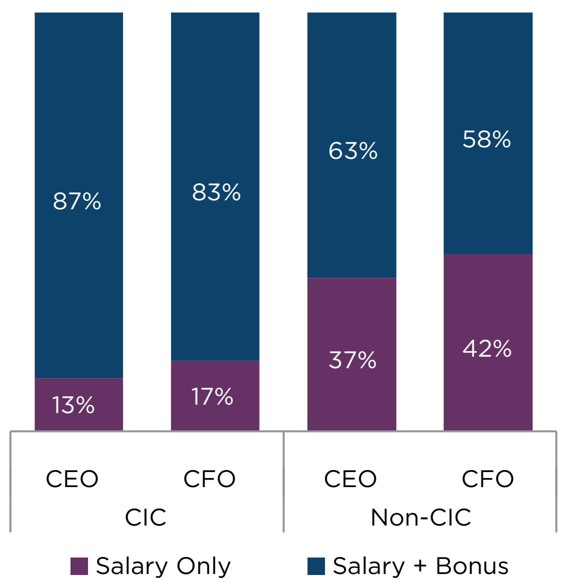


Non-CIC Cash Multiples



CIC cash severance multiples are often enhanced over Non-CIC severance multiples. For CEOs, CIC cash severance multiples are generally set at 2x or 3x (~35% each). For a Non-CIC termination, 2x is the most common CEO severance multiple (~50%). For CFOs, cash severance multiples are most commonly set at 2x for CIC (~45%) and 1x for Non-CIC (40%).

About 85% of companies providing CIC severance define cash severance as a multiple of salary plus bonus (rather than salary only). This drops to about 60% for companies providing Non-CIC severance.

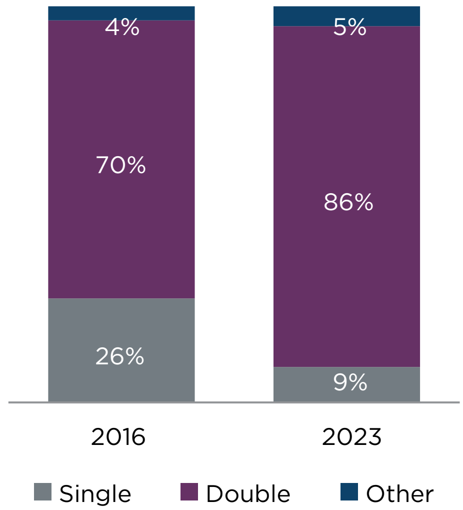


KEY TAKEAWAYS

Equity Treatment

In the event of a CIC, ~90% of companies fully accelerate all unvested time-based equity, while ~70% do so for performance awards (includes both single and double trigger provisions).

For Non-CIC severance, majority practice is for time-based and performance-based equity to be forfeited (~55%), with only about 10% of companies fully accelerating outstanding equity.



Compared to FW Cook's 2016 study, the prevalence of double trigger CIC equity acceleration increased significantly (86% prevalence this year, up from 70% prevalence in 2016) with single trigger prevalence falling.

Health & Welfare

For companies providing CIC severance, 2.0 years of continuation of health and welfare benefits is most common for both CEOs and CFOs.

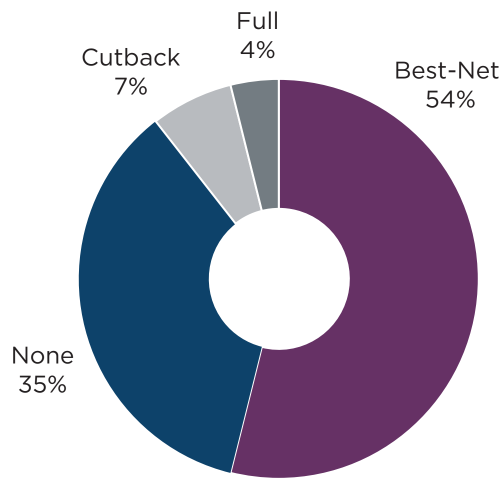
In Non-CIC severance situations, health and welfare benefits continuation of 1.5 to 2.0 years for CEOs (~35% each) and 1.0 year for CFOs (~40%) are most common.

Excise Tax Gross-ups

Because company payment of an executive's excise taxes is considered a problematic pay practice, only 4% of companies have plans or agreements that do so. Companies most often address the potential imposition of the excise tax through a best-net provision (~55%).

Compared to FW Cook's 2016 study, there was a notable shift from companies being silent on excise tax treatment (~50% prevalence in 2016 vs. 35% this year) to those adopting best-net treatment (~30% prevalence in 2016 to ~55% prevalence this year).

Excise Tax Policy



Restrictive Covenants

Nearly half (~45%) of companies condition CIC and Non-CIC severance on Non-Compete and Non-Solicitation provisions, which generally cover a 1.0 or 2.0 year period.

METHODOLOGY

To understand the current market practices for CIC and Non-CIC severance, FW Cook researched severance benefits provided to CEOs and CFOs at 210 U.S.-based public companies, covering small-cap, mid-cap, and large-cap issuers (sample reflects an equal number of companies per market capitalization group). The CEO and CFO roles were chosen because they are the two positions covered in all proxy statements. CFO severance benefits are generally comparable to those provided to proxy officers other than the CEO.

Data in this study are sourced from proxy statements, equity compensation plans, equity award agreements, and individual employment agreements as of June 1, 2023.

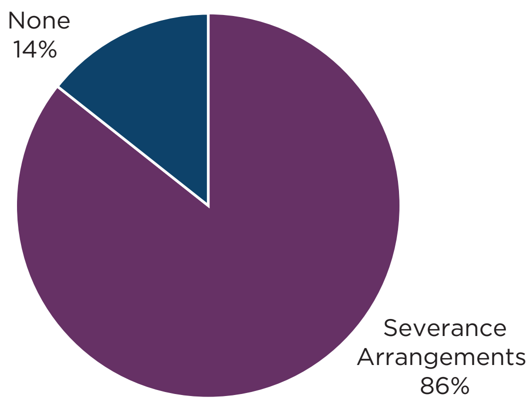
	As of 7/31/2023 ($M)		
	Sample Size	**Median 12-Month Avg. Market Cap.**	**Median Last 4-Quarter Revenue**
Large-Cap.	n = 70	$72,602	$39,696
Mid-Cap.	n = 70	$4,444	$2,611
Small-Cap.	n = 70	$1,234	$1,124
Total Sample	**n = 210**	**$4,593**	**$3,444**

CIC SEVERANCE

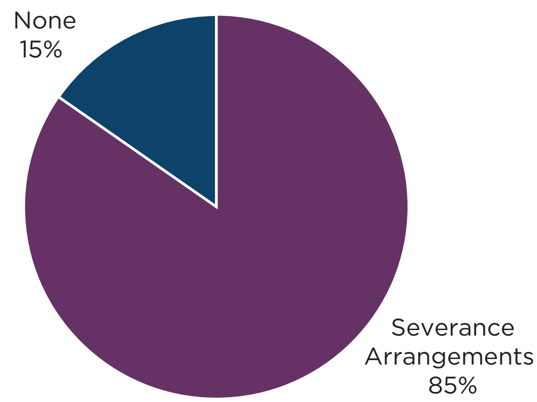
CIC severance is often provided to ensure that executives are incentivized to pursue transactions that are in the best interests of shareholders but may result in loss of employment. They also support delivering an intact company to the acquirer by ensuring covered employees that they will be compensated if ultimately severed in connection with the transaction. This is particularly important for businesses where human capital is a key asset being acquired.

Approximately 85% of CEOs and CFOs are covered by CIC severance arrangements. This is an increase from FW Cook's 2016 study where ~80% of companies were found to provide CIC severance.

CEO CIC Severance Prevalence



CFO CIC Severance Prevalence

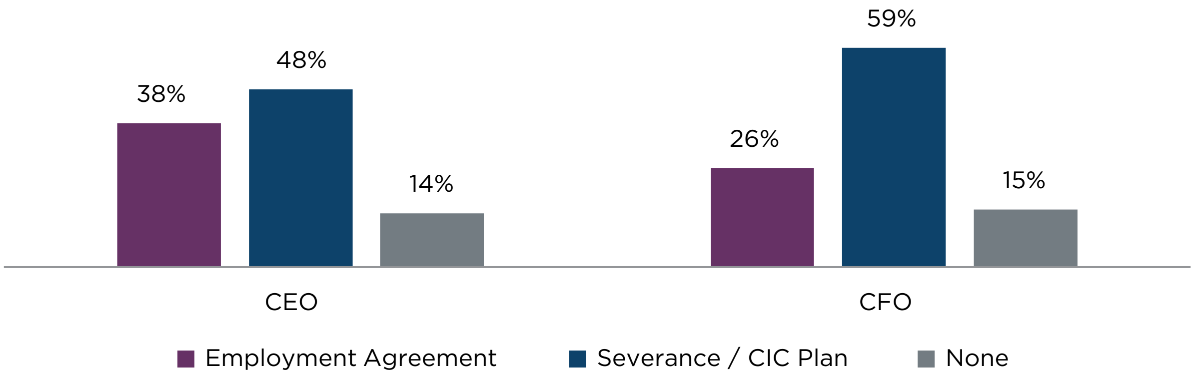


CIC SEVERANCE

Arrangement Types

CIC severance is typically documented either in individual employment agreements or executive severance plans that apply to multiple executives. Severance / CIC plans are the most common among both CEOs and CFOs (~50% and ~60% prevalence, respectively), with employment agreements a closer second for CEOs (~40% prevalence) than for CFOs (~25% prevalence). Individual arrangements have historically been more common for CEOs than for other executives.

CIC Arrangement Type



Severance plans covering multiple employees have increased in popularity over individual employment agreements. Compared to FW Cook's 2016 study, the prevalence of employment agreements is down from 43% to 38% for CEOs and 33% to 26% for CFOs, while the prevalence of severance / CIC plans is up from 39% to 48% for CEOs and 48% to 59% for CFOs. Severance plans have grown in popularity because they provide level treatment for internal equitability and support ease of communication to participants.

Whether provided under a plan or an employment agreement, having established severance benefits:

1. Gives peace of mind to participants that they will be treated fairly in the event of a covered termination;
2. Avoids the need to negotiate benefits in the event of an involuntary termination of employment; and
3. Supports recruitment and retention objectives.

CIC SEVERANCE

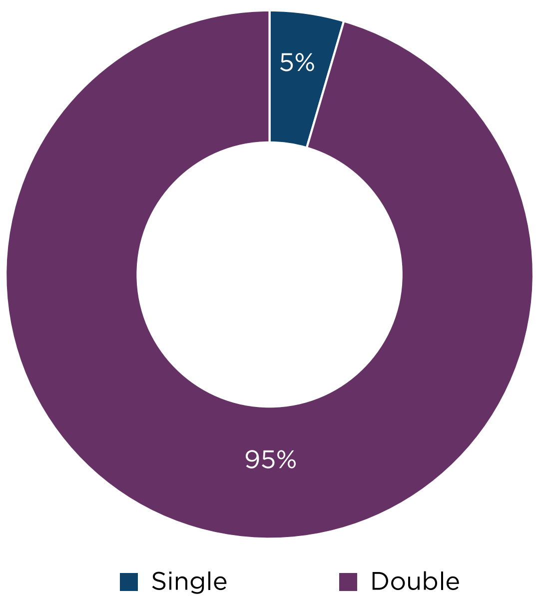
CIC Cash Severance Triggers

In the event of a CIC, most companies do not automatically provide cash severance. Instead, a qualifying termination must also occur for severance benefits to be triggered.

Term	Definition
Single Trigger	Provides severance benefits in the event of a CIC, with no requirement for the employee to be terminated.
Double Trigger	Conditions severance benefits on both a CIC and a related qualifying termination (i.e., the CIC event alone does not result in severance).

Among companies that provide CIC severance, double trigger is the standard approach and is considered "best practice" because it provides the acquirer the ability to choose who is retained. If severance benefits are paid in the event of a CIC only, the acquirer may need to provide incremental compensation to retain employees, which is value that would have otherwise gone to shareholders as part of the transaction.

Single vs. Double Cash Trigger



Note: Statistics are calculated from companies with disclosed arrangements.

CIC SEVERANCE

Qualifying Terminations

There are two main types of terminations that qualify a covered employee to be provided severance: (1) termination by the company without Cause, and (2) resignation by the employee for Good Reason. While the definitions of "Cause" and "Good Reason" vary from company to company, common elements include:

Term	Common Definitions
Cause	• Conviction or plea of guilty or no contest to a felony; • Gross negligence or willful misconduct in connection with an employee's duties; • An act of fraud, embezzlement or theft; • Violation of company policy that has a detrimental impact.
Good Reason	• Material reduction in salary; • Material diminution in responsibilities; • Relocation of employee's primary work location by more than a specified distance.

Consideration should be given to the chosen definitions in order to achieve company-specific business objectives, and may look different before and after a CIC or for different employee populations.

In the event of a CIC, nearly all the companies provide severance to CEOs and CFOs both in the case of a termination without Cause and a resignation for Good Reason.

CIC Qualifying Termination

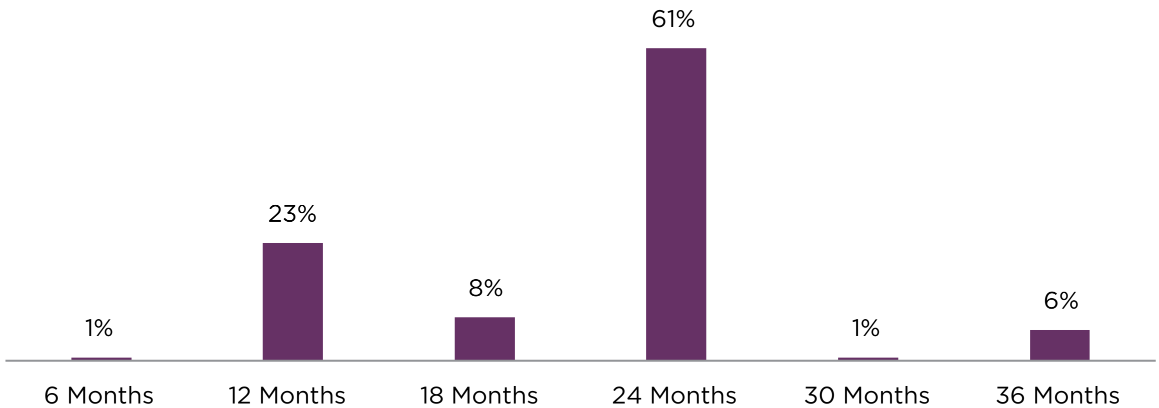
Note: Statistics are calculated from companies with disclosed arrangements.

CIC SEVERANCE

Protection Periods

Companies with double trigger CIC cash severance benefits define the time period around the CIC during which the qualifying termination must occur for CIC cash severance benefits to be provided (i.e., the "protection period"). Protection periods following a CIC are most often set at 24 months (~60% prevalence), although roughly one-third of companies use a shorter period.

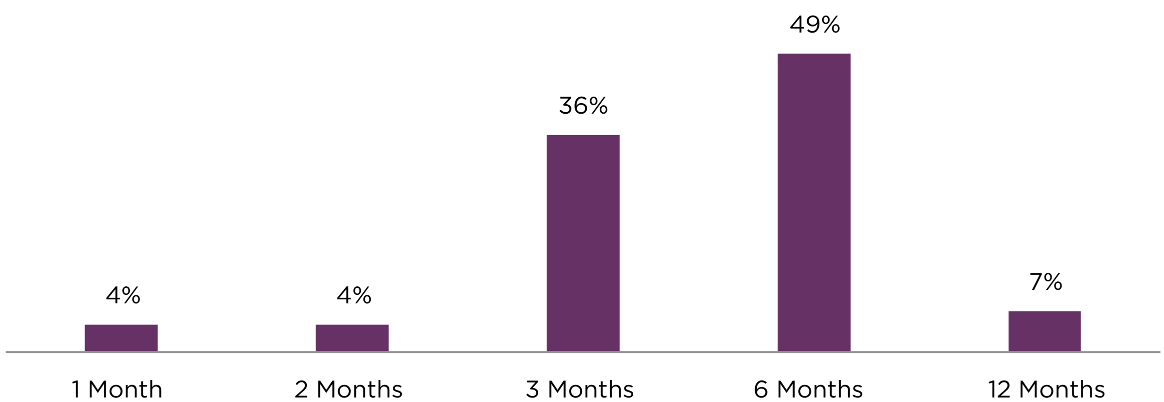
Protection Period Following CIC



Note: Statistics are calculated from companies with disclosed arrangements.

About 20% of companies have a protection period that applies prior to CIC. The majority of these companies set the protection period at either three or six months prior to a CIC (~35% and ~50% prevalence, respectively).

Protection Period Prior to CIC



Note: Statistics are calculated from companies with disclosed arrangements.

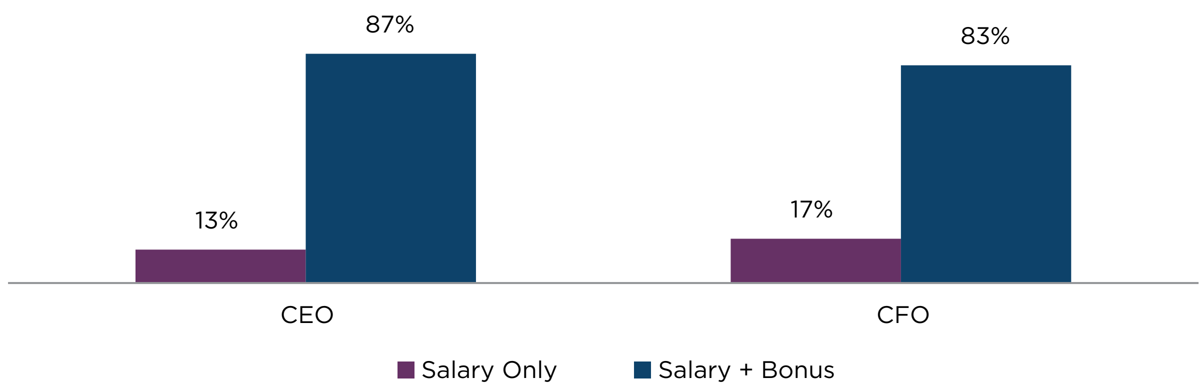
CIC SEVERANCE

Cash Severance

Definition and Multiples

Cash severance is commonly defined as a multiple of either a) base salary or b) base salary plus bonus (e.g., 2x base salary or 1.5x the sum of base salary and bonus). The majority (~85%) of companies providing CIC severance define cash severance as a multiple of base salary plus bonus.

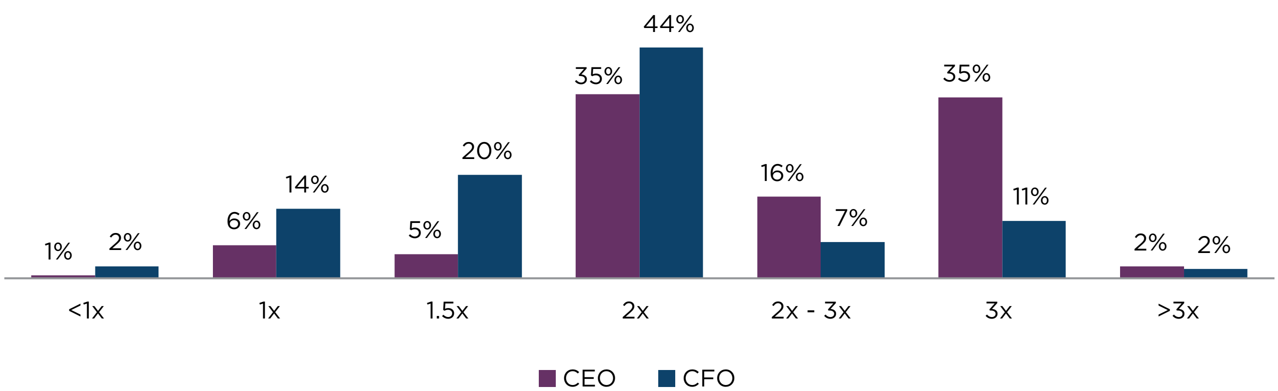
CIC Cash Multiple Definition



Note: Statistics are calculated from companies with disclosed arrangements.

For CEOs, cash severance multiples are most commonly set at 2x or 3x (35% of companies each). For CFOs, a 2x multiple is most common (~45% of companies), with roughly twice as many CFOs having multiples lower than 2x rather than higher than 2x. Compared to FW Cook's 2016 study, the prevalence of 3x cash severance multiples for CEOs is down from 50% to 35% (i.e., multiples of 3x+ generally reflect older arrangements).

CIC Cash Multiples



Note: Statistics are calculated from companies with disclosed arrangements.

CIC SEVERANCE

There are a variety of combinations of CIC cash severance definitions and multiples, as illustrated below. CIC cash severance is set at 2x to 3x [salary + bonus] for ~80% of CEOs and at 1x to 2x [salary + bonus] for ~65% of CFOs. No meaningful differences were observed among large-caps, mid-caps, and small-caps.

Cash Severance Structure		CIC Severance CEO	CIC Severance CFO
Prevalence of Executive Severance		**86%**	**85%**
Amounts	≥3x (Salary + Bonus)	34%	11%
	2.01x - 2.99x (Salary + Bonus)	14%	6%
	2x (Salary + Bonus)	31%	40%
	1.01x - 1.99x (Salary + Bonus)	5%	18%
	1x (Salary + Bonus)	3%	9%
	<1x (Salary + Bonus)	0%	0%
	≥3x Salary Only	2%	2%
	2.01x - 2.99x Salary Only	2%	1%
	2x Salary Only	4%	4%
	1.01x - 1.99x Salary Only	1%	2%
	1x Salary Only	3%	5%
	<1x Salary Only	1%	2%

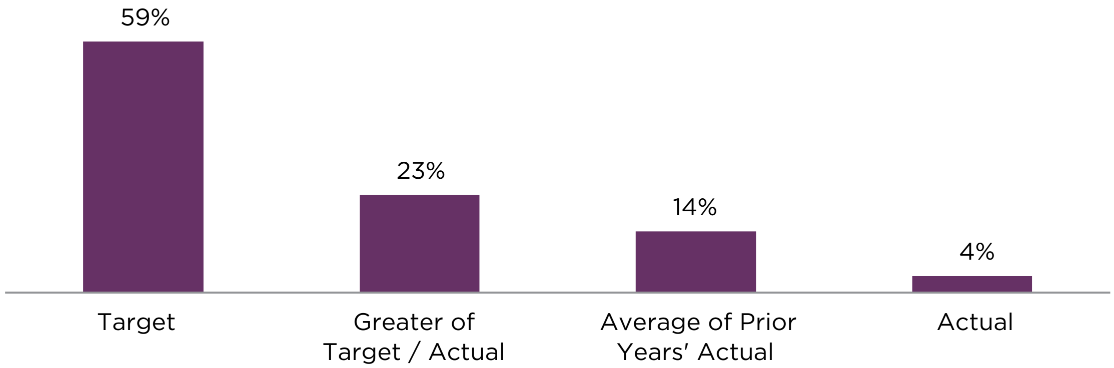
Note: Multiple prevalence is calculated out of companies with disclosed arrangements.

CIC SEVERANCE

Bonus Multiple Definition

Of companies that include bonus in the calculation of cash severance, the majority define it as target (~60% of companies). About 25% define bonus as the “greater-of” target or actual (either the prior year or an average of multiple prior years), but this approach has become less common in recent years as it is not seen as “best practice.”

CIC Bonus Multiple Definition

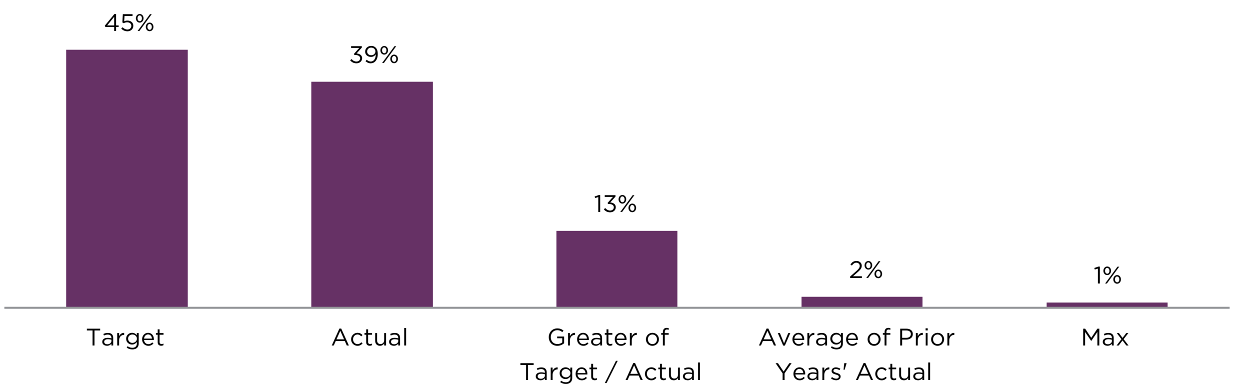


Note: Statistics are calculated from companies with disclosed arrangements.

In-Cycle Bonus Definition

In addition to providing formulaic cash severance, about 50% of companies also provide a pro-rated portion of the bonus covering the year in which the CIC occurs. Such in-cycle bonuses are typically paid out at target or are based on actual performance (45% and ~40% prevalence, respectively), and pro-rated for the portion of the year the executive was employed.

CIC In-Cycle Bonus Definition



Note: Statistics are calculated from companies with disclosed arrangements.

CIC SEVERANCE

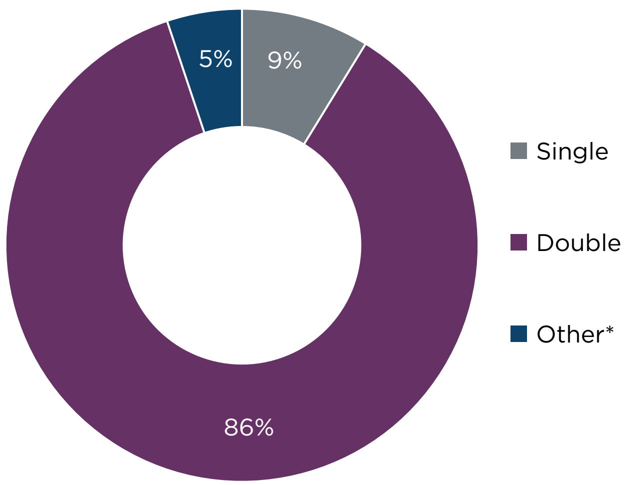
CIC Equity Vesting Triggers

Most companies do not automatically provide equity vesting upon CIC. Instead, a qualifying termination must also occur for equity vesting to be triggered.

Term	Definition
Single Trigger	Provides equity vesting in the event of a CIC, with no requirement for the employee to be terminated.
Double Trigger	Conditions equity vesting on both a CIC and a related qualifying termination (i.e., the CIC event alone does not result in equity vesting).[3]

Among companies that do not forfeit equity, double trigger is the majority approach and is considered "best practice," similar to cash severance. Compared to FW Cook's 2016 study, there was a notable shift from companies having single trigger (26% prevalence in 2016 vs. 9% this year) to double trigger (70% prevalence in 2016 to 86% prevalence this year).

Single vs. Double Equity Trigger



Note: Statistics are calculated from companies with disclosed arrangements.
**Other reflects committee discretion or companies that use a combination of single trigger for some equity vehicles and double trigger for others.*

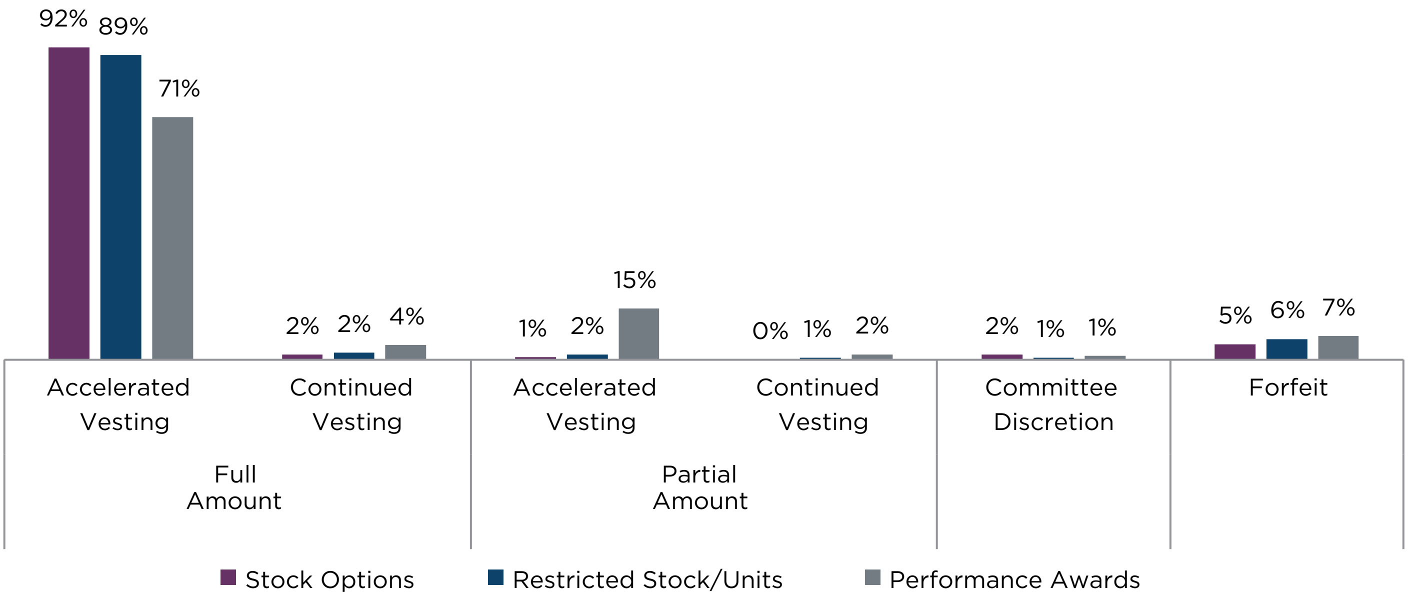
[3] An acquirer's failure to assume outstanding equity awards on an economically equivalent basis also typically qualifies as a second trigger for equity vesting.

Equity Treatment

Stock Options, Restricted Stock/Units, Performance Awards

In the event of a CIC, it is common for companies to provide for the vesting of outstanding time-based and performance-based equity awards. When determining the treatment of outstanding equity awards, companies face two primary questions: (1) how much (i.e., what portion of an executive's unvested equity should vest, if any), and (2) when (i.e., should equity vest at the time of separation ("accelerated") or when it was originally scheduled to vest ("continued")).

CIC Equity Treatment



Note: Percentages do not sum to 100% due to rounding.

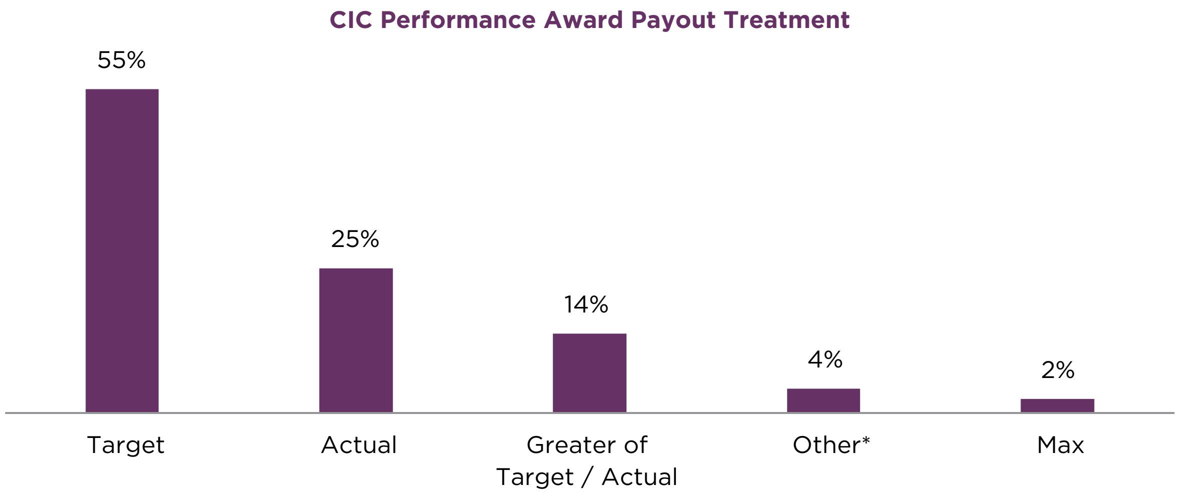
In the event of a CIC, about 90% of companies fully accelerate the vesting of all unvested time-based awards, while only about 70% do so for performance awards (includes both single and double trigger provisions). The treatment of performance awards tends to differ from the treatment of time-based award due to the nature of vesting provisions (i.e., time-based awards typically vest ratably whereas performance awards typically cliff vest at the end of the performance period resulting in the potential loss of the full grant rather than just a portion). There were no meaningful differences in findings among large-caps, mid-caps, and small-caps.

Findings are consistent with those in FW Cook's 2016 study, where the prevalence of fully accelerated vesting was 92% for stock options, 90% for restricted stock/units and 69% for performance awards.

CIC SEVERANCE

Performance Award Payout Treatment

When performance awards vest in connection with a qualifying CIC-related termination, they most often fund at target (55%), with 25% of companies determining funding based on actual performance and ~15% providing for the greater of target or actual performance.



Note: Statistics are calculated from companies with disclosed arrangements.
**Other treatment includes actual performance through CIC date and target for the rest of the period or a combination of target and actual based on different performance award metrics.*

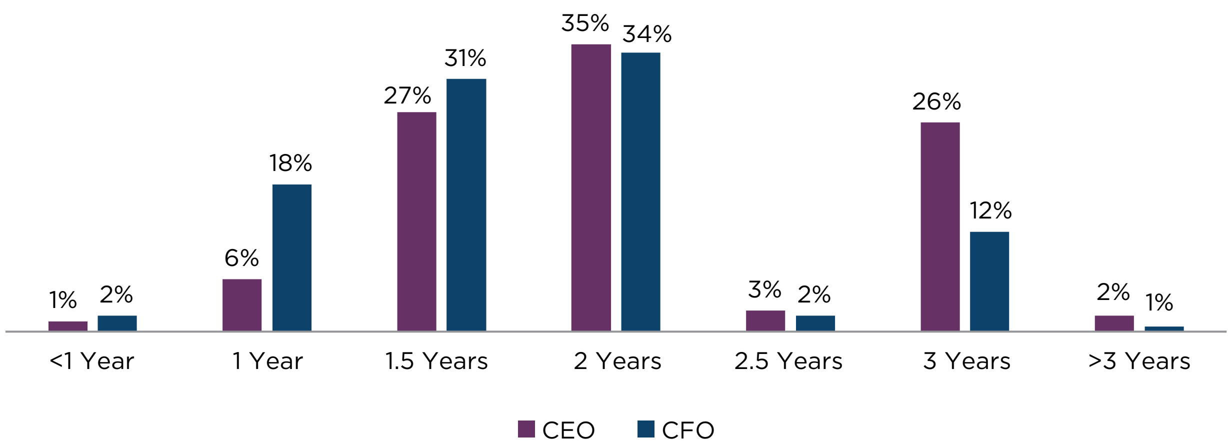
CIC SEVERANCE

Health and Welfare Benefits

In the event of a CIC termination, ~75% of companies provide for the continuation of health and welfare benefits. There is generally alignment between cash severance multiples and the health and welfare benefit continuation period (e.g., companies with a 2.0x cash severance multiple will commonly have a 2.0-year benefit continuation period).

For CEOs, about ~90% provide health and welfare benefit continuation for 1.5 to 3.0 years. Findings are slightly lower for CFOs, with ~80% providing health and welfare benefit continuation for 1.0 to 2.0 years.

CIC Health and Welfare Benefit Duration



Note: Statistics are calculated from companies with disclosed arrangements.

CIC SEVERANCE

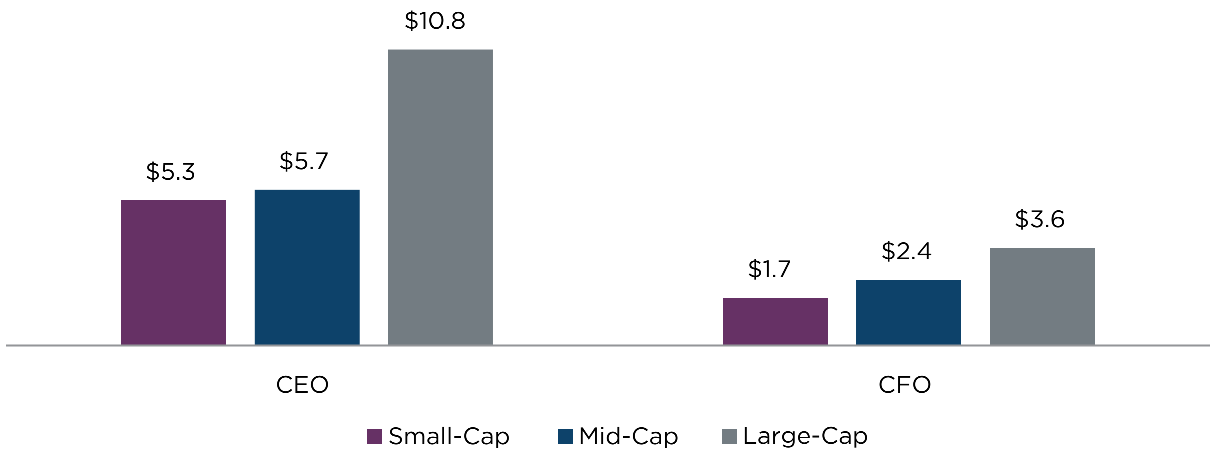
Severance Values

While no meaningful differences were observed among large-caps, mid-caps, and small-caps in either cash severance multiples or the treatment of outstanding equity in the case of a CIC termination, company size influences the absolute dollar value of severance benefits.

The value of severance benefits at mid-caps is slightly higher than at small-caps, while the value provided at large-caps is roughly double that provided at mid-caps. It is worth noting that median market caps of the small-caps and mid-caps are much closer ($1.2B and $4.4B, respectively), while median market cap for the large-caps is significantly higher ($72.6B), which is a key driver.

Potential Payments values below reflect all severance benefits that would have been delivered to executives for a qualifying CIC-related termination, including cash severance, the value of equity awards for which vesting continues or accelerates, health and welfare benefit continuation, and excise tax payments.

Median Total Potential Payments CIC Severance Value ($ Millions)



Note: Values are sourced from the termination tables disclosed in proxy statements and reflect severance obligations for a hypothetical termination on the last day of the fiscal year.

Excise Tax Treatment

In the case of a CIC, an executive's severance benefits may be subject to an incremental excise tax if they exceed defined levels. Excise tax gross-ups are supplemental payments to an executive to offset the incremental excise tax[4], as well as any associated income and excise taxes on such payments.

Proxy advisors and many large institutional investors consider excise tax gross-ups to be a problematic pay practice, and the inclusion of such provisions can negatively impact a company's Say-on-Pay proposal. For this reason, excise tax gross-ups have all but disappeared from new severance arrangements, although they are still seen in legacy arrangements. While not provided for up front, some companies negotiate partial or full excise tax payments/gross-ups for certain executives as part of the corporate transaction's terms.

Companies that have established policies to address potential excise taxes use one of three basic approaches:

Term	Definition
Gross-Up	All excise taxes imposed on the individual are reimbursed by the company, along with related taxes on imputed income.
Cutback	Severance payments are reduced to the maximum level before excise taxes are triggered (i.e., safe harbor limit).[5]
Best-Net	Severance payments are reduced to the safe harbor limit only if doing so results in a greater after-tax benefit to the individual than if the excise tax were paid by the individual.

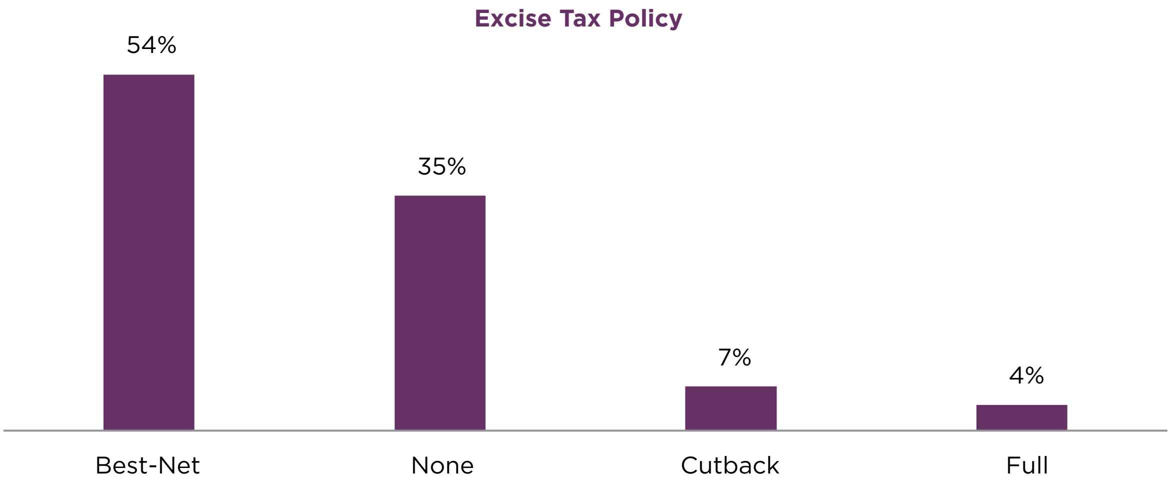
[4] In this case, the term "excise tax" refers to a nondeductible 20% excise tax (imposed by Section 4999 of the Internal Revenue Code) on the recipient of any "excess parachute payment," within the meaning of Code Section 280G (requires both a parachute payment and an excess parachute payment).

[5] The safe harbor threshold is one dollar less than three times an executive's base amount, where the base amount is defined as the executive's average annual taxable compensation from the applicable corporation for the five calendar years immediately preceding the year in which the CIC occurs or such lesser period as the executive has been employed by the corporation.

CIC SEVERANCE

Companies most commonly address the potential imposition of the excise tax through a “best-net” provision (~55%). Only 4% of companies provide for a full excise tax gross-up.

Best-net provisions have become more common as they enable a company to provide an executive with some protection from potential excise taxes at no direct cost to the company. Compared to FW Cook’s 2016 study, there was a notable shift from companies being silent on excise tax treatment (~50% prevalence in 2016 vs. 35% this year) to best-net treatment (~30% prevalence in 2016 to ~55% prevalence this year).



Note: Statistics exclude companies that do not have defined severance benefits.

CIC SEVERANCE

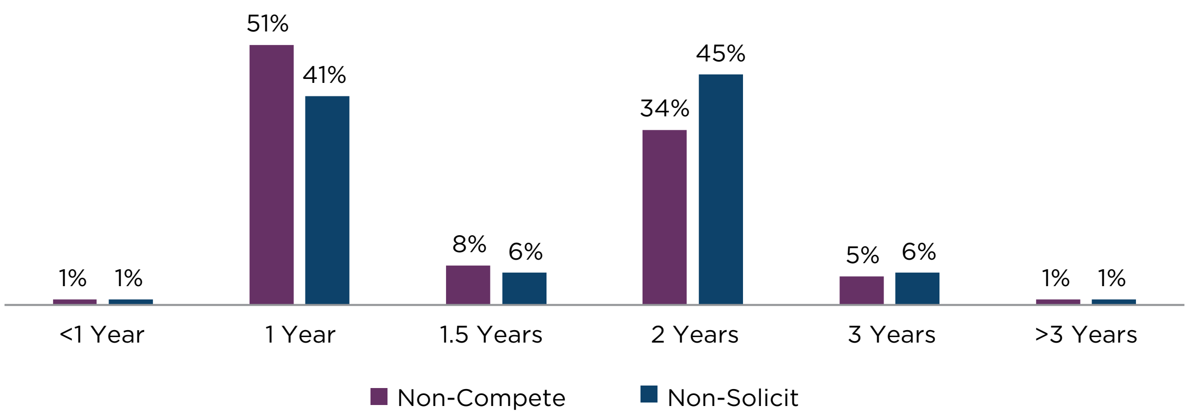
Restrictive Covenants

Restrictive covenants impose certain limitations on executives in the event of separation from a company. These provisions are generally viewed favorably by shareholders, as they aim to protect the interests of a company and its ongoing business operations during a time of transition. Restrictive covenants take two common forms:

Term	Definition
Non-Compete Provisions	Restrict employees from working for or starting a competing business for a specified period of time and/or within a specific geographic area.
Non-Solicitation Provisions	Prohibit employees from actively soliciting a company's customers or from actively soliciting employees to leave and join a competitor/competing venture.

Approximately 45% of companies have restrictive covenants and most often impose 1.0 to 2.0 year Non-Compete and/or Non-Solicitation restrictions as a condition to receive CIC severance benefits. The covenants should be considered separately, as Non-Compete provisions cannot be enforced in some jurisdictions.

CIC Restrictive Covenant Durations



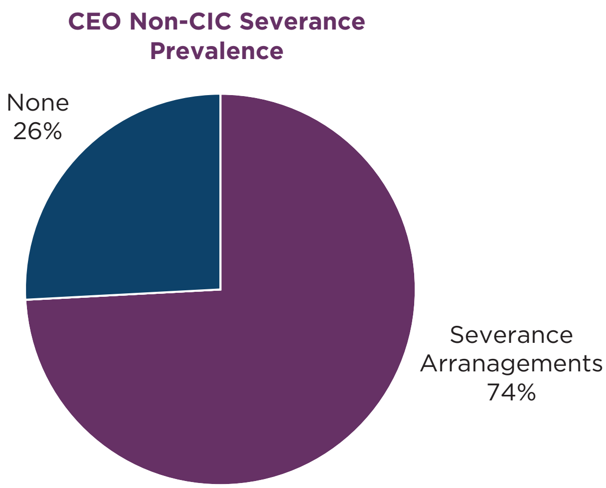
Note: Statistics are calculated from companies with disclosed arrangements.

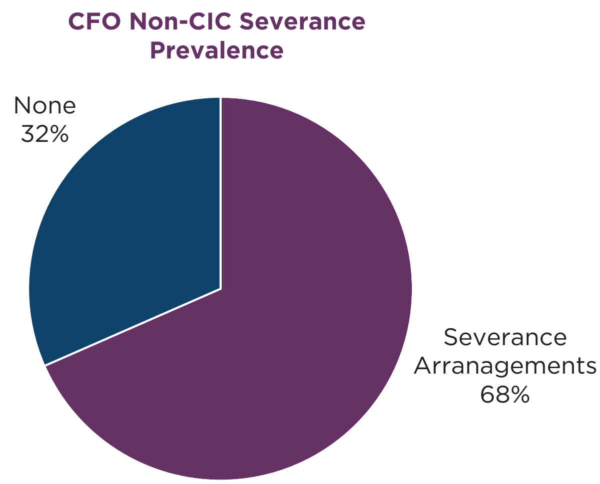
In addition to Non-Compete and Non-Solicitation provisions, a standard condition for employees to receive severance is a release to future claim against the terminating company. Non-Disparagement commitments and Non-Disclosure of confidential information are also common and often continue in perpetuity.

NON-CIC SEVERANCE

Non-CIC severance arrangements can serve as recruitment and retention tools and are provided to ~75% of CEOs and ~70% of CFOs. This is modestly lower than the prevalence of CIC severance, which is provided to ~85% of CEOs and CFOs – refer to page 5. Compared to FW Cook's 2016 study, statistics this year are up from ~65% of companies providing Non-CIC severance.

Non-CIC severance arrangements are less common than CIC severance arrangements due to the nature of the termination (e.g., often for performance reasons rather than the result of role redundancy following a merger).

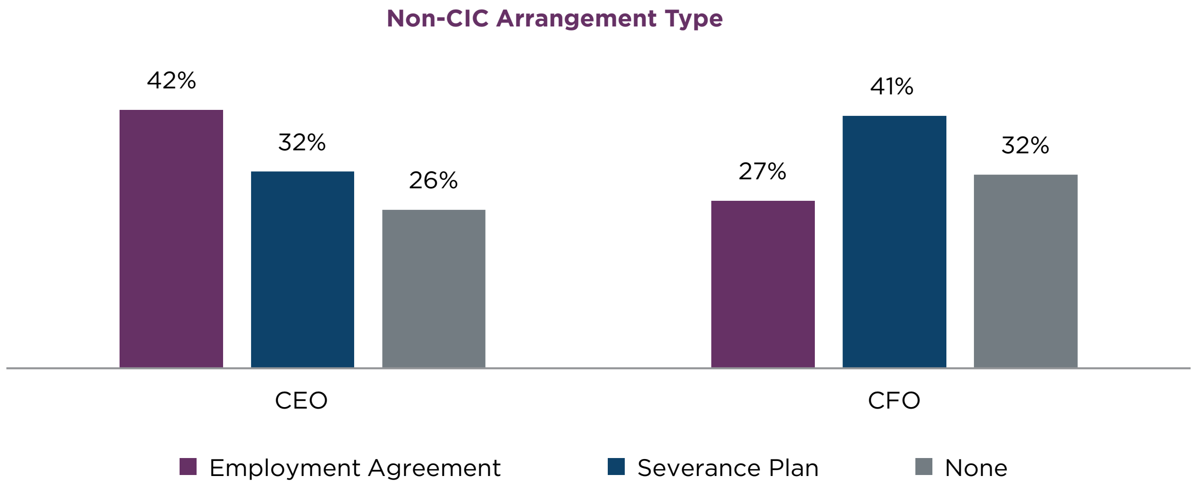




NON-CIC SEVERANCE

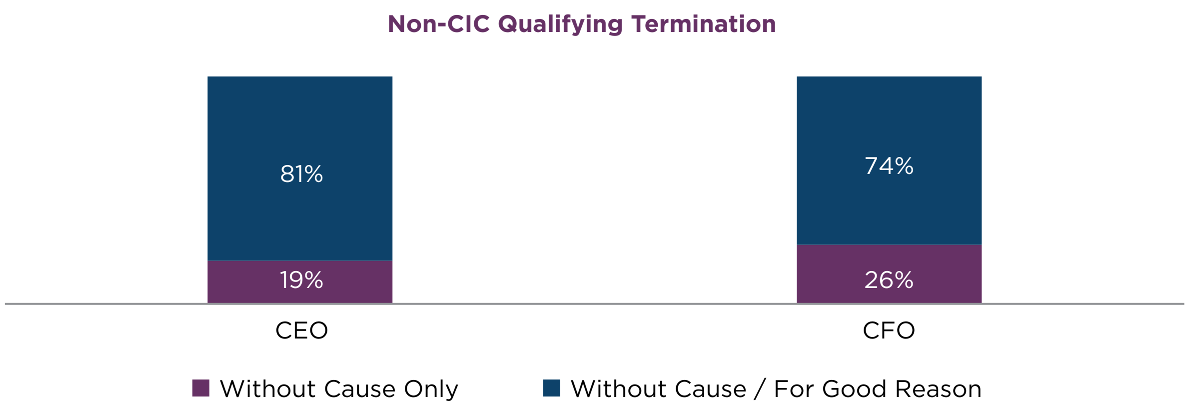
Arrangement Types

Non-CIC severance arrangements for CEOs are most commonly included in employment agreements (~40%) while formal severance plans are most commonly used for CFOs (~40%).



Qualifying Terminations

About 80% of CEOs and ~75% of CFOs that have Non-CIC severance benefits are protected in the event of either a resignation for Good Reason or a termination without Cause, while others are only protected for a termination without Cause. In contrast, almost all CEOs and CFOs with CIC severance benefits are protected in the event of either a resignation for Good Reason or a termination without Cause – refer to page 8.



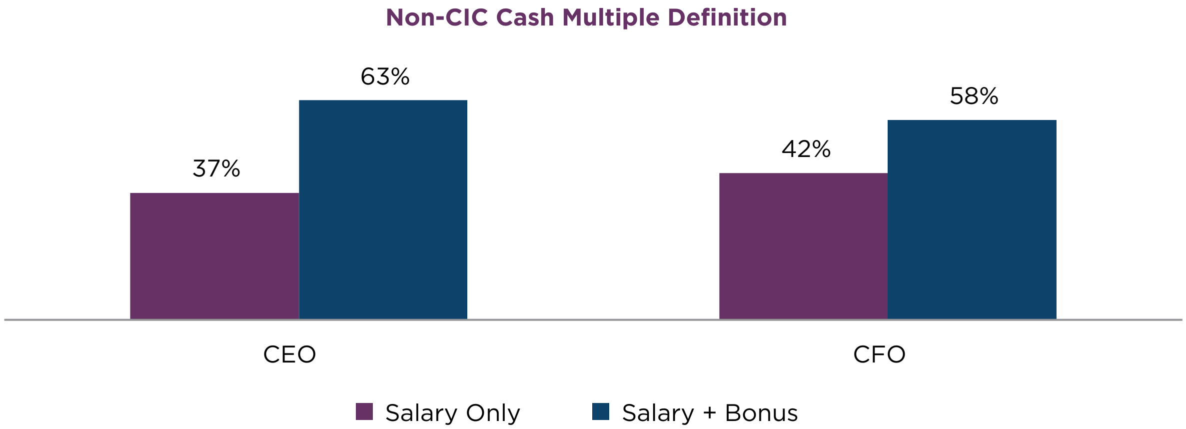
Note: Statistics are calculated from companies with disclosed arrangements.

NON-CIC SEVERANCE

Cash Severance

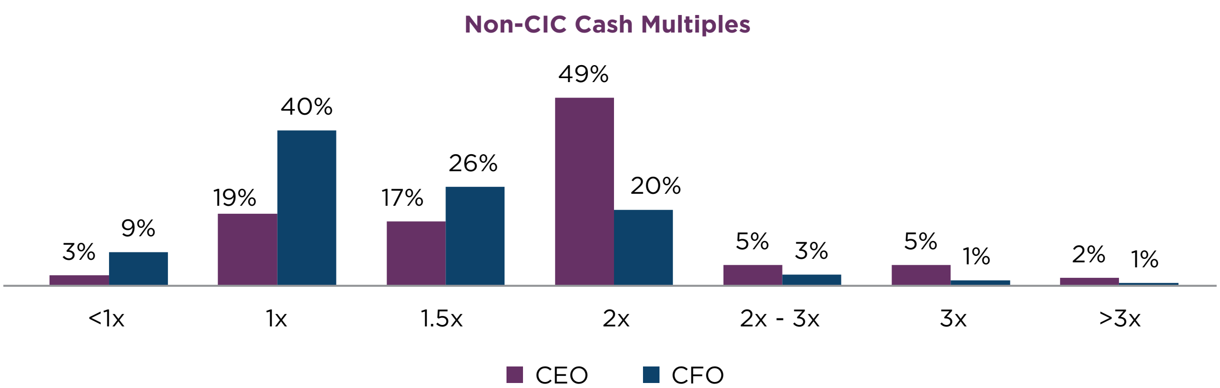
Definition and Multiples

About 60% of companies define cash severance as a multiple of base salary plus bonus, while the remaining ~40% apply the multiple to base salary only. This is lower than in CIC severance arrangements, where ~85% of companies have cash severance multiples that apply to base salary plus bonus – refer to page 10.



Note: Statistics are calculated from companies with disclosed arrangements.

About 85% of companies set Non-CIC severance multiples between 1x to 2x, with CEOs most often at 2x and CFOs most often at 1x (~50% and 40%, respectively). Non-CIC cash severance multiples are usually lower than CIC multiples due to the nature of the termination – refer to page 10.



Note: Statistics are calculated from companies with disclosed arrangements.

NON-CIC SEVERANCE

There is a variety of combinations of Non-CIC cash severance definitions and multiples, as illustrated below. Non-CIC cash severance is set at 1x to 2x [salary + bonus] for ~55% of CEOs and CFOs. There were no meaningful differences observed among large-caps, mid-caps, and small-caps.

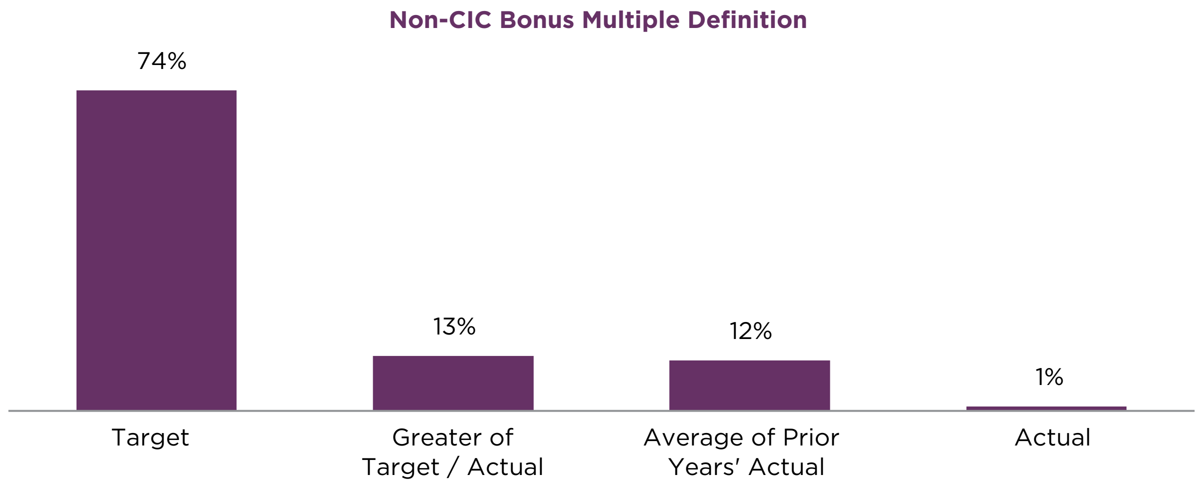
Cash Severance Structure		Non-CIC Severance CEO	Non-CIC Severance CFO
Prevalence of Executive Severance		**74%**	**68%**
Amounts	≥3x (Salary + Bonus)	5%	1%
	2.01x - 2.99x (Salary + Bonus)	3%	1%
	2x (Salary + Bonus)	35%	10%
	1.01x - 1.99x (Salary + Bonus)	9%	19%
	1x (Salary + Bonus)	11%	24%
	<1x (Salary + Bonus)	0%	2%
	≥3x Salary Only	3%	1%
	2.01x - 2.99x Salary Only	2%	1%
	2x Salary Only	13%	8%
	1.01x - 1.99x Salary Only	8%	8%
	1x Salary Only	8%	18%
	<1x Salary Only	3%	7%

Note: Multiple prevalence is calculated out of companies with disclosed arrangements.

NON-CIC SEVERANCE

Bonus Multiple Definition

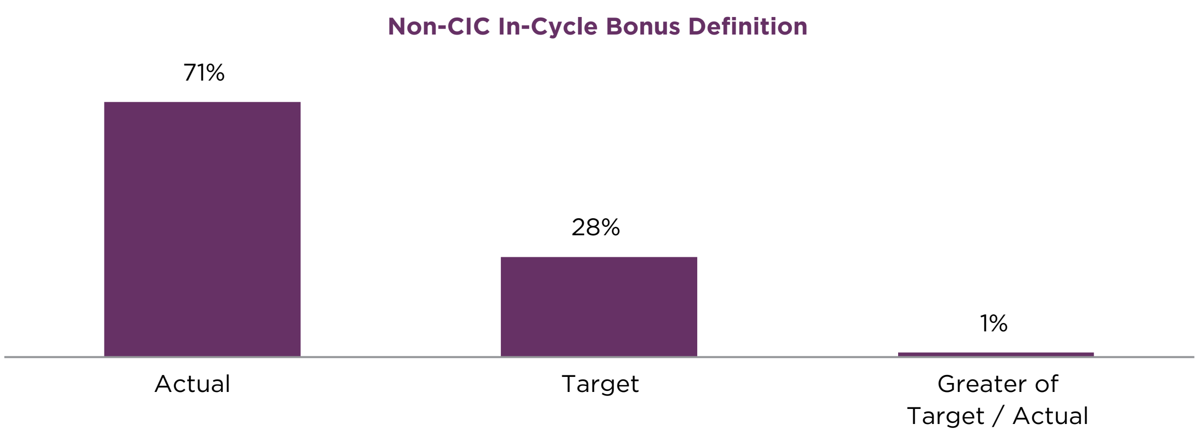
When the Non-CIC cash severance formula covers base salary plus bonus, bonus is most commonly defined as target (~75%), consistent with CIC severance plans – refer to page 12.



Note: Statistics are calculated from companies with disclosed arrangements.

In-Cycle Bonus Definition

About 40% of companies provide a pro-rated portion of the bonus for the year of termination. Such in-cycle bonuses are usually paid out at the same time bonuses are paid to continuing executives. In-cycle bonuses are most often based on actual performance (~70%) rather than target (~30%). This differs from treatment of in-cycle bonuses in the event of a CIC where practice is more evenly split between target (45%) and actual (~40%) – refer to page 12.



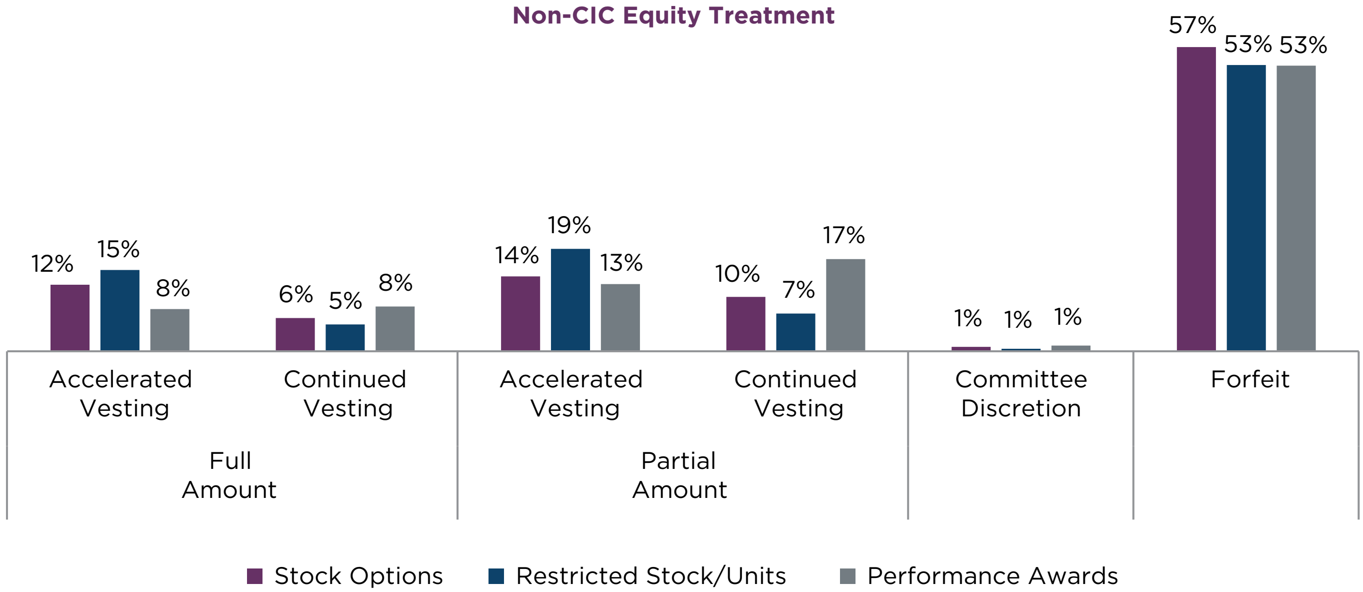
Note: Statistics are calculated from companies with disclosed arrangements.

NON-CIC SEVERANCE

Equity Treatment

Stock Options, Restricted Stock/Units, Performance Awards

The treatment of equity in the event of a Non-CIC termination tends to be more conservative than in the event of a CIC-related termination – refer to page 14. Just over half of Non-CIC arrangements provide for all outstanding equity to be forfeited. Treatment is mixed otherwise, with ~15% to 20% of companies fully vesting all outstanding equity (either accelerated or continued vesting under the original schedule) and ~25% to 30% vesting a portion of outstanding equity. Continued vesting is often preferable to accelerated vesting because the timing of equity settlement is the same as for continuing executives and vesting can be discontinued if a terminated employee violates any restrictive covenants on which severance is conditioned.



As with CIC severance, there were no meaningful differences in findings among large-caps, mid-caps, and small-caps.

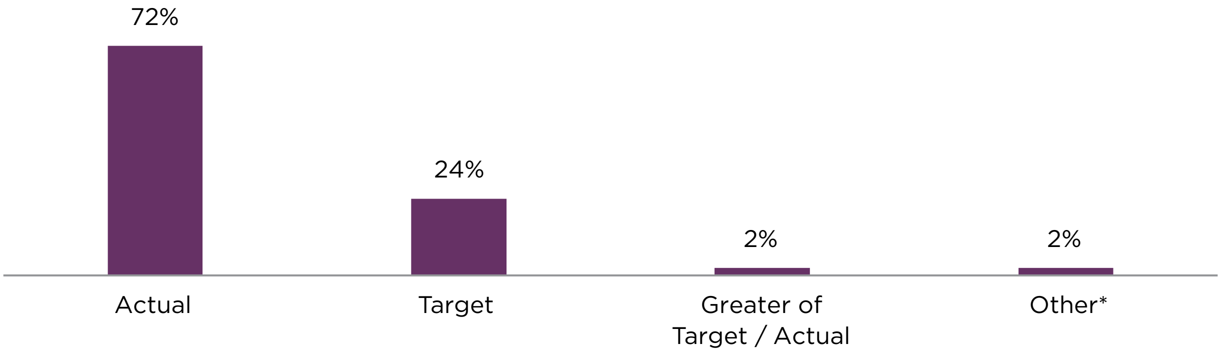
Compared to FW Cook's 2016 study, more companies now provide for vesting of outstanding time-based equity in the event of qualifying Non-CIC terminations. Specifically, the percent of companies calling for outstanding equity to be forfeited following termination is down from ~62% to 57% for stock options and ~55% to 53% for restricted stock/units. In contrast, more companies now provide for the forfeiture of performance awards, increasing from 48% in 2016 to 53%.

NON-CIC SEVERANCE

Performance Award Payout Treatment

For qualifying Non-CIC terminations when performance awards are not forfeited (~45% of companies), they most often fund based on actual performance determined at the conclusion of the performance period (~70%), with others generally funding at target (~25%).

Non-CIC Performance Award Payout Treatment

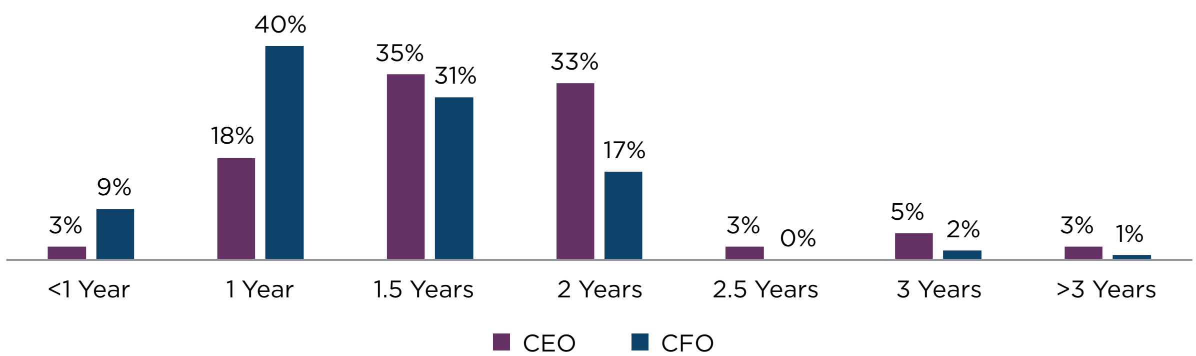


Note: Statistics are calculated from companies with disclosed arrangements.
**Other treatment reflects a combination of target and actual based on different performance award metrics.*

Heath and Welfare Benefits

Continued health and welfare benefits are provided by 55% of companies following qualifying Non-CIC terminations. It is most common for such benefits to cover a period of 1.5 to 2.0 years for CEOs (~35% each) and 1.0 to 1.5 years for CFOs (40% and ~30%, respectively). As with CIC severance, the health and welfare benefit continuation period tends to align with the cash severance multiple.

Non-CIC Health and Welfare Benefit Duration



Note: Statistics are calculated from companies with disclosed arrangements.

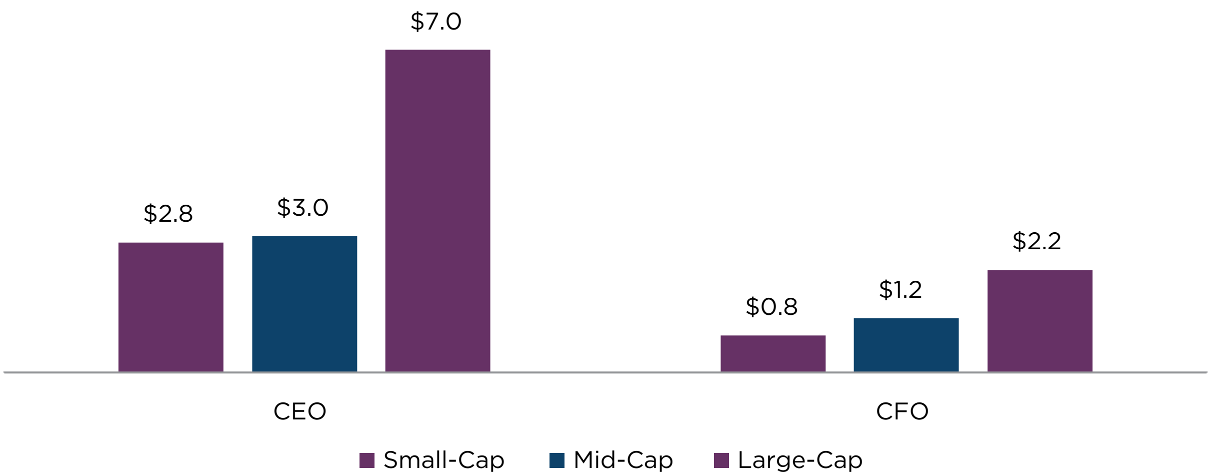
NON-CIC SEVERANCE

Severance Values

As observed with CIC severance benefits, there were no meaningful differences observed for large-caps, mid-caps, and small-caps in either cash severance multiples or the treatment of outstanding equity. However, as shown below, company size affects the absolute dollar value of severance benefits, with small-caps and mid-caps approximating one another and large caps providing roughly double the value provided by mid-caps.

Potential Payments values below reflect all severance benefits that would have been delivered to executives for a qualifying Non-CIC related termination, including cash severance, the value of equity awards for which vesting continues or accelerates, and health and welfare payments.

Median Total Potential Payments Non-CIC Severance Value ($ Millions)



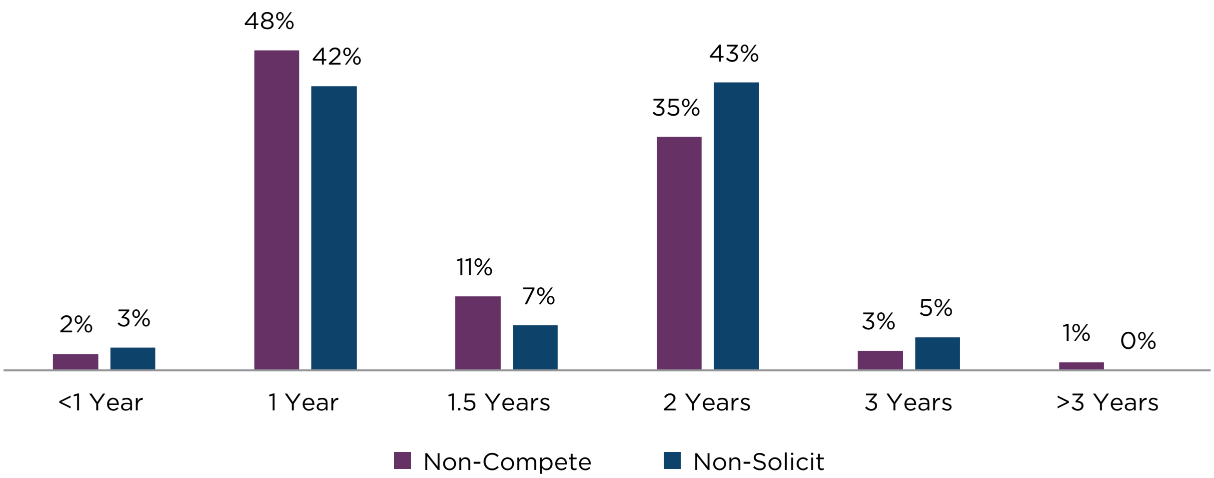
Note: Values are sourced from the termination tables disclosed in proxy statements and reflect severance obligations for a hypothetical termination on the last day of the fiscal year.

NON-CIC SEVERANCE

Restrictive Covenants

Approximately 45% of companies condition Non-CIC severance on restrictive covenants, which typically cover a period of 1.0 to 2.0 years (~95% of companies).

Non-CIC Restrictive Covenant Durations



Note: Statistics are calculated from companies with disclosed arrangements.

APPENDIX

Glossary

- **Acceleration:** Equity vesting that occurs at the time of a qualifying termination.
- **Best-Net:** Excise tax treatment where the parachute payment is either cut back to a level that does not trigger the excise tax or the parachute payment is made in full (but without any company payment of excise taxes), depending on which approach delivers the most value to the executive after tax.
- **CIC:** "Change-in-control" as defined by each company; typically covers an acquisition, change in ownership of majority of stock, or change in a majority of Board composition.
- **Continued Vesting:** Unvested awards are delivered to a terminated employee on the same schedule as if the employee had remained employed, typically subject to the terminated employee's adherence to restrictive covenants.
- **Cutback:** Parachute payment is reduced to a level that does not trigger the excise tax.
- **Double Trigger:** CIC severance benefits and/or equity vesting that become due upon a qualifying termination that occurs within a specified period leading up to or following a CIC (i.e., CIC is the first trigger, and qualifying termination is the second trigger). It can also refer to vesting of equity in the event of a CIC if the successor entity chooses not to assume outstanding equity awards on an economically equivalent basis (i.e., CIC is the first trigger, and the successor's decision not to assume outstanding awards is the second trigger).
- **Excise Tax:** In this case, the term "excise tax" refers to a nondeductible 20% excise tax (imposed by Section 4999 of the Internal Revenue Code) on the recipient of any "excess parachute payment," within the meaning of Code Section 280G (requires both a parachute payment and an excess parachute payment).
- **Good Reason Termination:** A resignation by an employee that is treated as an involuntary termination based on the definition in the governing agreement. "Good Reason" definitions commonly include a material reduction in salary, a material diminution of responsibilities, and relocation of an employee's primary work location beyond a specified distance.
- **Gross-Up:** Additional payment on top of excess parachute payment to cover the excise tax liability incurred.
- **Non-CIC Severance:** Benefits provided to an executive for a qualifying termination (i.e., without Cause or for Good Reason) that occurs independent of a CIC.
- **Non-Compete Provisions:** Restrict employees from working for or starting a competing business for a specified period of time and/or within a specific geographic area.
- **Non-Solicitation Provisions:** Prohibit employees from actively soliciting a company's customers and/or from soliciting employees to join a competitor/competing venture.
- **Safe Harbor Limit:** The threshold below which excise taxes are not triggered, which is one dollar less than three times an executive's base amount (i.e., average annual taxable compensation from the applicable corporation for the five calendar years immediately preceding the year in which the CIC occurs or such lesser period as the executive has been employed by the corporation).
- **Single Trigger:** Provides for severance benefits and/or equity vesting in the event of a CIC, with no requirement for the employee to be terminated.

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