

BIG 5 SPORTING GOODS CORP

Form DEF 14A

April 29, 2011

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
(RULE 14a-101)  
Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934 (Amendment No. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-12

**BIG 5 SPORTING GOODS CORPORATION**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(3) Filing Party:

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**TABLE OF CONTENTS**

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 14, 2011

PROXY STATEMENT RELATING TO ANNUAL MEETING OF STOCKHOLDERS To Be Held On  
June 14, 2011

ANNUAL MEETING

PROPOSAL 1

EXECUTIVE AND DIRECTOR COMPENSATION AND RELATED MATTERS

TRANSACTIONS WITH RELATED PERSONS, PROMOTERS AND CERTAIN CONTROL  
PERSONS

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

EQUITY COMPENSATION PLAN INFORMATION

PROPOSAL 2:

ADVISORY VOTE ON EXECUTIVE COMPENSATION (Item No. 2 on Proxy Card)

PROPOSAL 3:

ADVISORY VOTE ON THE FREQUENCY OF THE VOTE ON EXECUTIVE COMPENSATION  
(Item No. 3 on Proxy Card)

PROPOSAL 4

AMENDMENT AND RESTATEMENT OF 2007 EQUITY AND PERFORMANCE INCENTIVE PLAN  
(Item No. 4 on Proxy Card)

PROPOSAL 5

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS (Item No. 5 on Proxy Card)

OTHER MATTERS

STOCKHOLDER PROPOSALS

ANNUAL REPORT ON FORM 10-K

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**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION  
2525 EAST EL SEGUNDO BOULEVARD  
EL SEGUNDO, CALIFORNIA 90245**

**May 3, 2011**

Dear Fellow Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of Big 5 Sporting Goods Corporation (the Company), to be held at the Ayres Hotel, 14400 Hindry Avenue, Hawthorne, California 90250 on June 14, 2011 at 10:00 a.m. local time and at any adjournments or postponements thereof (the Annual Meeting).

At the Annual Meeting, you will be asked to consider and vote upon the following matters:

1. The election of two Class C directors to the Company's Board of Directors, each to hold office until the 2014 annual meeting of stockholders (and until each such director's successor shall have been duly elected and qualified);
2. An advisory vote on executive compensation;
3. An advisory vote on the frequency of future advisory votes on executive compensation;
4. A proposal to amend and restate the Company's 2007 Equity and Performance Incentive Plan, which would increase the number of shares available for grant thereunder by 1,250,000, extend the term of the plan through April 26, 2021, approve the continuation of the terms of Article X of the plan for purposes of Section 162(m) of the Internal Revenue Code, and implement certain technical updates and enhancements to the plan;
5. The ratification of the appointment of Deloitte & Touche LLP to serve as the Company's independent auditors for fiscal 2011; and
6. The transaction of such other business as may properly come before the Annual Meeting.

Accompanying this letter is the formal Notice of Annual Meeting, Proxy Statement, Proxy Card relating to the meeting and the Company's 2010 Annual Report on Form 10-K.

Your vote is very important regardless of how many shares you own. We hope you can attend the annual meeting in person. However, whether or not you plan to attend the annual meeting, we request that you submit your proxy through one of the methods described in the enclosed Proxy Statement. If you attend the annual meeting, you may vote in person if you wish, even though you may have previously returned your Proxy Card.

Sincerely,

Steven G. Miller  
Chairman of the Board, President  
and Chief Executive Officer

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**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION  
2525 EAST EL SEGUNDO BOULEVARD  
EL SEGUNDO, CALIFORNIA 90245**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON JUNE 14, 2011**

TO THE STOCKHOLDERS OF BIG 5 SPORTING GOODS CORPORATION:

NOTICE IS HEREBY GIVEN that an Annual Meeting of Stockholders of Big 5 Sporting Goods Corporation, a Delaware corporation (the "Company"), will be held on June 14, 2011 at 10:00 a.m. local time, at the Ayres Hotel, 14400 Hindry Avenue, Hawthorne, California 90250 and at any adjournments or postponements thereof (the "Annual Meeting"). At the Annual Meeting, the Company's stockholders will be asked to consider and vote upon:

1. The election of two Class C directors to the Company's Board of Directors, each to hold office until the 2014 annual meeting of stockholders (and until each such director's successor shall have been duly elected and qualified);
2. An advisory vote on executive compensation;
3. An advisory vote on the frequency of future advisory votes on executive compensation;
4. A proposal to amend and restate the Company's 2007 Equity and Performance Incentive Plan, which would increase the number of shares available for grant thereunder by 1,250,000, extend the term of the plan through April 26, 2021, approve the continuation of the terms of Article X of the plan for purposes of Section 162(m) of the Internal Revenue Code, and implement certain technical updates and enhancements to the plan;
5. The ratification of the appointment of Deloitte & Touche LLP to serve as the Company's independent auditors for fiscal 2011; and
6. The transaction of such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Only stockholders of record of the Company's common stock at the close of business on April 26, 2011 are entitled to notice of and to vote at the Annual Meeting or any adjournments or postponements thereof. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at the principal executive offices of the Company, 2525 East El Segundo Boulevard, El Segundo, California 90245 for at least ten days prior to the meeting and will also be available for inspection at the meeting.

**YOUR VOTE IS VERY IMPORTANT. WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING IN PERSON, TO ENSURE THAT YOUR SHARES ARE REPRESENTED AT THE ANNUAL MEETING, WE URGE YOU TO SUBMIT YOUR PROXY AS PROMPTLY AS POSSIBLE EITHER**

(I) THROUGH THE INTERNET, (II) BY TELEPHONE OR (III) BY MARKING, SIGNING AND DATING THE ENCLOSED PROXY CARD AND RETURNING IT IN THE POSTAGE-PAID ENVELOPE PROVIDED.

**If you plan to attend:**

*Please note that admission to the meeting will be on a first-come, first-served basis. Each stockholder may be asked to present valid picture identification, such as a driver's license or passport, and proof of ownership of the Company's common stock as of the record date, such as the enclosed Proxy or a brokerage statement reflecting stock ownership as of the record date.*

BY ORDER OF THE BOARD OF DIRECTORS,

Gary S. Meade  
Secretary

El Segundo, California  
May 3, 2011

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**Table of Contents**

**BIG 5 SPORTING GOODS CORPORATION  
2525 EAST EL SEGUNDO BOULEVARD  
EL SEGUNDO, CALIFORNIA 90245**

**PROXY STATEMENT RELATING TO  
ANNUAL MEETING OF STOCKHOLDERS  
To Be Held On June 14, 2011**

This Proxy Statement is being furnished to the stockholders of Big 5 Sporting Goods Corporation, a Delaware corporation (the Company), in connection with the solicitation of proxies by the Company's Board of Directors for use at the Annual Meeting of the Company's stockholders to be held on June 14, 2011 at 10:00 a.m. local time at the Ayres Hotel, 14400 Hindry Avenue, Hawthorne, California 90250, and at any adjournments or postponements thereof (the Annual Meeting).

At the Annual Meeting, holders of the Company's common stock, \$0.01 par value per share, will be asked to vote upon: (i) the election of two Class C directors to the Company's Board of Directors, each to hold office until the 2014 annual meeting of stockholders (and until each such director's successor shall have been duly elected and qualified); (ii) an advisory vote on executive compensation; (iii) an advisory vote on the frequency of future advisory votes on executive compensation; (iv) a proposal to amend and restate the Company's 2007 Equity and Performance Incentive Plan, which would increase the number of shares available for grant thereunder by 1,250,000, extend the term of the plan through April 26, 2021, approve the continuation of the terms of Article X of the plan for purposes of Section 162(m) of the Internal Revenue Code, and implement certain technical updates and enhancements to the plan; (v) the ratification of the appointment of Deloitte & Touche LLP to serve as the Company's independent auditors for fiscal 2011; and (vi) any other business that properly comes before the Annual Meeting.

This Proxy Statement and the accompanying Proxy Card are first being mailed to the Company's stockholders on or about May 3, 2011. The address of the principal executive offices of the Company is 2525 East El Segundo Boulevard, El Segundo, California 90245.

**Important Notice Regarding Availability of Proxy Materials for the 2011 Annual Meeting of Stockholders to be Held on June 14, 2011.**

**The Notice of Annual Meeting and Proxy Statement, and the Annual Report to Shareholders, are available to stockholders at <http://www.edocumentview.com/BGFV>.**

**ANNUAL MEETING**

**Record Date; Outstanding Shares; Quorum**

Only holders of record of the Company's common stock at the close of business on April 26, 2011 (the Record Date) will be entitled to notice of and to vote at the Annual Meeting. As of the close of business on the Record Date, there were 21,984,070 shares of common stock outstanding and entitled to vote, held of record by 286 stockholders. A majority, or 10,992,036 of these shares, present in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting. Each of the Company's stockholders is entitled to one vote, in person or



by proxy, for each share of common stock standing in such stockholder's name on the books of the Company as of the Record Date on any matter submitted to the stockholders.

**Methods of Voting; Revocability**

***By Internet or Telephone***

If you hold Company shares directly in your name as a stockholder of record, you may vote electronically via the Internet at [www.envisionreports.com/BGFV](http://www.envisionreports.com/BGFV), or by telephone by calling 1-800-652-VOTE (8683). Votes submitted via the Internet or by telephone must be received by 1:00 a.m. (Central time) on June 14, 2011.

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## **Table of Contents**

If you hold Company shares in street name through a broker or other nominee, you may vote electronically via the Internet or by telephone by following the voting instructions on the enclosed Proxy Card .

### ***By Mail***

If you hold Company shares directly in your name as a stockholder of record, you may vote by mail by marking, signing and dating your Proxy Card and returning it using the pre-paid return envelope provided. The Company must receive your Proxy Card no later than close of business on June 13, 2011.

If you hold Company shares in street name through a broker or other nominee, you may vote by mail by marking, signing and dating your Proxy Card and returning it using the pre-paid return envelope provided by the deadline shown on your Proxy Card.

### ***In Person***

If you hold Company shares directly in your name as a stockholder of record, you may vote in person at the Annual Meeting. Stockholders of record also may be represented by another person at the Annual Meeting by executing a proper proxy designating that person.

If you hold Company shares in street name through a broker or other nominee, you must obtain a legal proxy from that institution and present it to the inspector of elections with your ballot to be able to vote in person at the Annual Meeting.

When a stockholder submits a proxy via the Internet or by telephone, his or her proxy is recorded immediately. The Company encourages its stockholders to submit their proxies using these methods whenever possible. If you submit a proxy via the Internet or by telephone, please do not return your Proxy Card by mail. If you attend the Annual Meeting, you may also submit your vote in person. Any votes that you previously submitted whether via the Internet, by telephone or by mail will be superseded by the vote that you cast at the Annual Meeting.

**Your vote is important. Accordingly, please submit your proxy via the Internet, by telephone or by mail, whether or not you plan to attend the Annual Meeting in person.**

Stockholders are requested to submit their proxies through one of the above methods. All properly submitted proxies will be voted in accordance with the instructions indicated. If you are a registered holder and you submit your proxy but do not specify how the shares represented thereby are to be voted, your shares will be voted (i) FOR the election of each director nominee listed on the Proxy Card, (ii) FOR the approval of Proposal 2 regarding the compensation of our Named Executive Officers, (iii) in favor of conducting future advisory votes on executive compensation annually (i.e., every ONE YEAR ), (iv) FOR the approval of Proposal 4 regarding the proposed amendment and restatement of our 2007 Equity and Performance Incentive Plan, and (v) FOR the ratification of the appointment of Deloitte & Touche LLP as independent auditors for fiscal 2011. The Company's Board of Directors does not presently intend to bring any business before the Annual Meeting other than that referred to in this Proxy Statement and specified in the Notice of the Annual Meeting. By signing the Proxy Cards, stockholders confer discretionary authority on the proxies (who are persons designated by the Board of Directors) to vote all shares covered by the Proxy Cards in their discretion on any other matter that may properly come before the Annual Meeting, including any motion made for adjournment of the Annual Meeting.

### ***Revocability of Proxies; Changing Your Vote***

Any stockholder who has given a proxy may revoke it at any time before it is exercised at the Annual Meeting by (i) delivering a written revocation notice to the Secretary of Big 5 Sporting Goods Corporation, 2525 East El Segundo Boulevard, El Segundo, California 90245, (ii) submitting a valid, timely, later-dated proxy by mail, telephone or Internet or (iii) attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not, by itself, revoke a proxy). Any notice of revocation sent to the Company must include the stockholder's name and be received by the Company prior to the close of business on June 13, 2011.

**Table of Contents**

**Votes Required**

For Proposal 1, elections of directors are determined by a plurality of shares of common stock represented in person or by proxy and voting at the Annual Meeting.

For Proposal 2, our stockholders will have an advisory vote on executive compensation as described in this Proxy Statement (commonly referred to as "Say-on-Pay"). Because the vote is advisory, it will not be binding upon our Board of Directors. However, the Board of Directors and the Compensation Committee will consider the result of the vote when making future decisions regarding our executive compensation policies and practices. The affirmative nonbinding advisory vote of a majority of the votes cast, affirmatively or negatively, with respect to Proposal 2 at the Annual Meeting will be the requisite vote to adopt the resolution and approve the compensation of our Named Executive Officers as such compensation is disclosed in this Proxy Statement.

For Proposal 3, our stockholders will have an advisory vote on the frequency of future advisory votes on executive compensation. Stockholders may vote for such advisory votes to occur every one, two or three years, or may abstain from voting. The vote is advisory and therefore not binding on our Board of Directors; however, the Board of Directors and the Compensation Committee will consider the result of the vote in determining the frequency of future advisory votes on executive compensation. Because there are multiple choices and this proposal is a nonbinding advisory vote, there is no minimum requisite vote to approve a certain frequency of future Say-on-Pay proposals. Accordingly, subject to the right of our Board of Directors to decide that it is in the best interests of the Company and its stockholders to hold a nonbinding advisory vote more or less frequently than the option selected by our stockholders, Proposal 3 will be determined by a plurality of the votes represented in person or by proxy and voting at the Annual Meeting.

For Proposal 4, under Nasdaq rules, affirmative votes representing a majority of the votes cast at the Annual Meeting with respect to Proposal 4, whether For, Against or Abstain, will be required to approve the amendment and restatement of our 2007 Equity and Performance Incentive Plan.

For Proposal 5, affirmative votes representing a majority of the votes cast, affirmatively or negatively, with respect to Proposal 5 at the Annual Meeting will be required to ratify the appointment of Deloitte & Touche LLP as the Company's independent auditors for its 2011 fiscal year.

**Broker Non-Votes; Withheld Votes; Abstentions**

The term broker non-vote refers to shares held by a brokerage firm or other nominee (for the benefit of its client) that are represented at the meeting, but with respect to which such broker or nominee is not instructed to vote on a particular proposal and does not have discretionary authority to vote on that proposal. The election of directors, the advisory vote on executive compensation, the advisory vote on the frequency of future advisory votes on executive compensation, and the vote regarding the amendment of our 2007 Equity and Performance Incentive Plan are not matters on which a broker or other nominee has discretionary authority to vote, and therefore there may be broker non-votes on Proposals 1, 2, 3 and 4. The ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors for fiscal 2011 is a matter considered routine under applicable rules, and, accordingly, we do not expect to receive broker non-votes with respect to Proposal 5.

If an executed proxy is returned by a broker holding shares in street name that indicates that the broker does not have discretionary authority as to certain shares to vote on one or more matters, such shares will be considered present at the meeting for purposes of determining a quorum on all matters, but will not be considered to be votes cast with respect to such matters as to which the broker does not have discretionary authority.

With respect to the election of directors, a stockholder may withhold such stockholder's vote. In addition, a stockholder may vote to abstain with respect to any of Proposals 2, 3, 4 or 5 or on any other proposals which may properly come before the Annual Meeting.

Because Proposal 1 (election of directors) and Proposal 3 (advisory vote regarding the frequency of future advisory votes on executive compensation) are to be determined by a plurality of votes represented in person or by proxy and voting at the Annual Meeting, broker non-votes, withheld votes and abstentions will have no effect on the outcome of these proposals.

**Table of Contents**

Because Proposals 2 and 5 require affirmative votes of the majority of the votes cast, affirmatively or negatively, on such proposals at the Annual Meeting, broker non-votes and abstentions with respect to each such proposal will have no effect on the outcome of those votes.

Because Proposal 4 requires affirmative votes representing a majority of the votes cast (including abstentions), abstentions with respect to Proposal 4 will have the same effect as a vote against such proposal. Broker non-votes will have no effect on the outcome of Proposal 4.

**Solicitation of Proxies and Expenses**

This proxy solicitation is made by the Company, and the Company will bear the cost of the solicitation of proxies from its stockholders. The directors, officers and employees of the Company may solicit proxies by mail, telephone, telegram, letter, facsimile, via the Internet or in person. Following the original mailing of the proxies and other soliciting materials, the Company will request that brokers, custodians, nominees and other record holders forward copies of the Proxy Statement and other soliciting materials to persons for whom they hold shares of common stock and request authority for the exercise of proxies. In such cases, the Company will reimburse such record holders for their reasonable expenses.

**Table of Contents**

**PROPOSAL 1**

**ELECTION OF DIRECTORS  
(Item No. 1 on Proxy Card)**

**General**

The Board of Directors consists of three classes, consisting of Class A directors, Class B directors and Class C directors. The current terms of office of the Class A directors, Class B directors and Class C directors expire in the year 2012 (Class A), the year 2013 (Class B) and the year 2011 (Class C). The terms of the Class C directors elected at the Annual Meeting will expire in 2014. Directors are elected to three-year terms. Each director holds office until such director's successor is duly elected and qualified. At each annual meeting of stockholders, directors elected to succeed those directors whose terms then expire will be elected for a term of office expiring at the third succeeding annual meeting of stockholders of the Company after their election, with each director to hold office until his or her successor shall have been duly elected and qualified.

Only members of Class C, Ms. Jennifer H. Dunbar and Mr. Steven G. Miller, are nominees for election to the Board of Directors at the Annual Meeting. Each Class C director elected will hold office until the 2014 annual meeting of stockholders (and until such director's successor shall have been duly elected and qualified). Both of the nominees currently serve on the Board of Directors of the Company.

Each proxy received will be voted for the election of the nominees named below, unless the stockholder signing such proxy withholds authority to vote for one or more of these nominees in the manner described in the proxy. Although it is not contemplated that any nominee named below will decline or be unable to serve as a director, in the event any nominee declines or is unable to serve as a director, the proxies will be voted by the proxy holders as directed by the Board of Directors. Broker non-votes in the election of directors will not be counted as voting at the meeting and therefore will not have an effect on the election of the nominees listed below. Withheld votes will also have no effect on the election of the nominees.

**Required Vote**

The two nominees receiving the highest number of votes from holders of shares of common stock represented and voting at the Annual Meeting will be elected to the Board of Directors.

**Recommendation of the Board of Directors**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE BOARD OF DIRECTORS NOMINEES.**

Except as set forth below, there are no family relationships between any director, nominee or executive officer and any other director, nominee or executive officer of the Company. Except as disclosed under Executive and Director Compensation and Related Matters Employment Agreements and Change in Control Provisions, there are no arrangements or understandings between any director, nominee or executive officer and any other person pursuant to which such person has been or will be selected as a director and/or executive officer of the Company (other than arrangements or understandings with any such director, nominee and/or executive officer acting in such person's capacity as such).





**Table of Contents****The Board of Directors**

The following table lists the current members of the board, their age, and information regarding their class and committee membership:

<b>Name</b>	<b>Age</b>	<b>Class</b>	<b>Expiration of Current Term</b>
Jennifer H. Dunbar*(a)(b)(c)	48	C	2011
Steven G. Miller*	59	C	2011
G. Michael Brown(b)	58	A	2012
David R. Jessick(a)(b)(c)	57	A	2012
Sandra N. Bane(a)(b)(c)	58	B	2013
Michael D. Miller	61	B	2013

\* Nominee for Reelection at the Annual Meeting

(a) Member of the Audit Committee

(b) Member of the Compensation Committee

(c) Member of the Nominating Committee

**Directors Whose Terms Will Expire in 2011 and are Nominees for Reelection at the Annual Meeting (Class C Directors)**

*Jennifer H. Dunbar* has served as a director since February 2004. Since March 2005, Ms. Dunbar has served as Principal, Co-Founder and Managing Director of Dunbar Partners, LLC, an investment and advisory services firm. From 1994 to 1998, Ms. Dunbar was a partner with Leonard Green & Partners, L.P., a private equity firm, which she joined in 1989. Ms. Dunbar began her career as a financial analyst in the Mergers and Acquisitions Department of Morgan Stanley in 1985. Ms. Dunbar is also a member of the board of directors of PS Business Parks, Inc., a real estate investment trust, where she serves on the audit and compensation committees. She was formerly a member of the board of directors of 99 Cents Only Stores from 2007 to 2008. Age: 48.

Ms. Dunbar has extensive financial expertise, knowledge of investment banking and experience in investments and mergers and acquisitions, which is essential to our Board of Directors. Her experience as a member of several public company boards, including five companies in the retail sector, and as a member of a number of public company board committees, including six audit committees, is also extremely valuable to our Board.

*Steven G. Miller* has served as Chairman of the Board, Chief Executive Officer and President since 2002, 2000 and 1992, respectively. Steven G. Miller has also served as a director since 1992. In addition, Steven G. Miller served as Chief Operating Officer from 1992 to 2000 and as Executive Vice President, Administration from 1988 to 1992. Steven G. Miller is Michael D. Miller's brother. Age: 59.

Mr. Miller has over forty years of experience at almost every level of the Company, which makes him well positioned to provide essential insight from an inside perspective of the day-to-day operations of the Company. His comprehensive knowledge of the Company's business and the retail sporting goods industry are invaluable to our

Board of Directors.

**Directors Whose Terms Will Expire in 2012 (Class A Directors)**

*G. Michael Brown* has served as a director since 2002. Mr. Brown has been a senior litigation partner with the law firm Musick, Peeler & Garrett LLP since 2001. Prior to that, Mr. Brown was a partner at the law firm Berger, Kahn, Shafton, Moss, Figler, Simon & Gladstone from 1996 to 2001. Mr. Brown also served as Vice President of Legal Affairs for Thrifty Corporation, a retail drug store company which was the parent company of Big 5 Sporting Goods until 1992. Age: 58.

Mr. Brown has over thirty years of legal experience, including expertise in labor and employment matters. His legal practice includes preventative counseling and assisting in the formulation of human resource policies and procedures for a number of publicly traded companies in the western United States. Mr. Brown's experience with

**Table of Contents**

the legal and operational issues of publicly traded companies, including over twenty years of involvement in such issues for Big 5 Sporting Goods, is extremely valuable to the Company's Board of Directors.

*David R. Jessick* has served as a director since 2006. Mr. Jessick served as consultant to the chief executive and senior financial staff at Rite Aid Corp. from June 2002 to February 2005. Mr. Jessick served as Rite Aid's Senior Executive Vice President and Chief Administrative Officer from 1999 to 2002. Prior to joining Rite Aid, from 1997 to 1999, Mr. Jessick was the Chief Financial Officer for Fred Meyer, Inc., where he also served as Executive Vice President, Finance and Investor Relations. From 1979 to 1996, he held various financial positions, including Senior Executive Vice President and Chief Financial Officer, with Thrifty Payless, Inc. and Payless Drugstores Northwest, Inc. Mr. Jessick began his career as a certified public accountant with Peat, Marwick, Mitchell & Co. Mr. Jessick is also a member of the board of directors of Dollar Financial Corp., a financial services company, and Rite Aid Corp., a retail drug store company, and serves on the audit committee of both companies. He was formerly a member of the board of directors of Pathmark Stores Inc., where he served as board chairman, from 2005 to 2007, Pinnacle Foods Corp. from 2004 to 2007 and Source Interlink Companies Inc. from 2005 to 2009. Age: 57.

Mr. Jessick has more than thirty years experience as a corporate financial executive and chief financial officer of publicly traded companies in the retail sector. He has been a member of several public company boards, including three companies in the retail sector, served as chairman of the board of a publicly traded company in the retail sector, and served on a number of public company board committees, including three audit committees. Mr. Jessick's extensive experience with the financial and operational issues of publicly traded companies, especially those in the retail sector, is invaluable to our Board of Directors.

**Directors Whose Terms Will Expire in 2013 (Class B Directors)**

*Sandra N. Bane* has served as a director since 2002. Ms. Bane was an audit partner with KPMG LLP from 1985 until her retirement in 1998 after 23 years as an accountant in the audit practice of the firm. While at KPMG, Ms. Bane headed the Western region's Merchandising practice for the firm, helped establish the Employee Benefits audit specialist program and was partner in charge of the Western region's Human Resource department for two years. Ms. Bane is also a member of the board of directors of AGL Resources Inc., an energy services holding company, where she serves on the audit and compensation committee, and Transamerica Asset Management Group, a mutual fund company, where she serves on the audit committee. She was formerly a director of PETCO Animal Supplies, Inc. from 2004 to 2006. Additionally, Ms. Bane serves as a member of the board for several nonprofit institutions in her community. She is also a member of the AICPA and the California Society of Certified Public Accountants. Age: 58.

Ms. Bane brings many years of experience as an audit partner with KPMG with extensive financial accounting knowledge that is critical to our Board of Directors. Ms. Bane's experience with accounting principles, financial reporting rules and regulations, evaluating financial results and generally overseeing the financial reporting process of large public companies from an independent auditor's perspective and as a board member and audit committee member of other public companies makes her an invaluable asset to our Board of Directors.

*Michael D. Miller, Ph.D.* has served as a director since 1997. Dr. Miller is a mathematical consultant at The RAND Corporation, an independent nonprofit research and analysis organization. He retired from The RAND Corporation as a senior mathematician in 2002 after 25 years with the organization. Dr. Miller has also taught mathematics at the University of California, Los Angeles since 1973. Dr. Miller is Steven G. Miller's brother. Age: 61.

Dr. Miller's extensive experience advising numerous governmental agencies while at The RAND Corporation and his many years of service as a board member of the Company provide strategic expertise and an important perspective that are vital to our Board of Directors.

**Board Meetings, Board Committees and Board Structure**

The Board of Directors of the Company held four meetings during the fiscal year ended January 2, 2011 and acted by unanimous written consent on three occasions. During the fiscal year ended January 2, 2011, each incumbent director of the Company attended at least 75% of the aggregate of (i) the total number of meetings of the

## **Table of Contents**

Board of Directors, and (ii) the total number of meetings of the committees on which such director served (in each case, during the periods that such director served). It is the policy of the Board of Directors that directors who are nominees for election to the Board of Directors at the Company's annual meeting of stockholders should attend such annual meeting, except in the case of extenuating or exceptional circumstances. Michael D. Miller and Steven G. Miller attended the Company's 2010 annual meeting of stockholders.

Each director holds office until such director's successor is duly elected and qualified. It is the policy of the Board of Directors that a majority of the Board of Directors shall be independent as that term is defined in Marketplace Rule 4200(a)(15) of the Nasdaq Stock Market's listing standards. The Board of Directors has determined that Sandra N. Bane, G. Michael Brown, Jennifer H. Dunbar and David R. Jessick, each of whom is a current member of the Board of Directors, are independent.

### ***Executive Sessions of Independent Directors***

To promote open discussion among the independent directors, the independent directors meet in executive session at least two times per year, either before or after regularly-scheduled board meetings. The Chair of the Audit Committee presides at these executive sessions. Any independent director may request that an executive session of the independent members of the Board of Directors be scheduled. Following such meetings, the Chair of the Audit Committee (or another designated director) will discuss with the Chairman of the Board and Chief Executive Officer, to the extent appropriate, matters emanating from the executive sessions. The independent directors met twice during the fiscal year ended January 2, 2011.

### ***Audit Committee***

The Board of Directors has a standing Audit Committee, separately-designated and established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act), which currently consists of Sandra N. Bane, Jennifer H. Dunbar and David R. Jessick. The Audit Committee has been chaired by Mr. Jessick since April 2008. The Board of Directors has determined that each of the members of the Audit Committee is independent as that term is defined in Marketplace Rule 4200(a)(15) of the Nasdaq Stock Market's listing standards and meets the additional audit committee independence requirements set forth in Marketplace Rule 4350(d)(2) of the Nasdaq Stock Market's listing standards. The Board of Directors has determined that Mr. Jessick and Ms. Bane each qualifies as an audit committee financial expert as defined in the rules of the Securities and Exchange Commission.

On February 10, 2004, the Board of Directors adopted an amended and restated written charter for the Audit Committee to comply with the requirements of the Sarbanes-Oxley Act of 2002, as well as the requirements of the Securities and Exchange Commission and the Nasdaq Stock Market.

Among other things, the functions of the Audit Committee are to:

be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged by the Company (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company;

pre-approve all audit and permissible non-audit services to be performed for the Company by its registered public accounting firm in accordance with the provisions of Section 10A(i) of the Exchange Act;

establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous

submission by employees of the Company of concerns regarding questionable accounting or auditing matters;

review and discuss with the Company's management and independent auditors the Company's audited financial statements, including the adequacy and effectiveness of the Company's internal accounting controls;

**Table of Contents**

discuss with the Company's management and independent auditors any significant changes to the Company's accounting principles;

review the independence and performance of the Company's independent auditors; and

review from time to time and make recommendations with respect to the Company's policies relating to management conduct and oversee procedures and practices to ensure compliance with such policies.

The charter for the Audit Committee can be found on the Company's website at [www.big5sportinggoods.com](http://www.big5sportinggoods.com). To locate the charter, go to the Investor Relations section of the website and click on Corporate Governance.

The Audit Committee held four meetings during the fiscal year ended January 2, 2011, and acted once by unanimous written consent.

***Compensation Committee***

The Board of Directors has a standing Compensation Committee, which is chaired by G. Michael Brown and currently consists of Mr. Brown, Sandra N. Bane, Jennifer H. Dunbar and David R. Jessick. Each of the members of the Compensation Committee is independent within the meaning of Marketplace Rule 4200(a)(15) of the Nasdaq Stock Market's listing standards. Ms. Bane, Ms. Dunbar and Mr. Jessick each is a non-employee director within the meaning of Rule 16b-3 of the Exchange Act, and an outside director within the meaning of Section 162(m) of the Internal Revenue Code. Mr. Brown is a partner at the law firm of Musick, Peeler & Garrett LLP, which from time to time is retained by the Company to handle various litigation matters, and for this reason is not a non-employee director or an outside director. Among other things, the function of the Compensation Committee is to review and determine the compensation and benefits of the Company's executive officers and to administer the Company's 2007 Equity and Performance Incentive Plan. Grants of stock options and restricted stock under the plan to, and compensation for, executive officers are approved by Ms. Bane, Ms. Dunbar and Mr. Jessick, with Mr. Brown either recusing himself or abstaining. The Compensation Committee held four meetings during the fiscal year ended January 2, 2011.

The Compensation Committee may, to the extent permitted by applicable laws and regulations, form and delegate any of its responsibilities to a subcommittee so long as such subcommittee consists of at least two members of the Compensation Committee. The Compensation Committee has not formed any such subcommittees to date. In carrying out its purposes and responsibilities, the Compensation Committee has authority to retain outside counsel or other experts or consultants, as it deems appropriate. The Compensation Committee has not historically used outside consultants in making compensation determinations, other than in designing the 2007 Equity and Performance Incentive Plan (the 2007 Plan) and designing the amendment and restatement of the 2007 Plan that is the subject of Proposal 4 herein. The Compensation Committee periodically receives and considers, to the extent it considers appropriate, recommendations from our Chief Executive Officer, Mr. Steven G. Miller, in connection with its compensation decisions.

The charter for the Compensation Committee can be found on the Company's website at [www.big5sportinggoods.com](http://www.big5sportinggoods.com). To locate the charter, go to the Investor Relations section of the website and click on Corporate Governance.

***Nominating Committee***

The Board of Directors has a standing Nominating Committee, which is chaired by Jennifer H. Dunbar and currently consists of Ms. Dunbar, Sandra N. Bane and David R. Jessick. Each of the members of the Nominating Committee is independent within the meaning of Marketplace Rule 4200(a)(15) of the Nasdaq Stock Market's listing standards.

Among other things, the function of the Nominating Committee is to identify, screen, review and recommend to the Board of Directors individuals qualified to be nominated for election to the Board and to fill vacancies or newly created positions on the Board consistent with criteria approved by the Board, as well as to recommend to the Board directors to serve on each Board committee. The Nominating Committee held two meetings during the fiscal year ended January 2, 2011.



**Table of Contents**

***Director Qualifications and Nominations Process***

It is the policy of the Board of Directors that, in addition to being approved by a majority of the Board of Directors, each nominee must first be recommended by the Nominating Committee.

The policy of the Nominating Committee is to recommend and encourage the selection of directors who have achieved success in their personal fields and who demonstrate integrity and high personal and professional ethics, sound business judgment and willingness to devote the requisite time to their duties as director, and who will contribute to the overall corporate goals of the Company. Candidates are evaluated and selected based on their individual merit, as well as in the context of the needs of the Board of Directors as a whole. In evaluating the suitability of individual candidates for election or re-election to the Board of Directors, the Nominating Committee and the Board of Directors take into account many factors, including understanding of the retail sporting goods industry, sales and marketing, finance and other elements relevant to the Company's business, educational and professional background, age, and past performance as a director. The Nominating Committee and the Board of Directors evaluate each individual in the context of the composition and needs of the Board of Directors as a whole, including the independence requirements imposed by the Nasdaq Stock Market and the Securities and Exchange Commission, with the objective of recommending a group that can best perpetuate and build on the success of the business and represent stockholder interests. The Nominating Committee strives to compose the Board of Directors to be a collection of individuals with a variety of complementary skills who, as a group, possess the appropriate skills and experience to oversee the Company's business. Accordingly, although diversity may be a consideration in the nominations process, the Nominating Committee and the Board of Directors do not have a formal policy with regard to the consideration of diversity in identifying director nominees. In determining whether to recommend a director for re-election, the Nominating Committee and the Board of Directors also consider the director's past attendance at, and participation in, meetings of the Board of Directors and its committees and contributions to its activities. In the event of a potential or actual vacancy, the Nominating Committee and the Board of Directors will use the Board's network of contacts to identify potential candidates, but may also engage, if they deem appropriate, a professional search firm.

The charter for the Nominating Committee can be found on the Company's website at [www.big5sportinggoods.com](http://www.big5sportinggoods.com). To locate the charter, go to the Investor Relations section of the website and click on Corporate Governance.

Stockholders who have beneficially owned more than five percent of the Company's then-outstanding shares of common stock for a period of at least one year as of the date of making the proposal may propose candidates for consideration by the Nominating Committee and the Board of Directors by submitting the names and supporting information to: Big 5 Sporting Goods Corporation, Attention: Secretary, 2525 East El Segundo Blvd, El Segundo, CA 90245-4632. A stockholder recommendation for nomination must be submitted in accordance with the Company's Amended and Restated Bylaws and must contain the following information about the proposed nominee, as well as documentary support that the stockholder satisfies the requisite stock ownership threshold and holding period: name, age, business and residence addresses, principal occupation or employment, the number of shares of the Company's common stock held by the nominee, a resume of his or her business and educational background, the information that would be required under the Securities and Exchange Commission's rules in a proxy statement soliciting proxies for the election of such nominee as a director, and a signed consent of the nominee to serve as a director, if nominated and elected. Neither the Nominating Committee nor the Board of Directors intends to alter the manner in which it evaluates candidates, including the criteria set forth above, based on whether the candidate was recommended by a stockholder.

***Board Leadership Structure***

Steven G. Miller serves as both the Chief Executive Officer and the Chairman of the Board. Given Mr. Miller's long standing association with the Company, and his extensive knowledge of and experience with the retail sporting goods

industry, the Board of Directors believes that Mr. Miller's service as both Chairman of the Board and Chief Executive Officer is in the best interest of the Company and its stockholders. The Board believes that Mr. Miller's extensive experience provides him with detailed and in-depth knowledge of the Company's business and industry

## **Table of Contents**

and the issues facing the Company, and that he is thus best positioned to develop agendas that ensure that the Board's time and attention are focused on the most critical matters.

The Board believes that his combined role enables decisive leadership, ensures clear accountability, and enhances the Company's ability to communicate its message and strategy clearly and consistently to the Company's stockholders, employees, vendors and customers.

Although the Board of Directors believes that the combination of the Chairman and Chief Executive Officer roles is appropriate in the current circumstances, it has not established this approach as a formal policy.

## ***Risk Oversight***

Company management is responsible for assessing and managing risk, subject to oversight by the Board of Directors. The Board satisfies this responsibility through reports by each committee chair regarding such committee's considerations and actions, as well as through regular reports directly from the officers responsible for oversight of risks within the Company. As part of this process, the Board and management actively engage in discussions of potential and perceived risks to the business. The Board regularly meets with the chief executive officer, the chief financial officer and the general counsel, as well as other Company executives as appropriate, in the Board's consideration of matters submitted for board approval and risks associated with such matters.

The Board is assisted in its oversight responsibilities by the standing Board committees, which have assigned areas of oversight responsibilities for various matters as described in the committee charters. For example, the Audit Committee assists the Board's oversight of the integrity of the Company's financial statements, the qualifications and independence of the Company's independent registered public accounting firm, and the performance of the Company's internal audit function and independent registered public accounting firm. In carrying out this responsibility, the Audit Committee works closely with management, including the Manager of Internal Audit. The Audit Committee meets at least quarterly with members of management, including the Manager of Internal Audit, and, among other things, receives an update on management's assessment of risk exposures (including risks related to liquidity, credit, and operations, among others).

The Compensation Committee oversees the compensation of the Company's chief executive officer and other executive officers and evaluates the appropriate compensation incentives to motivate senior management to grow long-term stockholder returns without undue risk taking. Because the Company's incentive compensation is primarily based upon overall Company performance and is not tied to the individual employee achieving any specific target metrics, the Company believes there is little motivation or opportunity for employees to take undue risks to achieve incentive compensation awards. In addition, all equity awards to employees vest over several years, which helps to align employee's focus on long-term results. Accordingly, the Company does not believe that risks relating to its compensation policies and practices are reasonably likely to have a material adverse effect on the Company.

## **Audit Committee Report**

The Company's management has primary responsibility for the Company's financial statements and overall reporting process, including the Company's system of internal control over financial reporting and assessing the effectiveness of internal control over financial reporting. The Company's independent registered public accounting firm audits the annual financial statements prepared by management, expresses an opinion as to whether those financial statements fairly present the financial position, results of operations and cash flows of the Company in conformity with accounting principles generally accepted in the United States and discusses with the Audit Committee any issues that the independent registered public accounting firm believes should be brought to its attention. The Audit Committee oversees and monitors the Company's financial reporting process and the quality of its internal and external audit

process.

The Audit Committee has reviewed the Company's audited financial statements for the fiscal year ended January 2, 2011 and the notes thereto and discussed such financial statements with management and Deloitte & Touche LLP, the Company's independent registered public accounting firm, acting as the Company's independent

## **Table of Contents**

auditors. Management has represented to the Audit Committee that the financial statements were prepared in accordance with accounting principles generally accepted in the United States.

The Audit Committee has discussed with Deloitte & Touche LLP the matters required to be discussed by Statement on Auditing Standards No. 61 (as amended), which includes, among other items, the independent auditors responsibilities, any significant issues arising during the audit and any other matters related to the conduct of the audit of the Company's financial statements. The Audit Committee also discussed with Deloitte & Touche LLP such other matters as are required to be discussed by other standards of the Public Company Accounting Oversight Board (United States), rules of the Securities and Exchange Commission and other applicable regulations.

The Audit Committee has received the written disclosures and correspondence from Deloitte & Touche LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding Deloitte & Touche LLP's communications with the Audit Committee concerning independence, and has discussed with Deloitte & Touche LLP its independence from the Company.

The Audit Committee also reviewed management's report on its assessment of the effectiveness of the Company's internal control over financial reporting and the independent registered public accounting firm's report on the effectiveness of the Company's internal control over financial reporting.

The Audit Committee discussed with the Company's independent registered public accounting firm the overall scope and plans for its audit. The Audit Committee meets at least quarterly with the independent registered public accounting firm, with and without management present, to discuss the results of its review or examination, its evaluation of the Company's internal control, including internal control over financial reporting, and the overall quality of the Company's financial reporting.

## ***Conclusion***

Based on the review and discussions referred to above, the Audit Committee recommended to the Company's Board of Directors that the Company's audited financial statements and management's assessment of effectiveness of the Company's internal control over financial reporting be included in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2011 for filing with the Securities and Exchange Commission.

SUBMITTED BY AUDIT COMMITTEE OF  
THE BOARD OF DIRECTORS

David R. Jessick (Chair)  
Sandra N. Bane  
Jennifer H. Dunbar

April 26, 2011

*No portion of this Audit Committee Report shall be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, through any general statement incorporating by reference in its entirety the Proxy Statement in which this report appears, except to the extent that the Company specifically incorporates this report or a portion of it by reference. In addition, this report shall not be deemed to be filed under either the Securities Act or the Exchange Act.*

**Stockholder Communications with the Board of Directors**

Stockholders may send communications about matters of general interest to the stockholders of the Company to the Board of Directors, the Chairman of the Board, the Chair of the Audit Committee, the Chair of the Compensation Committee or the Chair of the Nominating Committee at the following address: Big 5 Sporting Goods Corporation, Attention: Secretary, 2525 East El Segundo Blvd, El Segundo, CA 90245-4632. The Secretary will compile these communications and periodically deliver them to the Chairman of the Board or, where

## **Table of Contents**

applicable, to the Chair of the committee to which such communication was addressed, unless otherwise specifically addressed. Communications relating to accounting, internal controls over financial reporting or auditing matters will be referred to the Chair of the Audit Committee. The Chairman of the Board or, where applicable, the Chair of the committee to which such communication was addressed, will determine in his or her discretion which communications will be relayed to other board or committee members.

## **Code of Business Conduct and Ethics**

The Company has adopted a Code of Business Conduct and Ethics that applies to all of the Company's employees, including the Company's senior financial and executive officers, as well as the Company's directors. The Company will disclose any waivers of, or amendments to, any provision of the Code of Business Conduct and Ethics that applies to the Company's directors and senior financial and executive officers on the Company's website, [www.big5sportinggoods.com](http://www.big5sportinggoods.com).

## **Compensation Committee Interlocks and Insider Participation**

For the fiscal year ended January 2, 2011, the Compensation Committee consisted of G. Michael Brown, as Chair, Sandra N. Bane and Jennifer H. Dunbar, as well as David R. Jessick who was appointed to the Compensation Committee effective June 9, 2010. None of these individuals is or has been an officer or employee of the Company or any of its subsidiaries. Ms. Bane, Ms. Dunbar and Mr. Jessick do not have any relationship requiring disclosure under any paragraph of Item 404 of Regulation S-K. Mr. Brown is a partner at the law firm of Musick, Peeler & Garrett LLP. From time to time, the Company retains Musick, Peeler & Garrett LLP to handle various litigation matters.

No interlocking relationship existed between the Board of Directors or the Compensation Committee of the Company and the board of directors or compensation committee of any other company.

## **Compensation Committee Report**

The Compensation Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis with the Company's management and, based on our review and discussions, we recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

### **COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS**

G. Michael Brown (Chair)  
Sandra N. Bane  
Jennifer H. Dunbar  
David R. Jessick

April 25, 2011

*No portion of this Compensation Committee Report shall be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended (the Securities Act) or the Securities Exchange Act of 1934, as amended (the Exchange Act), through any general statement incorporating by reference in its entirety the Proxy Statement in which this report appears, except to the extent that the Company specifically incorporates this report or a portion of it by reference. In addition, this report shall not be deemed to be filed under either the Securities Act or the Exchange Act.*





**Table of Contents****Executive Officers**

The following section sets forth certain information with respect to the Company's current executive officers (other than Steven G. Miller, whose information is set forth above under Directors Whose Terms Will Expire in 2011 and are Nominees for Reelection at the Annual Meeting (Class C Directors) ). Executive officers serve at the discretion of the Board of Directors, subject to rights, if any, under contracts of employment. See Executive and Director Compensation and Related Matters Employment Agreements and Change in Control Provisions.

<b>Name</b>	<b>Age</b>	<b>Position with the Company</b>
Steven G. Miller	59	Chairman of the Board of Directors, Chief Executive Officer and President
Richard A. Johnson	65	Executive Vice President
Barry D. Emerson	53	Senior Vice President, Chief Financial Officer and Treasurer
Jeffrey L. Fraley	54	Senior Vice President, Human Resources
Gary S. Meade	64	Senior Vice President, General Counsel and Secretary
Thomas J. Schlauch	66	Senior Vice President, Buying
Shane O. Starr	53	Senior Vice President, Operations

*Richard A. Johnson* was named Executive Vice President in March 2007. Prior to that, he served as Senior Vice President, Store Operations since 1992. Prior to that, Mr. Johnson was Vice President, Store Operations since 1982. Age: 65.

*Barry D. Emerson* has served as Chief Financial Officer and Treasurer since October 2005 and as Senior Vice President since September 2005. Prior to joining the Company, Mr. Emerson was employed by U.S. Auto Parts Network, Inc., an ecommerce distributor of aftermarket auto parts in the United States, where he served as Vice President, Treasurer and Chief Financial Officer during 2005. Prior to that, Mr. Emerson served as Vice President, Treasurer and Chief Financial Officer of Elite Information Group, Inc., a software product and services company, from 1999 through 2004. Age: 53.

*Jeffrey L. Fraley* has served as Senior Vice President, Human Resources since July 2001. Prior to that, Mr. Fraley served as Vice President, Human Resources from 1992 to 2001. Age: 54.

*Gary S. Meade* has served as Senior Vice President since July 2001 and General Counsel and Secretary since 1997. Mr. Meade also served as Vice President from 1997 to 2001. Prior to joining the Company, Mr. Meade was employed by Thrifty Payless, Inc., a retail drug store company, where he served as Vice President, Legal Affairs and Secretary from 1994 through 1996, and by Thrifty Corporation, a retail drug store company which was the parent company of Big 5 Sporting Goods until 1992, where he served as Vice President, Legal Affairs and Secretary from 1992 through 1994 and Vice President, Legal Affairs from 1979 through 1992. Age: 64.

*Thomas J. Schlauch* has served as Senior Vice President, Buying since 1992. Prior to that, Mr. Schlauch served as Head of Buying from 1990 to 1992 and as Vice President, Buying from 1982 to 1990. Age: 66.

*Shane O. Starr* was named Senior Vice President, Operations, in March 2007. Prior to that, he served as the Company's Vice President of Operations since 1999. Age: 53.

**EXECUTIVE AND DIRECTOR COMPENSATION AND RELATED MATTERS**

## **Compensation Discussion and Analysis**

### ***General***

Attracting, motivating and retaining well-qualified and highly-talented executives are essential to the success of any company. We believe that our business and the interests of our shareholders are best served by continuity and stability of our management team. In the retail sporting goods industry, the market for top executive talent is highly competitive. Accordingly, the goals of our compensation program are to encourage retention of top executives who

**Table of Contents**

may have attractive opportunities at other companies, to provide significant rewards for successful performance, particularly over the longer term, and to align executive officers' interests with those of the stockholders. We believe these goals can be achieved by a program of executive compensation which stresses long-term incentives and which is stable and consistent over time. Our executive compensation program therefore has varied very little over the past ten years. We believe that our executive compensation policy has been successful in encouraging retention, because our executive officers have an average tenure of 29 years with us.

Our compensation decisions are made by the Compensation Committee, which is composed entirely of independent members of our Board of Directors. The Compensation Committee's philosophy is to provide a compensation package that attracts, motivates and retains executive talent and aligns the interests of management with those of the stockholders. Specifically, the objectives of the Compensation Committee's practices are to (1) provide a total compensation program that is competitive with companies with whom we compete for talent, (2) link short term incentives to financial performance, (3) provide long term compensation that focuses management's efforts on building stockholder value and aligning their interests with our stockholders and (4) promote stability and retention of our management team.

The Compensation Committee receives recommendations from our President and Chief Executive Officer (our Principal Executive Officer), and considers factors such as publicly-available information on executive compensation, including industry comparisons and competitive data, each executive's role and responsibilities, and the responsibility levels of the executives relative to one another. Our Chief Executive Officer does not participate in the deliberations of the Compensation Committee with respect to setting his compensation.

When making its compensation decisions, the Compensation Committee has not targeted compensation to specific benchmarks against any peer group companies. The Compensation Committee and our Chief Executive Officer believe it is difficult to establish a group of peer companies that is representative of the Company's business, management structure and management experience for a truly comparative benchmarking. In addition, the Compensation Committee and the Chief Executive Officer believe that targeting compensation solely to specific benchmarks against peer group companies would necessarily not reflect any differences in the specific performance or differing experience levels and operational responsibilities of the individual Named Executive Officers, any differences in the overall performance of the peer group companies or any additional factors affecting compensation decisions.

Nonetheless, in the course of his diligence effort toward arriving at his recommendations to the Compensation Committee, the Chief Executive Officer identifies for the Compensation Committee various companies whose compensation levels he determines to be relevant to ensure that the Company's compensation levels are not materially inconsistent with market practice of competitors and similarly-situated companies, recognizing and taking into account the fact that the level of experience of the Company's executives typically exceeds the experience of executives in comparable positions at these peer companies. In that regard, for purposes of determining base salaries, the Chief Executive Officer looks at data from proxy statements and other public information available for certain publicly-traded retail companies including Cabela's Incorporated, Dick's Sporting Goods, Inc., The Finish Line, Inc., Hibbett Sports, Inc., Shoe Carnival, Inc., and Sport Chalet, Inc. In the Chief Executive Officer's and the Compensation Committee's view, these companies represent certain key competitors in the sporting goods retail industry as well as certain similarly situated specialty retailers in terms of geographic location and size. As indicated above, neither the Compensation Committee nor the Chief Executive Officer attempts to formulaically tie the Company's compensation levels to those of any of these peer group companies. Instead, the data is used only to inform the Chief Executive Officer and the Compensation Committee regarding general market practice in order to allow them to assess the reasonableness of the Company's compensation practices over time.

Further, the Compensation Committee does not establish any specific quantitative company or individual performance objectives, or any predetermined qualitative performance objectives, that must be achieved in order for a Named Executive Officer to earn any portion of his compensation. The Compensation Committee's decision regarding annual base salaries, any equity awards and any annual incentive bonus received by each Named Executive Officer is a subjective one that is made by the Compensation Committee in its discretion after an overall assessment of all of the factors it deems appropriate. Factors that have historically been considered by the

**Table of Contents**

Compensation Committee when determining compensation to be paid to each Named Executive Officer include the Company's overall financial performance in the prior year, the executive's individual performance of his duties as evaluated in the subjective discretion of the Compensation Committee and the Chief Executive Officer, cost of living increases and the Chief Executive Officer's recommendations.

For example, with respect to Company performance, although there were no performance objectives pre-established by the Compensation Committee for purposes of determining compensation, in determining the annual salaries for 2008, the members of the Compensation Committee took into account the 2007 decline in same store sales and EBITDA. Consequently, the percentage year over year increases in annual base salary for the 2008 year were less than in prior years, and annual bonuses for 2007 (i.e., bonuses determined and paid in March 2008) were reduced in comparison to those for 2006. Similarly, the base salaries for 2009 were frozen at 2008 levels in light of the Company's 2008 financial performance and the continuing weakness in the consumer spending environment, and bonuses for 2008 were substantially reduced in comparison to those for 2007 and prior years in light of the decline in the Company's EBITDA in 2008. Conversely, base salaries for 2010 were increased slightly and bonuses for 2009 were increased in comparison to those for 2008 in light of the improvement of the Company's performance and the increase in the Company's EBITDA in 2009. Base salaries for 2011 were frozen at 2010 levels in light of the Company's 2010 financial performance and the continuing weakness in the consumer spending environment, and bonuses for 2010 were reduced in comparison to those for 2009 in light of the decline in the Company's EBITDA in 2010.

In addition, with respect to individual performance, the Chief Executive Officer interacts with all of the other Named Executive Officers on a near daily basis throughout the year, and his subjective views on each such officer's performance are reflected in his recommendations to the Compensation Committee. Furthermore, members of the Compensation Committee (while serving on the Compensation Committee, other Board committees or while attending meetings and functions of the Company's Board of Directors generally) also interact frequently with the Chief Executive Officer and certain other Named Executive Officers, and have available other data relating to the performance of the business units or functions for which each Named Executive Officer is responsible. As a result, the Compensation Committee members also form their own subjective views on each executive's performance throughout the year, and these assessments, along with the Chief Executive Officer's recommendations, are considered in setting overall and relative salary and bonus levels and equity grants. Using those assessments, the Compensation Committee will, at the Chief Executive Officer's recommendation or when it otherwise deems it appropriate, modify compensation levels to reflect individual performance. However, we note that, other than Mr. Emerson, each of the Company's Named Executive Officers have been with the Company for at least 13 years, and they collectively have an average term of service of 34 years. Consequently, the Company believes that, as a practical matter, the skills, scope of duties and relative contributions of these officers tend to be more consistent from year to year in comparison to the executive officers of companies for which there has been more turnover. Accordingly, the year over year compensation levels, and the compensation levels of our executive officers relative to one another, tend to reflect that fact. However, in prior years the Compensation Committee did put substantial weight on Mr. Emerson's performance following his hiring in 2005 and accordingly raised his relative overall compensation substantially in 2006 and 2007. Since that time, the year-over-year percentage adjustments in Mr. Emerson's overall compensation have been generally consistent with the rest of senior management.

The Compensation Committee retained an independent compensation consultant, Frederic W. Cooke & Co., Inc., in designing the 2007 Plan and designing the amendment and restatement of the 2007 Plan that is the subject of Proposal 4 herein, but the Compensation Committee has not otherwise used outside consultants in making compensation determinations.

Internal Revenue Code Section 162(m) generally disallows a tax deduction to reporting companies for compensation over \$1,000,000 paid to each of the company's chief executive officer and the four other most highly compensated

officers, except for compensation that is performance based. Section 162(m) has not been a factor in the design of our executive compensation program because the compensation of our executives other than our President and Chief Executive Officer has not approached \$1,000,000, and the compensation of our President and Chief Executive Officer, except for stock options which are performance based compensation, has exceeded \$1,000,000 only by a minor amount.

**Table of Contents*****Elements of Compensation******Salary***

Our Compensation Committee generally reviews the base salaries of our Named Executive Officers annually. The salaries of our Named Executive Officers are determined in the sole discretion of the Compensation Committee, after receiving recommendations from our Principal Executive Officer. As noted above, the Compensation Committee considers individual and Company performance, as well as factors such as publicly-available information on executive compensation, including industry comparisons and competitive data, each executive's role and responsibilities, and the responsibility levels of the executives relative to one another. We believe that the salaries of our Named Executive Officers are at or below the median of salaries paid by other companies in the market with whom we compete for talent. As noted above, because of the then economic conditions and the Company's 2007 and 2008 financial performance, our Compensation Committee elected to freeze base salaries of our Named Executive Officers for fiscal year 2009. In view of the Company's improved 2009 financial performance, our Compensation Committee approved modest salary increases for each of the Named Executive Officers for fiscal year 2010. Base salaries for 2011 were frozen at 2010 levels in light of the Company's 2010 financial performance and the continuing weakness in the consumer spending environment.

***Bonuses***

We intend that bonuses paid to our Named Executive Officers will reward them for the achievement of successful financial performance over a relatively short period of time (typically one fiscal year). The bonuses of our Named Executive Officers are determined in the sole discretion of the Compensation Committee, after receiving recommendations from our Principal Executive Officer. Although the Company does not set specific Company or individual performance targets for purposes of determining the bonuses, the total amount of the annual bonuses paid to our salaried employees (except for store managers) has historically been correlated with the amount of our earnings before interest, taxes, depreciation and amortization, or EBITDA, and has historically been set at or about five percent of our EBITDA. Specifically, since the Company's initial public offering in 2002, the bonus pool has ranged from a low of 4.6% of EBITDA to a high of 5.3%. For 2010, the bonus pool was 5.2% of EBITDA. In addition, in recent years, approximately one-third of this bonus expense has been for the Named Executive Officers; however this percentage was reduced in 2008, 2009 and 2010 as described below.

The Committee varies the bonus pool as a percentage of EBITDA (as well as the percentage of the bonus pool allocable to Named Executive Officers) slightly from year to year based on a variety of factors, including but not limited to the number of salaried employees who will be paid from the bonus pool and the Company's actual EBITDA. If EBITDA is abnormally low compared with historical patterns, the Compensation Committee may set the overall bonus pool as a percentage of EBITDA at slightly above 5% in order to allow the Company to pay most salaried employees amounts determined to be reasonable while still reflecting a reduction in the overall bonus pool (and absolute amounts of the bonuses) in light of the lower EBITDA. The converse may be true in years where EBITDA is abnormally high compared with historical patterns. For example, due to the general economic climate (and the weak consumer spending environment in particular), the Company's EBITDA was substantially lower in 2008, 2009 and 2010 in comparison to prior years. Consequently, although the bonus pool as a percentage of EBITDA was 5.1% for 2008, 5.3% for 2009 and 5.2% for 2010, the absolute size of the pool decreased substantially from prior years (to approximately \$2.4 million for 2008, \$3.0 million for 2009 and \$2.8 million for 2010, as compared to approximately \$3.6 million for 2007 and approximately \$3.8 million for 2006). This naturally resulted in substantial reductions of bonuses for Named Executive Officers for 2008, 2009 and 2010 as compared to 2007 and prior years. In addition, the Compensation Committee determined that these reductions in bonuses for 2008, 2009 and 2010 should be borne somewhat disproportionately by the senior executive officers, including Named Executive Officers, in part to protect various lower salaried employees. As a result, the Named Executive Officers' percentage of these reduced overall

bonus pools decreased from 37.4% for 2007 to 28.7% for 2008, 27.9% for 2009 and 27.8% for 2010.

Bonus payments to each of our Named Executive Officers are based on his individual contributions to the success of our business for the year, and fairness and proportionality of the Named Executive Officer's compensation when compared with the compensation for the year of our Chief Executive Officer and the other Named



**Table of Contents**

Executive Officers, as determined by the Compensation Committee in its discretion. These practices have been essentially uniform for the past ten years. We believe that the bonuses paid to our Named Executive Officers are at or below the median range of bonuses paid by other companies in the market with whom we compete for talent.

*Long-Term Incentive Compensation (Equity Awards)*

Our shareholder-approved equity compensation plan permits a variety of equity-based awards. We believe that awards of equity-based compensation (both stock options and restricted stock awards) to Named Executive Officers provide a valuable long-term incentive for them, and help align their interests with the stockholders' interests.

We periodically grant equity-based awards to some or all of our Named Executive Officers, typically in connection with their annual performance and compensation reviews. We do not necessarily grant equity awards to our Named Executive Officers annually—we want our Named Executive Officers to understand that such grants are not an entitlement. Our Compensation Committee determines the size of each grant, after receiving recommendations from our Principal Executive Officer. In determining the size of equity awards to executive officers, consideration is given to the value of total direct compensation, Company and individual performance, the number and value of stock options and restricted shares previously granted to the executive officer and the relative proportion of long-term incentives within the total compensation mix.

Our Compensation Committee generally considers equity grants to Named Executive Officers and other employees at committee meetings which coincide with the employees' annual performance and compensation reviews, and, in the case of stock options, the exercise price of each stock option granted is the closing price of our stock on the day of the meeting. The Compensation Committee considers grants to select newly-hired executives at a regularly-scheduled quarterly committee meeting following the date of hire, and the exercise price of each stock option granted to a newly-hired executive is the closing price of our stock on the day of the meeting. We do not intend to grant options while in possession of material non-public information, except pursuant to a pre-existing policy under which options are granted on fixed dates of our annual stockholders meeting (in the case of grants to certain of our directors who are not Named Executive Officers) or of Compensation Committee meetings. Our Compensation Committee meetings which coincide with the employees' annual performance and compensation reviews, and at which our Compensation Committee considers grants to Named Executive Officers who are not newly-hired, are scheduled to coincide with trading windows for our common stock.

We believe that unvested equity awards are a valuable tool to encourage employee retention, and, accordingly, our equity awards (both stock options and restricted stock) to our Named Executive Officers generally vest over a four year period, which generally will be accelerated upon certain change of control events.

Although the long-term incentive represented by equity-awards has been a significant component of the compensation of our Named Executive Officers, we believe that the value of our equity awards to our Named Executive Officers, on an annualized basis, is relatively modest, and is reasonable and appropriate, when compared to the size of equity awards to similar officers of other companies in the market with whom we compete for talent.

We believe that stock options are an important component of a well-designed compensation package for our Named Executive Officers in order to achieve successful results, since the executives can realize value on their stock options only if the stock price increases, and the long-term incentive of stock options is important in realizing our goal of continuity and stability of our executive team. In view of what we believe are relatively modest amounts of bonuses that we pay to our Named Executive Officers, the Company believes that stock options can be a particularly important component of rewarding them for successful long term results. Prior to 2008, our equity-based awards consisted solely of stock options. We also granted stock options to our Named Executive Officers in March of 2008 and 2009.

Following the adoption of our 2007 Plan, our Compensation Committee began to reassess the appropriate balance of stock options and restricted stock awards in our executives' overall compensation. We believe restricted stock provides a further enhancement to retention, as restricted stock generally maintains a greater value than stock options during cyclical downturns in our stock price, our industry or the stock market and economy generally. We also believe that inclusion of restricted stock in our equity award packages more closely aligns the interests of our Named Executive Officers with those of stockholders, in light of the volatility of the stock market in recent years.

**Table of Contents**

and the additional volatility of stock option value relative to changes in market value of the underlying stock. We note that the inclusion of restricted stock as a component of equity compensation for officers is a trend among public companies.

For these reasons, we have elected to include restricted stock grants as part of our long term incentive compensation strategy for our Named Executive Officers. Accordingly, in March 2008 we granted restricted stock along with stock options to certain of our Named Executive Officers. In March 2010 and March 2011, we granted solely restricted stock (and no stock options) to our Named Executive Officers to further balance the mix of stock options and restricted shares in their overall incentive package.

We will continue to evaluate which equity award vehicles achieve the best balance between continuing our successful practice of providing equity-based compensation and creating and maintaining long term shareholder value.

*Change in Control Payments*

Our Named Executive Officers generally do not have employment agreements that provide that they will receive payments if we undergo a change in control. The employment agreement of our Principal Executive Officer contains a change in control provision. This provision permits him to receive the change in control payments if he leaves for any reason within six months after the change in control. The Principal Executive Officer must resign to receive the change in control payments, so this provision is not a true single trigger provision. The reason for this provision is that a change in control of a publicly traded corporation would almost invariably affect the powers, role, and reporting relationships of its principal executive officer. If a change in control of our Company occurs, our Principal Executive Officer's employment agreement gives him the right to depart from the Company and receive the change in control payments if he deems his position to have been negatively affected by the change in control, without the need to demonstrate an objective, adverse effect such as reduction in compensation. If the change is not negative, the employment agreement allows him to stay with the Company and no severance payments will be made. We believe this provision is desirable from our standpoint because it enables our Principal Executive Officer to focus solely on the best interests of our stockholders in the event of a possible, threatened or pending change in control, without undue concern for his own personal interests.

Our Principal Executive Officer's employment agreement also contains provisions for payment on dismissal without cause or quitting for good reason, which could apply after as well as before a change in control. In March 2009, this employment agreement was amended whereby our Principal Executive Officer voluntarily agreed to reduce his lump sum severance payment for these termination events. See Employment Agreements and Change in Control Provisions.

We have entered into a severance agreement with our Senior Vice President and Chief Financial Officer (our Principal Financial Officer), which provides that he will receive certain payments if we terminate his employment other than for cause. These provisions can operate after as well as before a change in control. These provisions were the result of arm's length negotiations between us and our Principal Financial Officer when we hired him.

We do not expect to provide gross up payments to our Principal Executive Officer or Principal Financial Officer if they receive payments in connection with a change in control which would cause them to be subject to the excise tax of Internal Revenue Code Section 4999, which we refer to as the Golden Parachute Excise Tax. With respect to our Principal Executive Officer, his employment agreement specifically provides that payments in connection with the change in control will be reduced to the extent necessary to prevent them from being subject to the Golden Parachute Excise Tax. With respect to our Principal Financial Officer, we do not expect that any such payments made to him will be large enough to trigger the Golden Parachute Excise Tax.

In addition, the vesting of all stock options and restricted stock granted to our executive officers and directors under the 2007 Plan will accelerate upon a change of control of the Company.

*All Other Compensation*

All other compensation to our Named Executive Officers includes, among other things, Company contributions and other allocations made on behalf of the individuals under the Company's defined contribution plan. We

**Table of Contents**

have also provided perquisites to our Named Executive Officers that have an annual incremental cost to us of \$10,000 or more, which consist of the value attributable to personal use of Company-provided automobiles.

**Summary Compensation Table**

Name and Principal Position	Fiscal Year	Salary (\$)(1)	Bonus (\$)	Stock Awards (\$)(2)	Option Awards (\$)(3)	Change in Pension Value and Non-Equity Incentive Compensation			Total (\$)
						Deferred Compensation (\$)	Sign-on Compensation (\$)	All Other Compensation (\$)(4)	
Steven G. Miller	2010	\$482,231	\$275,000	\$235,650	0	0	0	\$26,638	\$1,019,519
Chairman of the Board, President and Chief Executive Officer	2009	\$473,000	\$305,000	0	\$81,774	0	0	\$27,794	\$887,568
	2008	\$470,308	\$250,000	0	\$85,989	0	0	\$32,468	\$838,765
Barry D. Emerson	2010	\$331,154	\$125,000	\$62,840	0	0	0	\$21,723	\$540,717
Senior Vice President, Chief Financial Officer and Treasurer	2009	\$325,000	\$135,000	0	\$32,710	0	0	\$23,932	\$516,642
	2008	\$322,308	\$110,000	\$79,100	\$57,326	0	0	\$26,958	\$595,692
Thomas J. Schlauch	2010	\$274,615	\$150,000	\$62,840	0	0	0	\$23,836	\$511,291
Senior Vice President, Buying	2009	\$270,000	\$163,000	0	\$32,710	0	0	\$22,953	\$488,663
	2008	\$268,115	\$134,000	\$23,730	\$25,797	0	0	\$29,072	\$480,714
Richard A. Johnson	2010	\$248,615	\$137,000	\$62,840	0	0	0	\$22,654	\$471,109
Executive Vice President	2009	\$244,000	\$149,000	0	\$32,710	0	0	\$23,762	\$449,472
	2008	\$242,115	\$122,000	\$23,730	\$25,797	0	0	\$28,720	\$442,362
Gary S. Meade	2010	\$213,231	\$77,500	\$62,840	0	0	0	\$21,277	\$374,848
Senior Vice President,	2009	\$209,000	\$84,000	0	\$32,710	0	0	\$21,137	\$346,847

## General

Counsel and Secretary	2008	\$207,115	\$69,000	\$23,730	\$25,797	0	0	\$27,337	\$352,979
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- (1) The amounts in this Salary column reflect amounts actually earned in the applicable fiscal year. Such amounts reflect a blended amount based on the base salary in effect prior to any annual salary increase (which typically occurs in March of each year) and the higher base salary for the remainder of the year (although no such increase occurred in fiscal 2009 or fiscal 2011).
- (2) The dollar value of Stock Awards shown represents the aggregate grant date fair value calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or FASB ASC Topic 718, on the basis of the Company's common stock price on the grant dates and without any adjustment for estimated forfeitures. Each Stock Award entitles the Named Executive Officer to receive one share of our common stock at the time of vesting without the payment of an exercise price or other cash consideration. The amounts reported in the Stock Awards column do not necessarily reflect the dollar amounts of compensation actually realized or that may be realized. The actual value that a Named Executive Officer will realize on each Stock Award will depend on the price per share of our common stock at the time shares underlying the Stock Awards are sold.
- (3) The dollar value of Option Awards shown represents the aggregate grant date fair value calculated in accordance with FASB ASC Topic 718, on the basis of the fair value of the option on the grant dates and without any adjustment for estimated forfeitures. Each Option Award entitles the Named Executive Officer to purchase one share of our common stock at the time of vesting upon payment of the applicable exercise price. The amounts reported in the Option Awards column do not necessarily reflect the dollar amounts of compensation actually realized or that may be realized. The actual value, if any, that a Named Executive Officer may realize with respect to each option will depend on the excess of the stock price over the exercise price on the date the option is exercised and the shares underlying such option are sold.
- (4) The amounts in the All Other Compensation column include (a) the value attributable to personal use of a Company-provided automobile, which in 2010 were the following amounts: Mr. Miller: \$19,059, Mr. Emerson: \$13,570, Mr. Schlauch: \$15,391, Mr. Johnson: \$15,384, and Mr. Meade: \$12,864, (b) Company contributions and other allocations made on behalf of the individual under the Company's defined contribution plan, which in or for 2010 were the following amounts: Mr. Miller: \$6,919, Mr. Emerson: \$7,567, Mr. Schlauch: \$8,119, Mr. Johnson: \$6,831, and Mr. Meade: \$8,036, and (c) Company payments of group term life insurance premiums for the individual, which in 2010 were the following amounts: Mr. Miller: \$660, Mr. Emerson: \$586, Mr. Schlauch: \$326, Mr. Johnson: \$439, and Mr. Meade: \$377.

**Table of Contents**

**Stock Options and Equity Compensation**

Effective April 24, 2007 the Board of Directors adopted our 2007 Plan, which replaced and superseded our 2002 Stock Incentive Plan (the 2002 Plan ). The 2007 Plan was approved by our stockholders at our 2007 annual meeting of stockholders. Prior to giving effect to the amendment and restatement of the 2007 Plan contemplated by Proposal 4 in this Proxy Statement, the aggregate amount of shares initially authorized for issuance under the 2007 Plan was 2,399,250 (the same number of shares that remained available for grant under the 2002 Plan as of April 24, 2007), but with such amount to automatically increase by the number of shares that had been subject to outstanding awards as of April 24, 2007 under the 2002 Plan that are or were forfeited or cancelled, or otherwise expire, after the April 24, 2007 effective date of the 2007 Plan.

The 2007 Plan is administered by our Compensation Committee. The Compensation Committee has broad discretion and power in operating the 2007 Plan and in determining which of our employees, directors, and consultants shall participate, and the terms of individual awards. Awards under the 2007 Plan may consist of options, stock appreciation rights, restricted stock, other stock unit awards, performance awards, dividend equivalents or any combination of the foregoing. Any shares that are subject to awards of options or stock appreciation rights shall be counted against this limit as one share for every one share granted. Awards of restricted stock and other awards that are not awards of stock options or stock appreciation rights (including shares delivered in settlement of dividend rights) shall be counted against this limit as 2.5 shares for every share granted. The aggregate number of shares available under the 2007 Plan and the number of shares subject to outstanding options and stock appreciation rights will be increased or decreased to reflect any changes in the outstanding common stock of the Company by reason of any recapitalization, spin-off, reorganization, reclassification, stock dividend, stock split, reverse stock split, or similar transaction. If any shares subject to an award under the 2007 Plan or the 2002 Plan described below are forfeited or expire, or are terminated without issuance of shares, the shares shall again be available for award under the 2007 Plan. Any shares that again become available for grant shall be added back as one share if such shares were subject to options or stock appreciation rights granted under the 2007 Plan or the 2002 Plan and as 2.5 shares if such shares were subject to awards other than options or stock appreciation rights granted under the 2007 Plan.

Under the 2007 Plan, no participant may be granted in any fiscal year of the Company (a) options or stock appreciation rights with respect to more than 500,000 shares, (b) restricted stock, performance awards or other stock unit awards that are denominated in shares with respect to more than 250,000 shares, or (c) performance awards or stock unit awards that are valued by reference to cash having a maximum dollar value of more than \$2,000,000.

Under the 2007 Plan, the exercise price for an option or stock appreciation right cannot be less than 100% of the fair market value of the underlying shares on the grant date. The 2007 Plan does not permit the repricing of options or stock appreciation rights.

Prior to the adoption of the 2007 Plan, our equity-based awards were principally made under the 2002 Plan, which was adopted by our Board of Directors and approved by our shareholders in 2002 before our initial public offering. The 2002 Plan was administered by our Compensation Committee. Awards under the 2002 Plan consisted solely of stock options, and the exercise price of all options that were issued under the 2002 Plan was 100% of the fair market value of the underlying shares on the grant date.

On approval of the 2007 Plan by our shareholders in June 2007, the 2002 Plan was terminated, and no new awards were thereafter made under the 2002 Plan. However, awards previously granted continue to be outstanding under their terms. As described above, if any option outstanding under the 2002 Plan is forfeited, expires, or is terminated without issuance of the underlying shares, the underlying shares shall become available for grant under the 2007 Plan.

At April 26, 2011, net of cancellations and forfeitures, options to purchase 900,000 shares had been issued and 439,300 shares of restricted stock had been awarded under the 2007 Plan. Also, at April 26, 2011, 88,800 shares had been effectively transferred from the 2002 Plan to the 2007 Plan as described above as a result of forfeitures or cancellations under the 2002 Plan. Accordingly, at April 26, 2011, 489,800 shares were available for additional grants under the 2007 Plan. At April 26, 2011, 984,223 shares remained subject to outstanding options under the



**Table of Contents**

2002 Plan, 782,540 shares remained subject to outstanding options under the 2007 Plan, and 318,825 unvested restricted shares were outstanding under the 2007 Plan.

**Grants of Plan-Based Awards in Fiscal 2010**

Name	Grant Date	Estimated Future Payouts Under			Estimated Future Payouts Under			All Other Awards: Number of Shares or Units (#)(1)	All Other Option Awards: Number of Securities Underlying Option Awards (#) (\$/Sh)	Grant Date	Fair Value of Stock and Option Awards (\$)
		Non-Equity Incentive Plan Awards			Equity Incentive Plan Awards						
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
Steven G. Miller Chairman of the Board, President and Chief Executive Officer	3/14/2010	0	0	0	0	0	0	15,000	0	0	\$235,650
Barry D. Emerson Senior Vice President, Chief Financial Officer and Treasurer	3/14/2010	0	0	0	0	0	0	4,000	0	0	\$62,840
Thomas J. Schlauch Senior Vice President, Buying	3/14/2010	0	0	0	0	0	0	4,000	0	0	\$62,840
	3/14/2010	0	0	0	0	0	0	4,000	0	0	\$62,840

Richard A. Johnson Executive Vice President												
Gary S. Meade Senior Vice President, General Counsel and Secretary	3/14/2010	0	0	0	0	0	0	4,000	0	0	\$62,840	

(1) These shares of restricted stock vest in four equal annual installments beginning on March 14, 2011.

Table of Contents**Outstanding Equity Awards at Fiscal 2010 Year-End**

Name	Option Awards				Option Expiration Date	Stock Awards		
	Number of Securities Underlying Unexercised Options (#)(1)	Number of Securities Underlying Unexercised Options (#)(1)	Number of Securities Underlying Exercised Options (#)	Equity Incentive Plan Awards: Number of Unearned Shares, or Units or Rights That Have Not Vested (\$)		Number of Shares or Units of Stock That Have Not Vested (\$)(2)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Payout Value of Unearned Shares, or Units or Rights That Have Not Vested (\$)
Steven G. Miller Chairman of the Board, President and Chief Executive Officer	30,000	0		\$ 10.32	2/11/2013	15,000	\$ 229,050	
	30,000	0		\$ 24.61	2/13/2014			
	30,000	0		\$ 19.12	3/13/2016			
	20,625	9,375		\$ 8.95	3/3/2018			
	20,625	24,375		\$ 4.82	3/2/2019			
Barry D. Emerson Senior Vice President, Chief Financial Officer and Treasurer	50,000	0		\$ 25.05	9/12/2015	9,000	\$ 137,430	
	20,000	0		\$ 19.12	3/13/2016			
	7,500	2,500		\$ 25.22	3/12/2017			
	10,000	10,000		\$ 8.95	3/3/2018			
	4,500	13,500		\$ 4.82	3/2/2019			
Thomas J. Schlauch Senior Vice President, Buying	10,000	0		\$ 24.61	2/13/2014	5,500	\$ 83,985	
	12,000	0		\$ 19.12	3/13/2016			
	4,500	4,500		\$ 8.95	3/3/2018			
	4,500	13,500		\$ 4.82	3/2/2019			
Richard A. Johnson Executive Vice President	10,000	0		\$ 24.61	2/13/2014	5,500	\$ 83,985	
	12,000	0		\$ 19.12	3/13/2016			
	0	4,500		\$ 8.95	3/3/2018			
	0	13,500		\$ 4.82	3/2/2019			

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Gary S. Meade	10,000	0	\$ 10.32	2/11/2013	5,500	\$ 83,985
Senior Vice	10,000	0	\$ 24.61	2/13/2014		
President, General	12,000	0	\$ 19.12	3/13/2016		
Counsel and Secretary	2,250	4,500	\$ 8.95	3/3/2018		
	0	13,500	\$ 4.82	3/2/2019		

- (1) The vesting dates of the options reported in the second and third columns are as follows: Mr. Miller's options vest in forty-eight equal monthly installments, beginning on March 1, 2003, March 1, 2004, April 1, 2006, April 1, 2008 and April 1, 2009, respectively; Mr. Emerson's options vest in four equal annual installments, beginning on September 12, 2006, March 13, 2007, March 12, 2008, March 3, 2009 and March 2, 2010, respectively; Mr. Schlauch's and Mr. Johnson's options vest in four equal annual installments beginning February 13, 2005, March 13, 2007, March 3, 2009 and March 2, 2010, respectively; and Mr. Meade's options vest in four equal annual installments, beginning on February 11, 2004, February 13, 2005, March 13, 2007, March 3, 2009 and March 2, 2010, respectively.
- (2) The amounts in the Market Value of Shares column are the fair market value of the shares on January 2, 2011, based upon our most recent closing stock price as of that date of \$15.27.

**Table of Contents****Option Exercises and Stock Vested in Fiscal 2010**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Steven G. Miller Chairman of the Board, President and Chief Executive Officer	0	0	0	0
Barry D. Emerson Senior Vice President, Chief Financial Officer and Treasurer	0	0	2,500	\$ 39,275
Thomas J. Schlauch Senior Vice President, Buying	0	0	750	\$ 11,783
Richard A. Johnson Executive Vice President	6,750	\$ 65,363	750	\$ 11,783
Gary S. Meade Senior Vice President, General Counsel and Secretary	4,500	\$ 36,180	750	\$ 11,783

**Employment Agreements and Change in Control Provisions**

The Company has an employment agreement with Mr. Steven G. Miller, who currently serves as Chairman of the Board, President and Chief Executive Officer. His original agreement was executed in 2002 prior to our becoming a publicly-traded company.

In December 2008, the agreement was amended and restated for the principal purpose of complying with the provisions of Section 409A of the Internal Revenue Code and related regulations and guidance. In general, the changes reflected in that restatement related to the timing of payments to Mr. Miller under his employment agreement following certain events. The restatement also updated various other provisions, including to conform Mr. Miller's base salary to his current base salary, but did not materially affect the scope or amounts of compensation or benefits that Mr. Miller is entitled to receive under his agreement.

In March 2009, in an effort to align Mr. Miller's severance package more closely with current standards, the employment agreement was further amended whereby Mr. Miller voluntarily agreed to reduce the lump sum severance payment he is to receive upon certain termination events from four years annual compensation to three years annual compensation. In addition, the amendment revised the method of determining such annual compensation for that purpose as provided below.

Steven G. Miller's employment agreement provides that he will serve as Chairman of the Board of Directors, Chief Executive Officer and President for a term of four years from any given date, such that there shall always be a minimum of at least four years remaining under his employment agreement. The employment agreement provides for Mr. Miller to receive an annual base salary of \$473,000, subject to annual increase based on comparable compensation packages provided to executives in similarly situated companies, and to participate in a bonus plan to be established by the Compensation Committee. His annual base salary was not increased for fiscal 2009, was increased to \$485,000

per year effective March 22, 2010, and was not increased for fiscal 2011. In practice, his bonuses have been determined in the discretion of the Compensation Committee. Mr. Miller is also entitled to use of a Company automobile. In addition, as long as Mr. Miller serves as an officer, the Company will use its best efforts to ensure that he continues to serve on the Company's Board of Directors and on the Board of Directors of the Company's wholly-owned subsidiary, Big 5 Corp.

If Steven G. Miller's employment is terminated due to his death, the employment agreement provides for accelerated vesting of options that would have been exercisable during the 24 months following the termination date and the continuation of family medical benefits for the four years following the termination date. The table below reflects the estimated amount of payments and other benefits payable under Mr. Miller's employment agreement on

**Table of Contents**

a termination due to death, assuming that the termination occurred on January 2, 2011 and based upon our most recent closing stock price as of that date of \$15.27.

**Table Showing Benefits on a Termination Due to Death**

Name	Cash	Value of Option	Value of Medical	Total
	Severance	Acceleration	Continuation	
Steven G. Miller	0	\$ 294,375	\$ 50,177	\$ 344,552

If Steven G. Miller's employment is terminated due to his disability, the employment agreement provides that the Company will pay Mr. Miller as a lump sum severance payment an amount equal to his base salary for two years and an additional amount equal to two times the greater of (i) his last annual cash bonus or (ii) the average annual cash bonus paid during the last three fiscal years. In addition, the employment agreement provides for accelerated vesting of options that would have been exercisable during the 24 months following the termination date and the continuation of specified benefits for the four years following the termination date. The table below reflects the estimated amount of payments and other benefits payable under Mr. Miller's employment agreement on a termination due to disability, assuming that the termination occurred on January 2, 2011 and based upon our most recent closing stock price as of that date of \$15.27.

**Table Showing Benefits on a Termination Due to Disability**

Name	Cash Severance	Value of Option	Value of	Value of	Total
		Acceleration	Medical	Perquisites(1)	
Steven G. Miller	\$ 1,673,333	\$ 294,375	\$ 70,971	\$ 76,236	\$ 2,114,915

- (1) The amount in the Value of Perquisites column includes the value attributable to personal use of a Company-provided automobile in the annual amount of \$19,059 for four years.

If Steven G. Miller terminates the employment agreement for good reason at any time, or for any reason within six months of a change in control, or if the Company terminates the employment agreement without cause at any time, the employment agreement provides the Company will pay Mr. Miller as a lump sum severance payment an amount equal to three times his annual compensation. For this purpose, Mr. Miller's annual compensation will be deemed to equal the average annual compensation received by Mr. Miller for each of the five years immediately preceding the year in which the termination date falls, as reflected on Mr. Miller's Forms W-2 for those years. In addition, the employment agreement provides for accelerated vesting of all of his options and the continuation of specified benefits for the four years following the termination date. However, the employment agreement provides that payments in connection with the change in control will be reduced to the extent necessary to prevent them from being subject to the Golden Parachute Excise Tax of Internal Revenue Code Section 4999. The table below reflects the estimated amount of payments and other benefits payable under Mr. Miller's employment agreement on a termination by Mr. Miller for good reason or due to a change in control or a termination by the Company without cause, assuming that the termination occurred on January 2, 2011 and based upon our most recent closing stock price as of that date of \$15.27.

**Table Showing Benefits on a Termination by the Employee for Good Reason or Due to a Change in Control or a Termination by the Company Without Cause**

<b>Name</b>	<b>Cash Severance</b>	<b>Value of Option Acceleration</b>	<b>Value of Medical Continuation</b>	<b>Value of Perquisites(1)</b>	<b>Total</b>
Steven G. Miller(2)	\$ 2,711,099	\$ 313,969	\$ 70,971	\$ 76,236	\$ 3,172,275

- (1) The amount in the Value of Perquisites column includes the value attributable to personal use of a Company-provided automobile in the annual amount of \$19,059 for four years.
- (2) Payments in connection with a change in control may be less than those shown in this table, since Mr. Miller's employment agreement provides such payments will be reduced to the extent necessary to prevent them from being subject to the Golden Parachute Excise Tax of Internal Revenue Code Section 4999.



**Table of Contents**

If Steven G. Miller terminates the employment agreement without good reason or the Company terminates the employment agreement for cause, Mr. Miller is entitled to receive all accrued and unpaid salary and other compensation and all accrued and unused vacation pay.

The employment of our Principal Financial Officer, Mr. Barry D. Emerson, with us is governed by an employment offer letter dated August 16, 2005, which is referred to as the Offer Letter. The Offer Letter provided for Mr. Emerson to receive a starting annual base salary of \$275,000 and a minimum starting annual bonus of \$125,000, to be paid in the first quarter of 2006 and prorated based upon the period of employment during the 2005 fiscal year. He received an annual bonus in the amount of \$100,000 in March 2006. Mr. Emerson's annual base salary has since been increased to \$325,000 in 2008 (which remained in effect during 2009), and to \$333,000 effective March 22, 2010 (which remains in effect during 2011). His annual incentive bonuses have been set in the discretion of the Compensation Committee from the overall bonus pool. Pursuant to the Offer Letter, Mr. Emerson received an initial stock option grant to acquire 50,000 shares of the Company's common stock, at an exercise price of \$25.05 per share, and has been and continues to be eligible for additional stock option grants comparable to those provided to other senior vice presidents of the Company. In addition, the Offer Letter provides that Mr. Emerson receives use of a Company automobile.

Pursuant to the Offer Letter, we and Mr. Emerson have entered into a severance agreement that provides that his employment is at will but that, if we terminate his employment other than for cause (as defined in the severance agreement), Mr. Emerson will receive a severance package which will include one year's base salary and one year's health coverage for him and his family. Payment of the severance benefit is conditioned upon the execution of a release by Mr. Emerson of all claims he may have against us. The table below reflects the estimated amount of payments and other benefits payable under Mr. Emerson's severance agreement, assuming that the termination occurred on January 2, 2011.

**Table Showing Benefits on a Termination Other than for Cause**

<b>Name</b>	<b>Cash Severance</b>	<b>Value of Medical Continuation</b>	<b>Total</b>
Barry D. Emerson	\$ 333,000	\$ 17,743	\$ 350,743

**Compensation of Directors**

Our Board of Directors sets directors' compensation based on its review of publicly-available information about what other companies pay their directors.

Directors who are also employees of the Company are compensated as officers of the Company and receive no additional compensation for serving as directors.

Effective April 2007, non-employee directors receive an annual retainer of \$30,000 for service on the Board of Directors, plus \$2,500 for attendance at each regularly scheduled meeting of the Board of Directors or each committee meeting not otherwise held on the day of a board meeting or other committee meeting, \$1,000 for attendance at each committee meeting held on the day of a board meeting or other committee meeting, and \$1,000 for attendance by telephone at any specially called telephonic board meeting or committee meeting. The Chairs of the Audit Committee, Compensation Committee and Nominating Committee receive additional annual retainers of \$10,000, \$7,500 and \$5,000, respectively. In addition, the Company has adopted a policy pursuant to which each non-employee director is

initially granted options to purchase 10,000 shares of the Company's common stock and is annually granted additional options to purchase 3,000 shares of such stock and annually granted 3,000 restricted shares of the Company's common stock. The options are to have an exercise price equal to the fair market value of the Company's common stock on the date of grant, and both the options and the restricted shares vest in four equal annual installments. Annual grants have been and will be made on the date of the Company's annual meeting of stockholders. Directors are also reimbursed for all out-of-pocket expenses incurred in attending such meetings. Dr. Miller has waived his right to receive his director fees, stock options and restricted stock.

Table of Contents**Director Compensation for Fiscal 2010**

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)(3)	Option Awards (\$)(2)(3)	Change in Pension Value and Nonqualified Deferred Incentive Plan Compensation			All Other Compensation (\$)	Total (\$)
				Non-Equity Compensation (\$)	Earnings (\$)	(\$)		
Sandra N. Bane	\$ 50,500	\$ 39,000	\$ 18,777	0	0	0	\$ 108,277	
G. Michael Brown	\$ 53,000	\$ 39,000	\$ 18,777	0	0	0	\$ 110,777	
Jennifer H. Dunbar	\$ 56,500	\$ 39,000	\$ 18,777	0	0	0	\$ 114,277	
David R. Jessick	\$ 56,000	\$ 39,000	\$ 18,777	0	0	0	\$ 113,777	
Michael D. Miller	0	0	0	0	0	0	0	

- (1) The dollar value of Stock Awards shown represents the aggregate grant date fair value calculated in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or FASB ASC Topic 718, on the basis of the Company's common stock price on the grant dates and without any adjustment for estimated forfeitures. Each Stock Award entitles the director to receive one share of our common stock at the time of vesting without the payment of an exercise price or other cash consideration. The amounts reported in the Stock Awards column do not necessarily reflect the dollar amounts of compensation actually realized or that may be realized. The actual value that a director will realize on each Stock Award will depend on the price per share of our common stock at the time shares underlying the Stock Awards are sold.
- (2) The dollar value of Option Awards shown represents the aggregate grant date fair value calculated in accordance with FASB ASC Topic 718, on the basis of the fair value of the option on the grant dates and without any adjustment for estimated forfeitures. Each Option Award entitles the director to purchase one share of our common stock at the time of vesting upon payment of the applicable exercise price. The amounts reported in the Option Awards column do not necessarily reflect the dollar amounts of compensation actually realized or that may be realized. The actual value, if any, that a director may realize with respect to each option will depend on the excess of the stock price over the exercise price on the date the option is exercised and the shares underlying such option are sold.
- (3) Prior to 2008, our non-employee directors other than Dr. Miller received annual stock option awards and, commencing in 2008, a combination of stock option and restricted stock awards. The following table shows, as of January 2, 2011, the total number of shares of our common stock subject to unvested restricted stock and vested and unvested stock option awards outstanding for each non-employee director:

Director	Total Restricted Stock Awards Outstanding	Total Option Awards Outstanding
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Sandra N. Bane	6,750	35,000
G. Michael Brown	6,750	35,000
Jennifer H. Dunbar	6,750	35,000
David R. Jessick	6,750	30,000
Michael D. Miller	0	0

**Section 16(a) Beneficial Ownership Reporting Compliance**

Based solely upon review of copies of Section 16(a) reports furnished to the Company during or with respect to the year ended January 2, 2011, the Company believes that all Section 16(a) reporting requirements were met during fiscal 2010, except that a Form 4 for Steven G. Miller reporting six same-day transactions on February 19, 2010 was filed one day late.

**Table of Contents**

**TRANSACTIONS WITH RELATED PERSONS, PROMOTERS AND CERTAIN CONTROL PERSONS**

**Procedures**

Our Audit Committee's written charter requires that the Audit Committee review on an ongoing basis and approve or disapprove all related party transactions that are required to be disclosed by Item 404 of Regulation S-K. The written Audit Committee Meeting Planner prepared and approved by the Audit Committee provides that this will occur annually at the first quarterly Audit Committee meeting each year and at such other times as needed. During each such review, the Company's General Counsel discusses the requirements of Item 404 of Regulation S-K and reports on all related party transactions or arrangements that have been determined to require review, following which the Audit Committee formally approves or disapproves each such transaction or arrangement. The items described below were approved by the Audit Committee following this policy and procedure, except for those payments or transactions consummated pursuant to agreements that were entered into prior to our initial public offering and the establishment of the Audit Committee, which occurred in 2002.

The Company has no formal policy regarding the standards to be applied by the Audit Committee in determining whether to approve or disapprove related party transactions. However, in determining whether a proposed related party transaction is in the best interests of the Company and whether to approve or disapprove the transaction, our Audit Committee has generally considered, among other factors, the terms that it believed would be available to the Company in an arms-length transaction with an unrelated third party. In particular, the Audit Committee has historically required that (i) the terms of the relevant transaction be, in the opinion of the Audit Committee, no less favorable to the Company than those likely to be available from an unaffiliated third party and (ii) the Company would be expected to obtain a comparable or more favorable result than it would in an arms-length transaction with an unrelated third party. In applying this standard, the Audit Committee also considers whether the transaction would be conducted in the same manner as it would be for such an unrelated third party. Other factors typically considered by the Audit Committee in making such determination include the benefit of the transaction to the Company (including the cost, nature, quantity and quality of the goods or services involved), and the terms, conditions and circumstances of the transaction. In making such a determination, the Audit Committee relies on information provided to it by Company management as well as the general knowledge and experience of Audit Committee members.

**Fiscal 2010 Transactions**

G. Michael Brown is a director of the Company and a partner of the law firm of Musick, Peeler & Garrett LLP. From time to time, the Company retains Musick, Peeler & Garrett LLP to handle various litigation matters. The Company received services from the law firm of Musick, Peeler & Garrett LLP amounting to \$0.6 million in fiscal year 2010, and amounts due to Musick, Peeler & Garrett LLP totaled \$75,000 as of January 2, 2011.

Prior to his death in fiscal 2008, the Company had an employment agreement with Robert W. Miller ( Mr. Miller ), co-founder of the Company and the father of Steven G. Miller, Chairman of the Board, President, Chief Executive Officer and a director of the Company, and Michael D. Miller, a director of the Company. The employment agreement provided for Mr. Miller to receive an annual base salary of \$350,000. The employment agreement further provided that, following his death, the Company will pay his surviving wife \$350,000 per year and provide her specified benefits for the remainder of her life. During fiscal 2010, the Company made a payment of \$350,000 to Mr. Miller's wife. The Company recognized expense of \$0.3 million in fiscal 2010 to provide for a liability for the future obligations under this agreement. Based upon actuarial valuation estimates related to this agreement, the Company recorded a liability of \$1.7 million as of January 2, 2011.

Bradley A. Johnson, the son of Richard A. Johnson, the Company's Executive Vice President, is employed by the Company as a Buyer. For his services in 2010, Mr. Johnson earned cash compensation (salary and bonus) of \$140,513, received employee benefits customary for similarly-situated Company employees, and was awarded 1,000 restricted shares of Company common stock (vesting over 4 years). The salary and bonus received by Bradley A. Johnson is consistent with those paid to other Company employees with similar responsibilities.

In addition to the indemnification provisions contained in the Company's Amended and Restated Certificate of Incorporation and Bylaws, the Company has indemnification agreements with each of its directors and executive

**Table of Contents**

officers. These agreements, among other things, provide for indemnification of the Company's directors and executive officers for expenses, judgments, fines and settlement amounts (collectively, "Liabilities") incurred by any such person in any action or proceeding arising out of such person's services as a director or executive officer or at the Company's request, if the applicable director or executive officer acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company. These agreements also require the Company to advance expenses incurred by any of its directors or executive officers in connection with any proceeding against such individual with respect to which such individual may be entitled to indemnification by the Company. In fiscal 2010, the Company did not advance any amounts to directors and executive officers under this provision.

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information regarding beneficial ownership of the Company's common stock as of April 26, 2011 by:

each of the Named Executive Officers in the Summary Compensation Table on page 20;

each of the Company's directors;

each person, or group of affiliated persons, who is known by the Company to beneficially own more than 5% the Company's common stock; and

all current directors and executive officers as a group.

Except as otherwise indicated in the footnotes below, each beneficial owner has the sole power to vote and to dispose of all shares held by that holder. Percentage ownership is based on 21,984,070 shares of common stock outstanding as of April 26, 2011.

Name(1)	Beneficial Ownership of Common Stock	
	Shares	Percent (%)(2)
Steven G. Miller	1,311,043(3)	5.93
Sandra N. Bane	39,500(4)	*
G. Michael Brown	37,250(5)	*
Jennifer H. Dunbar	51,893(6)	*
David R. Jessick	34,500(7)	*
Michael D. Miller	347,317(8)	1.58
Barry D. Emerson	118,905(9)	*
Richard A. Johnson	158,500(10)	*
Gary S. Meade	58,550(11)	*
Thomas J. Schlauch	52,162(12)	*
All directors and executive officers as a group (12 persons)	2,288,904(13)	10.17
<b>5% Stockholders</b>		
Blackrock Inc.(14)	1,704,259	7.75
FMR LLC(15)	1,550,053	7.05
Sagard Capital Partners, L.P.(16)	1,895,924	8.62

Stadium Capital Management, LLC(17)	3,369,383	15.33
Wasatch Advisors, Inc.(18)	1,866,927	8.49

\* Indicates less than 1%.

To the Company's knowledge, none of the shares held by directors and executive officers have been pledged as security for any obligation.



**Table of Contents**

- (1) The address for each stockholder is 2525 East El Segundo Boulevard, El Segundo, California 90245, except as otherwise indicated below.
- (2) Shares of common stock subject to options that are currently exercisable or exercisable within 60 days of April 26, 2011 are deemed to be outstanding and beneficially owned by the person holding such options or who otherwise has beneficial ownership thereof for the purpose of computing the percentage ownership of such person, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person.
- (3) Includes 770,000 shares of common stock held by Steven G. Miller and Jacquelyne G. Miller, as trustees of the Steven G. Miller and Jacquelyne G. Miller Trust dated September 13, 1990, 374,232 shares of common stock held by Robert W. and Florence Miller Family Partners, L.P., of which Steven G. Miller is a limited partner and shares dispositive power with respect to the shares pursuant to a trading authorization dated November 12, 2004 executed by Robert W. Miller and Florence H. Miller, as general partners, and 139,687 shares which may be acquired upon the exercise of options exercisable within 60 days of April 26, 2011. Mr. Miller disclaims beneficial ownership in the shares owned by Robert W. and Florence Miller Family Partners, L.P. except to the extent of his pecuniary interest therein. Jacquelyne G. Miller shares beneficial ownership of the 770,000 shares of common stock held by the Steven G. Miller and Jacquelyne G. Miller Trust dated September 13, 1990.
- (4) Includes 30,500 shares which may be acquired upon the exercise of options exercisable within 60 days of April 26, 2011.
- (5) Includes 30,500 shares which may be acquired upon the exercise of options exercisable within 60 days of April 26, 2011.
- (6) Includes 13,143 shares of common stock held by Jennifer H. Dunbar, Trustee of the Lilac II Trust dated June 28, 2000 and 30,500 shares which may be acquired upon the exercise of options exercisable within 60 days of April 26, 2011.
- (7) Includes 25,500 shares which may be acquired upon the exercise of options exercisable within 60 days of April 26, 2011.
- (8) Represents 200,000 shares of common stock held by Michael D. Miller, Trustee of the Miller Living Trust dated December 11, 1997 and 147,317 shares of common stock held by Michael D. Miller, Trustee of the Florence H. Miller 2010 Annuity Trust Big 5.
- (9) Includes 400 shares of common stock held by family members residing with Mr. Emerson and 104,000 shares which may be acquired upon the exercise of options exercisable within 60 days of April 26, 2011.
- (10) Includes 28,750 shares which may be acquired upon the exercise of options exercisable within 60 days of April 26, 2011.
- (11) Includes 41,000 shares which may be acquired upon the exercise of options exercisable within 60 days of April 26, 2011.
- (12) Includes 5,000 shares of common stock held by Thomas J. Schlauch, Trustee of the Schlauch Family Trust and 37,750 shares which may be acquired upon the exercise of options exercisable within 60 days of April 26, 2011.

- (13) Includes 517,312 shares which the directors and executive officers may be deemed to have beneficial ownership with respect to options to purchase the Company's common stock exercisable within 60 days of April 26, 2011.
- (14) The address for Blackrock Inc. is 40 East 52nd Street, New York, NY 10022, as reported in the Schedule 13G/A filed with the Securities and Exchange Commission on February 2, 2011 by the reporting person. The reporting person's holdings are based upon the holdings disclosed in the Schedule 13G/A.
- (15) The address for FMR LLC is 82 Devonshire Street, Boston, MA 02109, as reported in the Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2011. According to the Schedule 13G/A, the reporting person is the beneficial owner of 1,533,403 shares of the Company's common stock as a result of acting as an investment advisor of various investment companies. The reporting person, along with Edward C. Johnson 3d (the Chairman), have the power to dispose of such shares. In addition, the reporting person and Edward C. Johnson 3d each have dispositive power over an additional 16,650 shares of Company common

**Table of Contents**

stock held by Pyramis Global Advisors Trust. The reporting person's holdings are based upon the holdings disclosed in the Schedule 13G/A.

- (16) The address for Sagard Capital Partners, L.P. is 325 Greenwich Avenue, Greenwich CT 06830, as reported in the Schedule 13D filed with the Securities and Exchange Commission on March 6, 2008 and amended on March 26, 2008, April 21, 2008 and August 12, 2010 (as so amended, the Schedule 13D). According to Item 3 of the Schedule 13D, Sagard Capital Partners, L.P. is the direct owner of the securities. Sagard Capital Partners GP, Inc. (the stockholder's general partner) and Sagard Capital Partners Management Corporation (the stockholder's manager) have shared beneficial ownership of the same securities by virtue of their relationship to the stockholder. In addition, Power Corporation of Canada and Mr. Paul G. Desmarais, by virtue of their direct and indirect securities holdings, may be deemed to control each of the aforementioned entities. The reporting person's holdings are based upon the holdings disclosed in the Schedule 13D.
- (17) The address for Stadium Capital Management, LLC is 19785 Village Office Court, Suite 101, Bend, OR 97702, as reported in the Schedule 13G/A filed with the Securities and Exchange Commission on February 11, 2010. According to the Schedule 13G/A, Stadium Capital Management, LLC is an investment adviser whose clients, including Stadium Relative Value Partners, have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the shares reported above. Stadium Relative Value Partners has such a right with respect to 2,286,350 of the 3,369,383 shares reported above. Alexander M. Seaver and Bradley R. Kent are the managing members of Stadium Capital Management, LLC, and Stadium Capital Management, LLC is the general partner of Stadium Relative Value Partners. Stockholder's holdings are based upon the holdings disclosed in the Schedule 13G/A.
- (18) The address for Wasatch Advisors, Inc. is 150 Social Hall Avenue, Salt Lake City, UT 84111, as reported in the Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2011. The reporting person's holdings are based upon the holdings disclosed in the Schedule 13G/A.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth information regarding the Company's equity compensation plans as of January 2, 2011. For a description of the material features of these plans, see Executive and Director Compensation and Related Matters - Stock Options and Equity Compensation.

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)(1)</b>
	1,795,550	\$ 14.25	858,900

Equity compensation plans approved by security holders(2)

Equity compensation plans not approved by security holders

Total	1,795,550	\$	14.25	858,900
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- (1) The number of securities remaining available for grant at January 2, 2011, does not include the additional securities authorized for issuance under the amendment and restatement of the 2007 Equity and Performance Incentive Plan contemplated by Proposal 4 in this Proxy Statement.
- (2) The Company has stock options outstanding under two equity compensation plans: the 2002 Stock Incentive Plan and the 2007 Equity and Performance Incentive Plan. However, except as to outstanding awards, the 2002 Stock Incentive Plan was terminated immediately after the Company's 2007 annual meeting of stockholders. Accordingly, no additional options may be granted under that plan. Shares subject to options under the 2002 Stock Incentive Plan that are forfeited or cancelled, or otherwise expire without issuance of the underlying shares shall become available for issuance under the 2007 Equity and Performance Incentive Plan.

**Table of Contents**

**PROPOSAL 2:**

**ADVISORY VOTE ON EXECUTIVE COMPENSATION  
(Item No. 2 on Proxy Card)**

The Dodd-Frank Wall Street Reform and Consumer Protection Act added Section 14A of the Exchange Act, which requires us to provide our shareholders with an advisory vote on executive compensation as described in this Proxy Statement (commonly referred to as Say-on-Pay), as well as an advisory vote on the frequency of the Say-on-Pay vote. As discussed below in Proposal 3, the Board is recommending an annual advisory vote on executive compensation as a means of establishing a regular dialogue with our stockholders on corporate governance matters, including executive compensation philosophy, policies and practices.

As noted above under Executive and Director Compensation and Related Matters Compensation Discussion and Analysis, our compensation program utilizes elements including base salary, annual bonus awards, long term stock-based incentive awards, and health and other benefits to achieve the following goals:

attracting, motivating and rewarding highly talented, qualified and experienced executive officers responsible for our success;

encouraging retention of top executives who may have attractive opportunities at other companies;

providing rewards for successful performance;

aligning annual short term incentive rewards with actual Company operating performance;

using longer-term stock-based incentive awards to align executive officers' interests with those of the stockholders; and

providing total compensation to each executive officer that is internally equitable and reasonable in light of the executive officer's level of experience and qualifications as well as general market practice, including compensation levels of certain peer companies.

The Board and the Compensation Committee believe that our compensation programs, which have been relatively stable over time, have accomplished the foregoing goals as more fully-discussed above under Executive and Director Compensation and Related Matters Compensation Discussion and Analysis.

We strongly encourage shareholders to review this Proxy Statement, and in particular the information contained in the Executive and Director Compensation and Related Matters section, including the tabular and narrative disclosure, for a more detailed discussion of our compensation philosophy, objectives and programs.

**Required Vote**

The adoption of the resolution set forth below approving the Company's compensation of its Named Executive Officers will require the affirmative vote of a majority of the votes cast FOR or AGAINST with respect to this proposal. Abstentions and broker non-votes will have no effect on the outcome of the vote on this proposal.

**Recommendation of the Board of Directors**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE FOLLOWING ADVISORY RESOLUTION:**

RESOLVED, that the shareholders approve the compensation of the Company's Named Executive Officers as described in the Executive and Director Compensation and Related Matters section of this Proxy Statement, including the Compensation Discussion and Analysis subsection thereof and the tabular and narrative disclosures therein required by Item 402 of SEC Regulation S-K.

**Table of Contents**

**PROPOSAL 3:**

**ADVISORY VOTE ON THE FREQUENCY OF THE VOTE ON EXECUTIVE COMPENSATION  
(Item No. 3 on Proxy Card)**

As discussed above in Proposal 2, recently enacted legislation requires us to provide a separate non-binding shareholder vote at least once every six years to determine whether our shareholders' Say-on-Pay vote should occur every one, two or three years. In addition, shareholders may abstain from voting on this proposal.

After careful consideration of this proposal, the Board of Directors recommends that future advisory votes on Named Executive Officer compensation occur annually. The Board believes that an annual advisory vote on executive compensation is consistent with having a regular dialogue with our stockholders on corporate governance matters, including executive compensation philosophy, policies and practices. However, we intend to continue to design our compensation programs with a view toward incenting performance over the longer term.

**Required Vote**

Stockholders will be able to specify one of four choices for this proposal on the proxy card: one year, two years, three years or abstain. Stockholders are not voting to approve or disapprove the Board's recommendation. This advisory vote on the frequency of future advisory votes on executive compensation is non-binding on the Board of Directors. Notwithstanding the Board's recommendation and the outcome of the stockholder vote, the Board may in the future decide to conduct advisory votes on a more or less frequent basis and may vary its practice based on factors such as discussions with shareowners and adoption of material changes to compensation programs.

**Recommendation of the Board of Directors**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE TO CONDUCT AN ADVISORY VOTE ON EXECUTIVE COMPENSATION ANNUALLY (I.E., EVERY ONE YEAR ).**

**PROPOSAL 4**

**AMENDMENT AND RESTATEMENT OF 2007 EQUITY AND PERFORMANCE INCENTIVE PLAN  
(Item No. 4 on Proxy Card)**

**Background**

In 2007, the Company adopted the Company's original 2007 Equity and Performance Incentive Plan ( Original 2007 Plan ). The Original 2007 Plan authorized for issuance up to an aggregate of 2,399,250 shares of the Company's common stock, plus any shares subject to awards previously granted under the Company's 2002 Stock Incentive Plan and the Company's 1997 Management Equity Plan (the Prior Plans ) which are or were forfeited, expire or otherwise terminate without the issuance of shares on or after the April 24, 2007 effective date of the Original 2007 Plan. Prior to the adoption of the Original 2007 Plan, all of the shares initially authorized for issuance under the Original 2007 Plan had been available for grant under the Prior Plans, which plans were frozen upon the adoption of the Original 2007 Plan. Consequently, the adoption of the Original 2007 Plan did not increase the size of the Company's employee and director equity pool, and, prior to the amendment and restatement of the 2007 Equity and Performance Incentive Plan that is the subject of this Proposal 4, the size of the Company's employee and director equity award pool had not changed since the Company's initial public offering in 2002.

As of April 26, 2011, 489,800 shares remained available for future grants of awards under the Original 2007 Plan (excluding any additional shares that may thereafter become available under the Original 2007 Plan as a result of future forfeiture, expiration or other termination of awards under the Prior Plans). Based on its currently projected needs, the Company anticipates that it will exhaust these available shares during its 2012 fiscal year. Also as of April 26, 2011, there were outstanding under the Original 2007 Plan (i) options to purchase 782,540 shares, with a weighted average exercise price of \$7.10 per share and a weighted average remaining term of 7.5 years, and (ii) 318,825 unvested restricted shares.



## **Table of Contents**

Accordingly, effective April 26, 2011, the Board of Directors adopted an amendment and restatement of the 2007 Plan (the Amended 2007 Plan ) which, subject to approval of our stockholders, will (i) increase by 1,250,000 the maximum number of shares of the Company s common stock that may be issued or subject to awards under the 2007 Plan, (ii) extend the term of the 2007 Plan through April 26, 2021, (iii) approve the continuation of the terms of Article X of the Original 2007 Plan for purposes of Section 162(m) of the Internal Revenue Code, and (iv) implement certain other technical updates and enhancements to the Original 2007 Plan, including an exception to certain vesting requirements for up to 10% of the shares authorized under the Amended 2007 Plan.

## **Proposal**

Our stockholders are requested to approve the Amended 2007 Plan which (i) increases by 1,250,000 the maximum number of shares of the Company s common stock that may be issued or subject to awards under the 2007 Plan, (ii) extends the term of the 2007 Plan through April 26, 2021 (i.e., by approximately four years), (iii) approves the continuation of the terms of Article X of the Original 2007 Plan for purposes of Section 162(m) of the Internal Revenue Code, and (iv) implements certain technical updates and enhancements, including an exception to certain vesting requirements for up to 10% of the shares authorized under the Amended 2007 Plan. The terms of the Amended 2007 Plan are described below under Summary of the Amended 2007 Plan. A copy of the Amended 2007 Plan is attached in this Proxy Statement as Appendix A.

The Board of Directors believes that the proposed amendments set forth in the Amended 2007 Plan, including the proposed increase in shares authorized, are necessary to ensure that the Company maintains the ability in the future to continue to attract and retain highly qualified officers and other employees by providing adequate incentives through the issuance of stock awards. As of April 26, 2011, 489,800 shares remained available for future grants of awards under the Original 2007 Plan (excluding any additional shares that may become available under the Original 2007 Plan as a result of future forfeiture, expiration or other termination of awards under the Original 2007 Plan or the Prior Plans). The increase in shares under the plan is therefore necessary to ensure that enough shares will be available for the issuance of stock awards so as to incentivize and retain key employees of the Company, which can assist in maximizing the full potential of stockholder value.

In addition, Section 162(m) of the Internal Revenue Code requires that the stockholders approve the continuation of the material terms of performance based compensation not less than every five years. These terms are set forth in Article X of the Amended 2007 Plan and described below under Summary of the Amended 2007 Plan Performance Awards and Code Section 162(m) Provisions. By approving the Amended 2007 Plan, stockholders will be approving the continuation of these terms for five additional years. See Summary of the Amended 2007 Plan Duration, Termination and Amendment of the 2007 Plan; Effectiveness of the Amendment.

## **Required Vote**

Affirmative votes representing a majority of the votes cast FOR , AGAINST or ABSTAIN with respect to the proposal in person or by proxy and entitled to vote at the Annual Meeting will be required to approve this proposal. A vote to ABSTAIN on the proposal will be considered as a vote cast with respect to such matter, and will have the same effect as a vote AGAINST the proposal. Broker non-votes will have no effect on the proposal.

## **Recommendation of the Board of Directors**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE 2007 EQUITY AND PERFORMANCE INCENTIVE PLAN.**

## **Purpose of the Amended 2007 Plan**

The Board of Directors believes that the Amended 2007 Plan, is necessary to ensure that the Company maintains the ability in the future to continue to attract and retain highly qualified officers and other employees by providing adequate incentives through the issuance of stock options, stock appreciation rights, restricted stock, other stock unit awards, and performance awards, so as to incentivize and retain key employees of the Company, which can assist in maximizing the full potential of shareholder value. The Amended 2007 Plan also permits the

## **Table of Contents**

award of other stock unit awards or performance awards payable in cash or shares, or the award of restricted stock with restrictions lapsing on the attainment of performance goals, to certain executive officers of the Company which will qualify as performance based compensation under Section 162(m) of the Internal Revenue Code, as discussed below.

### **Summary of the Amended 2007 Plan**

The principal features of the Amended 2007 Plan are summarized below. This summary, however, is not intended to be a complete discussion of all of the terms of the Amended 2007 Plan. A copy of the Amended 2007 Plan is attached hereto as Appendix A.

### ***Shares Subject to the Amended 2007 Plan***

Up to an aggregate of 3,649,250 shares of common stock of the Company are authorized for issuance under the Amended 2007 Plan, plus the number of shares which were subject to awards granted under the Prior Plans as of April 24, 2007 and which awards are or were forfeited, expired or cancelled without the issuance of shares after the April 24, 2007 effective date of the Original 2007 Plan. This represents an increase of 1,250,000 shares from the amount authorized under the Original 2007 Plan. The maximum aggregate number of shares issuable under the Amended 2007 Plan which may be subject to ISOs (as defined below) is 2,399,250 shares, regardless of any such transfer of shares from the Prior Plans to the Amended 2007 Plan.

Any shares that are subject to awards of options or stock appreciation rights shall be counted against this limit as one share for every one share granted. Any shares that are subject to awards other than options or stock appreciation rights (including shares delivered on the settlement of dividend equivalents) shall be counted against this limit as 2.5 shares for every one share granted. The aggregate number of shares available under the Amended 2007 Plan and the number of shares subject to outstanding options will be increased or decreased to reflect any changes in the outstanding common stock of the Company by reason of any recapitalization, spin-off, reorganization, reclassification, stock dividend, stock split, reverse stock split, or similar transaction.

If any shares subject to an award under the Amended 2007 Plan or to an award under the Prior Plans are forfeited, expire or are cancelled without issuance of such shares, the shares shall again be available for awards under the Amended 2007 Plan. Any shares that again become available for grant shall be added back as one share if such shares were subject to options or stock appreciation rights granted under the Amended 2007 Plan or options or stock appreciation rights granted under the Prior Plans and as 2.5 shares if such shares were subject to awards other than options or stock appreciation rights granted under the Amended 2007 Plan. Shares which are received or withheld by the Company to satisfy tax liabilities arising from the grant or exercise of an option or award, or as a result of the use of shares to pay the option price, shall not again be available to awards under the Amended 2007 Plan.

### ***Eligibility and Participation***

All employees (including officers), directors, and consultants of the Company or any subsidiary are eligible for selection to receive awards under the Amended 2007 Plan, subject to the following restrictions: (1) no ISO may be granted to any person who, at the time of grant, is not an employee of the Company or any subsidiary, and (2) no participant may be granted options or stock appreciation rights during any fiscal year of the Company with respect to more than 500,000 shares, (3) no participant may be granted restricted stock, performance awards and/or other stock unit awards that are denominated in shares in any fiscal year of the Company with respect to more than 250,000 shares, and (4) the maximum dollar value payable to any participant in any fiscal year of the Company with respect to performance awards and/or other stock unit awards that are valued with reference to cash or property other than shares is \$2,000,000. The share limitations set forth above are subject to adjustment in the event of a

reorganization, spin-off, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or similar transaction during any fiscal year of the Company or portion thereof. If an option or stock appreciation right expires or terminates for any reason without having been exercised in full, or if any award is cancelled, the unpurchased shares subject to that expired or terminated option or stock appreciation right or cancelled award continue to be counted against the maximum number of shares for which options or stock appreciation rights or other awards may

## **Table of Contents**

be granted to a participant during a fiscal year of the Company. Subject to such limitations, an individual who has been granted an option or stock appreciation right or other award may, if such individual is otherwise eligible, be granted additional options or stock appreciation rights or other awards as the Committee may determine.

### ***Administration of the Amended 2007 Plan***

The Amended 2007 Plan shall be administered by the Compensation Committee of the Board of Directors (the Committee ), consisting of two or more directors of the Company who are (a) non-employee directors within the meaning of Rule 16b-3 of the Exchange Act, and (b) outside directors within the meaning of Section 162(m) of the Internal Revenue Code and (c) independent directors under Nasdaq or other applicable stock exchange rules; except that, so long as the Committee contains at least two such directors that meet the above requirements, the Committee may also include one additional director who does not meet those criteria if he or she abstains or recuses himself or herself in connection with voting on grants and awards to all Covered Employees (as defined in the Amended 2007 Plan) and to all officers of the Company who are subject to Section 16 of the Exchange Act. The Committee has extremely broad discretion and power in interpreting and operating the Amended 2007 Plan and in determining the employees, directors and consultants who shall be participants, and the terms of individual options, stock appreciation rights, restricted stock, other stock unit awards, performance awards, and dividend equivalents. To the extent permitted by applicable law, the Committee may delegate to one or more directors or officers the authority to grant awards to employees or officers who are not directors, covered employees whose compensation is subject to the limits of Section 162(m) of the Internal Revenue Code, or officers subject to the short-swing rules of Section 16 of the Exchange Act. For a description of the limitation on deductibility under Section 162(m) of the Internal Revenue Code for compensation paid to certain executive officers, see Federal Income Tax Matters \$1,000,000 Limit on Deductible Compensation.

### ***Types of Awards***

Awards under the Amended 2007 Plan may consist of options, stock appreciation rights, restricted stock, other stock unit awards, performance awards, or dividend equivalents. The nature of each of such type of award is discussed below. Each award will be made by an award agreement whose form and content shall be determined by the Committee in its discretion, consistent with the provisions of the Amended 2007 Plan. The terms of award agreements for a particular type of award need not be uniform.

### ***Type of Options***

Two types of options may be granted under the Amended 2007 Plan: options intended to qualify as incentive stock options ( ISOs ) under Section 422 of the Internal Revenue Code, and options not so qualified for favorable federal income tax treatment ( NSOs ). To date, all options issued under the Original 2007 Plan have been non-qualified options.

### ***Stock Appreciation Rights***

The Committee, in its discretion, may also issue stock appreciation rights to employees, consultants and directors of the Company. A stock appreciation right is a right to receive a payment based on the increase in the fair market value of a share after the date of grant. The Committee may determine, in its discretion, that a stock appreciation right will be paid out in cash or in shares on its exercise. The number of shares that may be issued on the exercise of a stock appreciation right shall be determined by dividing: (a) the total number of shares as to which the stock appreciation right is exercised, multiplied by the amount by which the fair market value of one share on the exercise date exceeds the fair market value of one share on the date of grant of the stock appreciation right, by (b) the fair market value of one share on the exercise date; provided, however, that fractional shares shall not be issued and in lieu thereof, a cash

adjustment shall be paid. In lieu of issuing shares on the exercise of a stock appreciation right, the Committee may in its sole discretion elect to pay the cash value of such shares. The Committee will not, however, take any action regarding a stock appreciation right, or otherwise under the Amended 2007 Plan, that could subject a participant to a penalty tax under Section 409A of the Internal Revenue Code.

**Table of Contents**

***Restricted Stock***

The Committee, in its discretion, may also grant awards of restricted stock to participants. Restricted stock shall be shares granted or sold to a participant that are subject to vesting restrictions based on continued employment or attainment of performance goals. Subject to the 10% exception described below, restricted stock that is not intended to be performance based compensation will not fully vest over a period of less than three years to the extent such vesting occurs solely as a result of the continuous status as an employee, director or consultant (i.e., excluding accelerated vesting in circumstances such as a change of control, retirement, death or disability).

***Other Stock Unit Awards***

The Committee, in its discretion, may grant other stock unit awards, which are awards valued in whole or part by reference to, or otherwise based on, shares. Other stock unit awards shall be subject to such conditions and restrictions as may be determined by the Committee, and may be payable in the form of cash or shares. Subject to the 10% exception described below, other stock unit awards that are not intended to be performance based compensation will not fully vest over a period of less than three years to the extent such vesting occurs solely as a result of the continuous status as an employee, director or consultant (i.e., excluding accelerated vesting in circumstances such as a change of control, retirement, death or disability).

***Performance Awards and Code Section 162(m) Provisions***

The Committee, in its discretion, may issue performance awards to participants, the payment of which will be determined by the achievement of performance goals over a performance period. Upon the grant of a performance award, the Committee shall determine the relevant performance goals and the performance period.

The performance goals shall be based on the attainment of specified levels, or growth, of one or any combination of the following factors, or an objective formula determined at the time of the award that is based on modified or unmodified calculations of one or any combination of the following factors: net sales; pretax income before or after allocation of corporate overhead and bonus; earnings per share; net income; division, group or corporate financial goals; return on stockholders' equity; return on assets; attainment of strategic and operational initiatives; appreciation in and/or maintenance of the price of the shares or any other publicly-traded securities of the Company; market share; gross profits; earnings before taxes; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization ( EBITDA ); an adjusted formula of EBITDA determined by the Committee; economic value-added models; comparisons with various stock market indices; reductions in costs, and/or return on invested capital of the Company or any affiliate, division or business unit of the Company for or within which the participant is primarily employed. Such performance goals also may be based solely by reference to the Company's performance or the performance of an affiliate, division or business unit of the Company, or based upon the relative performance of other companies or upon comparisons of any of the indicators of performance relative to other companies. Unless the Committee determines otherwise when it sets the performance goals for an award, objective adjustments shall be made to any of the foregoing measures for items that will not properly reflect the Company's financial performance for these purposes, such as the write-off of debt issuance costs, pre-opening and development costs, gain or loss from asset dispositions, asset or other impairment charges, litigation settlement costs, and other non-routine items that may occur during the performance period. Also, unless the Committee determines otherwise in setting the performance goals for an award, such performance goals shall be applied by excluding the impact of (a) restructurings, discontinued operations, and charges for extraordinary items, (b) an event either not directly related to the operations of the Company or not within the reasonable control of the Company's management, or (c) a change in accounting standards required or recommended by generally accepted accounting principles.

Subject to the 10% exception described below, the performance period shall be determined by the Committee, but shall not be shorter than one year nor longer than five years.

Performance awards will generally be paid only after the end of the relevant performance period, and may be paid in cash, shares, other property, or any combination thereof, in the sole discretion of the Committee at the time of payment.



## **Table of Contents**

The Compensation Committee may determine, in its discretion, that performance awards granted to executive officers of the Company whose compensation is subject to the deductibility limit of Section 162(m) of the Internal Revenue Code will qualify as performance based compensation. The Compensation Committee may likewise determine that the vesting of restricted stock, and the vesting or payment of any other stock unit award, granted to such an executive officer will be subject to the achievement of the objective performance goals over a performance period, and thus satisfy the requirements to be performance based compensation.

In the case of any performance award, restricted stock, or other stock unit award that is intended to constitute performance based compensation, the performance goals and other terms and conditions of the award will be set by the Committee within the time prescribed by Section 162(m) and the regulations thereunder. If the performance period is 12 months or longer, such performance goals must be set by the Committee within the first 90 days of the performance period.

The Committee may adjust downward, but not upward, the amount payable to any executive officer of the Company under any award that is intended to constitute performance based compensation. The Committee may not waive the achievement of the applicable performance goals, except in the case of death or disability of the participant, or the occurrence of a change in control of the Company.

Before the vesting, payment, settlement or lapsing of any restrictions with respect to any award that is intended to constitute performance based compensation, the Committee shall certify in writing that the applicable performance criteria have been achieved to the extent necessary for such award to qualify as performance based compensation within the meaning of Section 162(m) of the Internal Revenue Code.

The Committee shall have the power to impose such other restrictions on awards intended to constitute performance based compensation as it may deem necessary or appropriate to ensure that such awards satisfy all requirements to constitute performance based compensation within the meaning of Section 162(m), or which are not inconsistent with such requirements.

Unless affirmative votes representing a majority of the votes cast under applicable law or rules approve the continuation of the performance based compensation provisions of the Amended 2007 Plan at the first duly constituted meeting of the stockholders of the Company that occurs in the fifth year following the effective date of the Amended 2007 Plan, no awards other than stock options or stock appreciation rights, or restricted stock that is not intended to be performance based compensation, shall be made following the date of such meeting to executive officers of the Company whose compensation is subject to the deduction limit of Section 162(m). Under currently applicable law or rules, to be duly constituted, a majority of the shares of capital stock outstanding and entitled to vote would have to be present in person or by proxy at the meeting at which stockholders vote to approve the continuation of the performance based compensation provisions of the Amended 2007 Plan.

### ***10% Exception for Vesting and Performance Periods***

The three-year vesting requirements for restricted stock and other stock unit awards, and the one-year minimum performance period for performance awards, shall not apply with respect to grants in the aggregate of up to 10% of the shares authorized under the Amended 2007 Plan, including shares which become authorized under the Amended 2007 Plan by virtue of cancellations, forfeitures and terminations of awards under the Prior Plans (i.e., approximately 365,000 shares plus 10% of the number of shares which have been since April 24, 2007, or hereafter are, transferred from the Prior Plans).

### ***Dividend Equivalents***

The Committee, in its sole discretion, may determine that a participant who receives an award will also be entitled to receive, currently or on a deferred basis, cash, stock or other property dividends, or cash payments in amounts equivalent to stock or other property dividends on shares ( dividend equivalents ) with respect to the number of shares covered by the award. The Committee may also provide that such amounts (if any) shall be deemed to have been reinvested in additional shares or otherwise reinvested. Dividend equivalents credited in connection with an award that vests based on the achievement of performance goals shall be subject to restrictions and risk of forfeiture to the same extent as the award with respect to which such dividend equivalents have been

**Table of Contents**

credited. In the event of a recapitalization, reorganization, spin-off, reclassification, stock dividend, stock split, reverse stock split or similar transaction, the Committee may, in its discretion, make an appropriate adjustment to dividend equivalents.

***Option and Other Award Price***

The purchase price for shares covered by each option shall not be less than 100% of the fair market value of such shares on the date of grant, but if an ISO is granted to a more than 10% shareholder of the Company or its subsidiaries (measured by ownership of voting power), the purchase price of an ISO shall not be less than 110% of the fair market value of such shares on the date of grant. The base price for a stock appreciation right shall not be less than 100% of the fair market value of shares as of the date of grant. The Committee, in its discretion, may determine the purchase price, if any, for restricted stock, other stock unit awards, and performance awards.

***Exercisability of Options and Stock Appreciation Rights; Vesting of Restricted Stock and Other Awards***

The Committee shall determine when and under what conditions any option or stock appreciation right shall become exercisable and when restricted stock, other stock unit awards, and performance awards shall become vested. However, the aggregate fair market value of shares of common stock of the Company (determined at the date of grant) for which ISOs (whenever granted) are exercisable for the first time by a participant during any calendar year shall not exceed \$100,000; any options in excess of this limit shall be treated as NSOs. The purchase price of shares on the exercise of an option shall be paid in full at the time of exercise in cash or by check payable to the order of the Company, or, subject to the approval of the Committee and subject to applicable law, by the delivery of shares of common stock of the Company already owned by the participant, through a broker's exercise involving the immediate sale or pledge of shares with a value sufficient to pay the exercise price, or by any other method permitted by applicable law. The Committee shall determine, in its discretion, the form of any payment for restricted stock, other stock unit awards, and performance shares.

***Duration of Options and Stock Appreciation Rights***

Each option or stock appreciation right shall expire on the date specified by the Committee, but all options and stock appreciation rights shall expire within 10 years of the date of grant. ISOs granted to more than 10% shareholders of the Company (measured by ownership of voting power) shall expire within five years from the date of grant.

***No Repricing***

The Committee has no authority to reprice any option, to reduce the base price of any stock appreciation right, or cancel any option and replace it with another award available under the Amended 2007 Plan, including cash, when the fair market value of the underlying shares is less than the option's exercise price per share.

***Termination of Employment***

If a participant ceases to be employed by the Company or any of its subsidiaries for any reason (including death or permanent disability) other than termination for cause, the participant's options that were vested and exercisable shall remain exercisable until the end of the original term or for the period determined by the Committee in the individual option agreement or otherwise, whichever expires earlier. After a participant's death, options may be exercised by the person or persons to whom the participant's rights pass by will or the laws of descent and distribution. Unless the Committee determines otherwise in its discretion, similar rules shall apply to stock appreciation rights. The treatment of each award of restricted stock, other stock unit award, or performance award on the termination of employment, death, or disability of the participant shall be determined by the Committee in its discretion. If a participant's

employment is terminated for cause, all of his awards may be immediately terminated and canceled, in the Committee's discretion.

## **Table of Contents**

### ***Certain Corporate Transactions***

Upon the happening of a merger, reorganization or sale of substantially all of the assets of the Company or other change of control events specified in the Amended 2007 Plan, the Committee, may, in its sole discretion, do one or more of the following: (i) shorten the period during which options and stock appreciation rights are exercisable (provided they remain exercisable for at least 30 days after the date notice of such shortening is given to the participants); (ii) accelerate in whole or in part any vesting schedule to which an option, stock appreciation right, restricted stock, other stock unit award or performance award is subject; (iii) arrange to have the surviving or successor entity or any parent entity thereof assume the restricted stock, other stock unit awards, stock appreciation rights or options or grant replacement options or stock appreciation rights with appropriate adjustments in the option prices and adjustments in the number and kind of securities issuable upon exercise; (iv) cancel options upon payment to the participants in cash of an amount that is the equivalent of the excess of the fair market value of the common stock of the Company (at the effective time of the merger, reorganization, sale or other event) over the exercise price of the option to the extent the options are vested and exercisable, and cancel stock appreciation rights by paying the value thereof; or (v) make any other modification or adjustment that the Committee deems appropriate in its discretion. The Committee may also provide for one or more of the foregoing alternatives in any particular award agreement.

### ***Rights as a Stockholder***

The recipient of an option or stock appreciation right will have no rights as a stockholder with respect to shares of Company common stock covered by an option or stock appreciation right until the date such recipient becomes a holder of record of such shares, unless the Committee, in its discretion, elects to grant the participant dividend equivalent rights in connection with such option or stock appreciation right. The recipient of restricted stock or of an other stock unit award will generally have all the rights of a shareholder with respect to the shares of common stock of the Company issued pursuant to such award, including the right to vote such shares, but the Committee may determine that any dividends and distributions with respect to such shares will be subject to the same vesting restrictions, if any, as the underlying shares.

### ***Assignability of Options, Stock Appreciation Rights and Other Awards***

An ISO granted under the Amended 2007 Plan shall, by its terms, be non-transferable by the participant, either voluntarily or by operation of law, other than by will or the laws of descent and distribution, and shall be exercisable during the participant's lifetime only by him or her. Any award issued under the Amended 2007 Plan other than an ISO shall be nontransferable by the participant, either voluntarily or by operation of law, other than by will or the laws of descent and distribution, or, with the consent of the Committee, during the participant's lifetime by gift to one or more members of the participant's immediate family or to a trust for their benefit.

### ***Duration, Termination and Amendment of the Amended 2007 Plan; Effectiveness of the Amendment***

The Original 2007 Plan became effective upon its adoption by the Board on April 24, 2007. That effectiveness was subject to approval by our stockholders, which occurred on June 19, 2007. The Original 2007 Plan was scheduled to expire by its terms on April 24, 2017.

The Amended 2007 Plan became effective upon its adoption by the Board on April 26, 2011, subject to the approval of the Amended 2007 Plan by our stockholders within 12 months thereafter, by affirmative votes representing a majority of the votes cast under applicable law or rules at a duly constituted meeting of the stockholders of the Company. Under currently applicable law or rules, to be duly constituted, a majority of the shares of Company's common stock outstanding and entitled to vote would have to be present in person or by proxy at the meeting at which

stockholders vote to approve the Amended 2007 Plan. If the stockholders do not approve the Amended 2007 Plan within 12 months after its adoption by the Board, the Amended 2007 Plan shall be null and void and of no effect, and the Original 2007 Plan (and all awards thereunder) shall continue in effect under the terms in effect prior to the adoption of the Amended 2007 Plan. Once the Amended 2007 Plan is adopted by our stockholders, the Amended 2007 Plan shall continue in effect for a period of 10 years following the adoption

**Table of Contents**

of the Amended 2007 Plan by the Board (i.e., through April 26, 2021). The Board of Directors, however, may suspend or terminate the Amended 2007 Plan at any time.

However, unless affirmative votes representing a majority of the votes cast under applicable law or rules approve the continuation of the performance based compensation provisions of the Amended 2007 Plan at the first duly constituted meeting of the stockholders of the Company that occurs in the fifth year following the effective date of the Amended 2007 Plan, no awards other than options or stock appreciation rights, or restricted stock that is not intended to constitute performance based compensation, shall be made following the date of such meeting to executive officers of the Company whose compensation is subject to the deduction limit of Section 162(m). Under currently applicable rules, to be duly constituted, a majority of the shares of capital stock outstanding and entitled to vote would have to be present in person or by proxy at the meeting at which stockholders vote to approve the continuation of the performance based compensation provisions of the Amended 2007 Plan. The suspension or termination of the Amended 2007 Plan will generally not affect the validity of any option, stock appreciation right, restricted stock, other stock unit award, performance award or dividend equivalent outstanding on the date of termination.

The Board of Directors may also amend the Amended 2007 Plan at any time, except that the Board will not amend the Amended 2007 Plan in a way which violates Rule 16b-3 of the Exchange Act. The Board will not amend the Amended 2007 Plan without obtaining stockholder approval to (a) increase the number of shares that may be the subject of awards under the Amended 2007 Plan, (b) expand the types of awards available under the Amended 2007 Plan, (c) materially expand the class of persons eligible to participate in the Amended 2007 Plan, (d) amend any provision prohibiting the Committee from repricing options or taking similar action, (e) increase the maximum permissible term of any option, (f) amend the limits on grants of awards to any participant during a 12-month period, or (g) make any modification that requires stockholder approval under applicable law. Furthermore, no amendment of the Amended 2007 Plan shall amend or impair any rights or obligations under any award theretofore granted under the Amended 2007 Plan without the written consent of the holder of the affected award.

***New Plan Benefits***

Awards to be received by participants in the Restatement are not determinable at this time because the Committee, in its discretion, will determine the nature and performance criteria for any award provided under the Amended 2007 Plan at the time of grants. Although the Company has not to date granted performance awards, performance awards in particular would be dependent upon a combination of performance criteria, including net sales, EBITDA, earnings per share, return on stockholders equity, division, group or corporate financial goals, and other factors. As a result, the grants that may be awarded under the Amended 2007 Plan are not determinable until the Committee assesses the criteria relevant to each individual participant for the particular performance period of the award. With respect to the 2010 fiscal year, the awards under the Original 2007 Plan to our Named Executive Officers and our directors are disclosed elsewhere in this Proxy Statement. The Company does not believe that such awards would have differed had the Amended 2007 Plan been in effect for 2010.

***Federal Income Tax Matters***

The following discussion of federal income tax consequences does not purport to be a complete analysis of all of the potential tax effects of the Plan. It is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change. No information is provided with respect to persons who are not citizens or residents of the United States, or foreign, state or local tax laws, or estate and gift tax considerations. In addition, the tax consequences to a particular participant may be affected by matters not discussed above. ACCORDINGLY, EACH PARTICIPANT IS URGED TO CONSULT HIS TAX ADVISOR CONCERNING THE TAX CONSEQUENCES TO HIM OF THE PLAN, INCLUDING THE EFFECTS OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND OF CHANGES IN THE TAX LAWS.

The Amended 2007 Plan is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974 ( ERISA ) and is not qualified under Section 401(a) of the Internal Revenue Code.



**Table of Contents***Non-Qualified Stock Options*

Under current federal income tax law, the grant of an NSO has no tax effect on the Company or the participant. If the shares of common stock of the Company received on the exercise of an NSO are not subject to restrictions on transfer or risk of forfeiture, the exercise of the NSO will result in ordinary income to the participant equal to the excess of the fair market value of the shares at the time of exercise over the option price. The participant's tax basis in the shares will be equal to the option price plus the amount of ordinary income recognized upon the exercise of the option. Upon any subsequent disposition of the shares, any gain or loss recognized by the participant will be treated as capital gain or loss and will be long-term capital gain or loss if the shares are held for more than one year after exercise. At the time of recognition of ordinary income by the participant upon exercise, the Company will normally be allowed to take a deduction for federal income tax purposes in an amount equal to such recognized ordinary income.

If the shares received on the exercise of an NSO are subject to restrictions on transfer or risk of forfeiture (e.g., a vesting condition), different rules will apply, and the tax consequences will depend on whether the participant makes an election under Section 83(b) of the Internal Revenue Code within 30 days after exercise of the option. If the participant does not make a Section 83(b) election, the participant will recognize ordinary income when the shares vest in an amount equal to the excess of the fair market value on the date of vesting over the exercise price. In that case, the participant's basis in the shares will be the fair market value of the shares on the date of vesting, and the participant's holding period will begin on the date of vesting. Upon any later disposition of the shares, any gain or loss that the participant recognizes will be capital gain or loss, and will be long-term capital gain or loss if the participant holds the shares more than one year after vesting. The Company will be allowed a deduction for federal income tax purposes when the shares vest equal to the amount of ordinary income the participant recognizes.

On the other hand, if the participant makes a Section 83(b) election, the participant will recognize ordinary income at the time of exercise equal to the excess of the fair market value on the date of exercise over the exercise price. The Company will be allowed a deduction for federal income tax purposes on the date of exercise equal to the amount of ordinary income he or she recognizes. The participant's basis in the shares will generally begin on the date of exercise, and the participant's basis in the shares will generally be the option price increased by the amount of ordinary income the participant recognized at the time of exercise. Upon any later disposition of the shares, any gain or loss that the participant recognizes will be capital gain or loss, and will be long-term capital gain or loss if the participant holds the shares more than one year after exercise. However, if the participant later forfeits the shares, the participant will recognize a capital loss equal to excess (if any) of the option price over any amount the participant receives from the Company on the forfeiture. In other words, if a participant makes the Section 83(b) election and thereby recognizes ordinary income on the date of exercise, the participant will receive no corresponding deduction or loss if the participant later forfeits the shares for the amount of ordinary income the participant recognized.

*Incentive Stock Options*

The federal income tax consequences associated with ISOs are generally more favorable to the participant and less favorable to the Company than those associated with NSOs. Under current federal income tax law, the grant of an ISO does not result in income to the participant or in a deduction for the Company at the time of the grant. Generally, the exercise of an ISO will not result in income for the participant if the participant does not dispose of the shares within two years after the date of grant or within one year after the date of exercise. If these requirements are met, the basis of the shares of common stock of the Company upon a later disposition will be the option price, any gain on the later disposition will be taxed to the participant as long-term capital gain, and the Company will not be entitled to a deduction. The excess of the market value on the exercise date over the option price is an adjustment to regular taxable income in determining alternative minimum taxable income, which could cause the participant to be subject to the alternative minimum tax, thereby in effect depriving the participant of the tax benefits of ISO treatment. If the participant disposes of the shares before the expiration of either of the holding periods described above (a

Disqualifying Disposition ), the participant will have compensation taxable as ordinary income, and the Company will normally be entitled to a deduction, equal to the lesser of (a) the fair market value of the shares on the exercise date minus the option price, or (b) the amount realized on the disposition minus the option price. If the price realized in any such Disqualifying Disposition of the shares exceeds the fair market value of the shares on the

**Table of Contents**

exercise date, the excess will be treated as long-term or short-term capital gain, depending on the participant's holding period for the shares.

*Stock Appreciation Rights*

A participant holding a stock appreciation right will recognize ordinary income on the exercise of the stock appreciation right equal to the amount of cash or the fair market value of the shares he receives on the exercise. The Company will receive a tax deduction in the same amount. Upon disposition of the shares acquired, the participant will recognize the appreciation or depreciation on the shares after the date of grant as either short-term or long-term capital gain or loss, depending on how long the shares have been held.

*Other Awards*

The taxation of an award other than an option or a stock appreciation right depends on whether or not it consists of restricted stock (i.e., stock subject to a vesting restriction based on continued employment or attainment of performance goals). If an other stock unit award or a performance award does not consist of restricted stock, and is not settled in restricted stock, the participant will recognize ordinary income on the receipt of cash or shares equal to the amount of cash, or the excess of the fair market value of the shares over the amount (if any) that the participant pays for the shares. The Company will receive a tax deduction in the same amount. Upon disposition of the shares acquired, the participant will recognize the appreciation or depreciation on the shares after the date of grant as either short-term or long-term capital gain or loss, depending on how long the shares have been held.

In general, no taxable income will be recognized by a participant at the time restricted stock is granted. Generally, on the date the restricted stock becomes vested, the participant will recognize ordinary income in an amount equal to the difference between the fair market value of the shares on the date the shares vest and the purchase price, and the Company will receive a tax deduction for the same amount. Upon disposition of the shares acquired, the participant will recognize the appreciation or depreciation on the shares after the date of vesting as either short-term or long-term capital gain or loss, depending on how long the shares have been held.

Alternatively, a participant may elect to make an election under Section 83(b) of the Internal Revenue Code with respect to unvested shares. If a participant makes a Section 83(b) election with the Internal Revenue Service within 30 days from the date of grant, the participant will recognize ordinary income in an amount equal to the difference between the fair market value of the shares on the date of grant and the purchase price, and the Company will receive a tax deduction for the same amount. If the participant makes a timely Section 83(b) election, the participant will not recognize ordinary income when the shares vest. Upon disposition of the shares acquired, the participant will recognize the appreciation or depreciation on the shares after the date of grant as either short-term or long-term capital gain or loss, depending on how long the shares have been held. If the participant forfeits unvested shares, the participant will recognize a capital loss equal to the excess (if any) of the purchase price over any amount the participant receives from the Company on the forfeiture. Generally, if the participant makes a Section 83(b) election, and thereby recognizes ordinary income on the date of grant, the participant will receive no corresponding deduction or loss for the amount of ordinary income the participant recognized if the participant later forfeits any unvested shares.

*\$1,000,000 Limit on Deductible Compensation*

Section 162(m) of the Internal Revenue Code provides that any publicly-traded corporation will be denied a deduction for compensation paid to certain executive officers to the extent that the compensation exceeds \$1,000,000 per officer per year. However, the deduction limit does not apply to performance based compensation, as defined in Section 162(m). Compensation is performance based compensation if (i) the compensation is payable on account of

the attainment of one or more performance goals; (ii) the performance goals are established by a compensation committee of the Board of Directors of directors consisting of outside directors ; (iii) the material terms of the compensation and the performance goals are disclosed to and approved by the stockholders in a separate vote; and (iv) the compensation committee certifies that the performance goals have been satisfied. The Company believes that, if the stockholders approve the Amended 2007 Plan, the stock options and stock appreciation rights granted thereunder will satisfy the requirements to be treated as performance based

**Table of Contents**

compensation, and accordingly will not be subject to the deduction limit of Section 162(m) of the Internal Revenue Code. As discussed above, the Committee may determine that restricted stock, other stock unit awards, and performance awards granted to executive officers whose compensation is subject to the deduction limit of Section 162(m) will also qualify as performance based compensation. Restricted stock whose vesting is based solely on the completion by the recipient of a stated period of service with the Company will not qualify as performance based compensation.

*Excess Parachute Payments*

Under Section 4999 of the Internal Revenue Code, certain officers, stockholders, or highly- compensated individuals ( Disqualified Individuals ) will be subject to an excise tax (in addition to federal income taxes) of 20% of the amount of certain excess parachute payments which they receive as a result of a change in control of the Company. Furthermore, Section 280G of the Internal Revenue Code prevents the Company from taking a deduction for any excess parachute payments. The cash out or acceleration of the vesting of stock options, stock appreciation rights, restricted stock, other stock unit awards or performance awards upon a change of control may cause the holders of such stock options, stock appreciation rights, restricted stock, other stock unit awards and performance awards who are Disqualified Individuals to recognize certain amounts as excess parachute payments on which they must pay the 20% excise tax, and for which the Company will be denied a tax deduction.

*Special Rules; Withholding of Taxes*

Special tax rules may apply to a participant who is subject to Section 16 of the Exchange Act. Other special tax rules will apply if a participant exercises a stock option by delivering shares of Company common stock which he or she already owns, or through a broker's exercise.

The Company may take whatever steps the Committee deems appropriate to comply with any applicable withholding tax obligation in connection with the exercise of an option or stock appreciation right or the grant or vesting of restricted stock, other stock unit awards, or performance awards, including requiring any participant to pay the amount of any applicable withholding tax to the Company in cash. The Committee may, in its discretion, authorize cashless withholding.

**PROPOSAL 5**

**RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS  
(Item No. 5 on Proxy Card)**

The Audit Committee has appointed Deloitte & Touche LLP to audit the Company's consolidated financial statements for the 2011 fiscal year and to audit the Company's effectiveness of internal control over financial reporting as of January 1, 2012 (i.e., the last day of the Company's 2011 fiscal year). This appointment is being presented to stockholders for ratification at the Annual Meeting. Although stockholder ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors is not required by the Company's Amended and Restated Bylaws or otherwise by law, the Board of Directors, at the request of the Audit Committee, has elected to seek this ratification. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether to retain Deloitte & Touche LLP. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent audit firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

Representatives of Deloitte & Touche LLP are expected to be present at the Annual Meeting. They will have an opportunity to make statements if they desire and are expected to be available to respond to appropriate questions.

**Required Vote**

The action of the Audit Committee in appointing of Deloitte & Touche LLP as the Company's independent auditors for the 2011 fiscal year will be ratified by the affirmative vote of a majority of the votes cast FOR or AGAINST with respect to this proposal. Abstentions and broker non-votes will have no effect on the outcome of the vote on this proposal.

**Table of Contents****Recommendation of the Board of Directors**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT AUDITORS FOR THE 2011 FISCAL YEAR.**

**Fees Billed by Deloitte & Touche LLP**

The aggregate fees billed for professional services provided by Deloitte & Touche LLP in fiscal years 2010 and 2009 were:

<b>Type of Fees</b>	<b>Fiscal 2010</b>	<b>Fiscal 2009</b>
Audit Fees	\$ 889,625	\$ 991,347
Audit-related Fees		
Tax Fees		
All Other Fees		
<b>Total Fees</b>	<b>\$ 889,625</b>	<b>\$ 991,347</b>

In the above tables, in accordance with the definitions of the Securities and Exchange Commission, Audit Fees are fees paid by the Company to Deloitte & Touche LLP for the audit of the Company's consolidated financial statements included in its Annual Report on Form 10-K and review of the unaudited financial statements included in its quarterly reports on Form 10-Q or for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements.

Other than Audit Fees, the Company paid no fees for services rendered by Deloitte & Touche LLP during fiscal years 2010 and 2009.

**Audit Committee Pre-approval Policies and Procedures**

The Audit Committee is required under the Sarbanes-Oxley Act of 2002 and the rules of the Securities and Exchange Commission promulgated thereunder to pre-approve the auditing and permissible non-audit services performed by the Company's independent auditor to provide assurance that the provision of those services does not impair the independence of the auditor. The Audit Committee has adopted a pre-approval policy to assist it in carrying out this responsibility.

Under the pre-approval policy, the annual audit services engagement terms and fees are subject to the specific pre-approval of the Audit Committee. The Audit Committee will approve, if necessary, any changes in terms, conditions and/or fees resulting from changes in audit scope, the Company's organizational structure or other matters. In addition, if the Audit Committee, after reviewing documentation detailing the specific services to be provided by the independent auditors and having discussions with management, determines that the performance of such services would not impair the independence of the independent auditor, the Audit Committee may also approve (i) audit-related services that are reasonably related to the performance of the audit or review of the Company's financial statements and that are traditionally performed by the independent auditor, (ii) tax services such as tax compliance, tax planning and tax advice and/or (iii) permissible non-audit services that it believes are routine and recurring services.

All audit services provided by Deloitte & Touche LLP to the Company for the fiscal years 2010 and 2009 were pre-approved in accordance with the Company's pre-approval policies and procedures.

**OTHER MATTERS**

Management knows of no business which will be presented for consideration at the Annual Meeting other than as stated in the Notice of Annual Meeting. If, however, other matters are properly brought before the Annual Meeting, it is the intention of the proxyholders to vote the shares represented by the proxies on such matters in accordance with the recommendation of the Board of Directors and authority to do so is included in the proxy.



**Table of Contents**

**STOCKHOLDER PROPOSALS**

In order to be eligible for inclusion in the Company's proxy statement and proxy card for the next annual meeting of the Company's stockholders pursuant to Rule 14a-8 under the Exchange Act, stockholder proposals must be received by the Secretary of the Company at its principal executive offices no later than January 4, 2012 if the next annual meeting were held within 30 days of June 14, 2012. In the event that the Company elects to hold its next annual meeting more than 30 days before or after the anniversary of this Annual Meeting, such stockholder proposals would have to be received by the Company a reasonable time before the Company's solicitation is made. Further, in order for the stockholder proposals to be eligible to be brought before the Company's stockholders at the next annual meeting, the stockholder submitting such proposals must also comply with the procedures, including the deadlines, required by the Company's Amended and Restated Bylaws. Stockholder nominations of directors are not stockholder proposals within the meaning of Rule 14a-8 and are not eligible for inclusion in the Company's proxy statement. The Company will provide a copy of its Amended and Restated Bylaws to any stockholder of record upon written request.

**ANNUAL REPORT ON FORM 10-K**

The Company's Annual Report on Form 10-K, exclusive of exhibits, including financial statements for fiscal year 2010, was mailed to stockholders with this Proxy Statement and contains financial and other information about the Company.

*The information set forth under Compensation Committee Report, Audit Committee Report and the Company-operated website referenced in the Proxy Statement shall not be deemed filed with the Securities and Exchange Commission or subject to Regulations 14A or 14C or to the liabilities of Section 18 of the Exchange Act and shall not be incorporated by reference in any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.*

THE COMPANY WILL PROVIDE WITHOUT CHARGE A COPY OF ITS ANNUAL REPORT ON FORM 10-K, INCLUDING THE FINANCIAL STATEMENTS AND THE FINANCIAL STATEMENT SCHEDULES, FILED WITH THE SECURITIES AND EXCHANGE COMMISSION FOR FISCAL YEAR 2010 TO ANY BENEFICIAL OWNER OF THE COMPANY'S COMMON STOCK AS OF THE RECORD DATE UPON WRITTEN REQUEST TO BIG 5 SPORTING GOODS CORPORATION, 2525 EAST EL SEGUNDO BOULEVARD, EL SEGUNDO CALIFORNIA, 90245, ATTENTION: SECRETARY.

**Table of Contents**

**Appendix A**

**BIG 5 SPORTING GOODS CORPORATION**  
**2007 EQUITY AND PERFORMANCE INCENTIVE PLAN**  
**(AMENDED AND RESTATED AS OF APRIL 26, 2011)**<sup>1</sup>

BIG 5 SPORTING GOODS CORPORATION, a corporation existing under the laws of the State of Delaware (the ~~Company~~), hereby establishes

**established**

and ~~adopts~~

**adopted**

the ~~following~~

**Company's**

2007 Equity and Performance Incentive Plan

, effective as of April 24, 2007

(the ~~Plan~~).

**Original Plan**). The Original Plan is hereby amended and restated as the Big 5 Sporting Goods Corporation 2007 Equity and Performance Incentive Plan (Amended and Restated as of April 26, 2011) (the **Plan**).

Certain capitalized terms used in the Plan are defined in Article 2:

**II.**

**RECITALS**

WHEREAS, the Company desires to encourage high levels of performance by those individuals who are key to the success of the Company, to attract new individuals who are highly motivated and who are expected to contribute to the success of the Company and to encourage such individuals to remain as directors, employees, consultants and/or advisors of the Company and its Affiliates by increasing their proprietary interest in the Company's growth and success; ~~and~~

WHEREAS, to attain these ends, the Company ~~has formulated~~

**established and maintained**

the

**Original**

Plan ~~embodied herein~~ to authorize the granting of Awards to Participants whose judgment, initiative and efforts are or have been or are expected to be responsible for the success of the Company

; **and**

**WHEREAS, the Company has determined to amend and restate the Original Plan to, among other things, increase the number of Shares authorized for grant under the Plan and to provide the Company greater flexibility in determining the restrictions applicable to certain Awards granted under the Plan**

NOW, THEREFORE, the Company hereby ~~constitutes, establishes~~

**amends**

and ~~adopts~~

**restates**

the ~~following~~

**Original**

Plan and agrees to the following provisions:

**ARTICLE I  
PURPOSE OF THE PLAN**

1.1 **Purpose.** The purpose of the Plan is to assist the Company and its Affiliates in attracting and retaining selected individuals to serve as directors, employees, consultants and/or advisors of the Company who are expected to contribute to the Company's success and to achieve long-term objectives which will inure to the benefit of all stockholders of the Company through the additional incentives inherent in the Awards hereunder.

**ARTICLE II  
DEFINITIONS**

2.1 **Affiliate** shall mean (i) any person or entity that directly, or through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company (including any Parent or Subsidiary) or (ii) any entity in which the Company has a significant equity interest, as determined by the Committee.

2.2 **Applicable Laws** means the legal requirements relating to the administration of and issuance of securities under stock incentive plans, including, without limitation, the requirements of state corporations law, federal and state securities law, federal and state tax law, and the requirements of any stock exchange or quotation system upon which the Shares may then be listed or quoted. For all purposes of this Plan, references to statutes and

<sup>1</sup> Text marked with double-underline or strike-through indicates proposed amendments to the Original Plan subject to stockholder approval. Double-underlined text indicates proposed additions to the language of the Original Plan and strike-through text indicates proposed deletions from the language of the Original Plan.

**Table of Contents**

regulations shall be deemed to include any successor statutes and regulations, to the extent reasonably appropriate as determined by the Committee.

2.3 **Award** shall mean any Option, Stock Appreciation Right, Restricted Stock Award, Performance Award, Dividend Equivalent, Other Stock Unit Award or any other right, interest or option relating to Shares or other property (including cash) granted pursuant to the provisions of the Plan.

2.4 **Award Agreement** shall mean any written agreement, contract or other instrument or document evidencing any Award granted by the Committee hereunder.

2.5 **Board** shall mean the board of directors of the Company.

2.6 **Cause** shall have the meaning set forth in a Participant's employment or consulting agreement with the Company (if any), or if not defined therein, shall mean (i) acts or omissions by the Participant which constitute intentional material misconduct or a knowing violation of a material policy of the Company or any of its subsidiaries, (ii) the Participant personally receiving a benefit in money, property or services from the Company or any of its subsidiaries or from another person dealing with the Company or any of its subsidiaries, in material violation of applicable law or Company policy, (iii) an act of fraud, conversion, misappropriation, or embezzlement by the Participant or his conviction of, or entering a guilty plea or plea of no contest with respect to, a felony, or the equivalent thereof (other than DUI), or (iv) any deliberate and material misuse or improper disclosure of confidential or proprietary information of the Company.

2.7 **Change of Control** shall mean the occurrence of any of the following events:

(i) The direct or indirect acquisition by an unrelated Person or Group of Beneficial Ownership (as such terms are defined below) of more than 50% of the voting power of the Company's issued and outstanding voting securities in a single transaction or a series of related transactions;

(ii) The direct or indirect sale or transfer by the Company of substantially all of its assets to one or more unrelated Persons or Groups in a single transaction or a series of related transactions;

(iii) The merger, consolidation or reorganization of the Company with or into another corporation or other entity in which the Beneficial Owners of more than 50% of the voting power of the Company's issued and outstanding voting securities immediately before such merger or consolidation do not own more than 50% of the voting power of the issued and outstanding voting securities of the surviving corporation or other entity immediately after such merger, consolidation or reorganization

**(or, if applicable, the ultimate parent corporation that directly or indirectly has Beneficial Ownership of 100% of the voting securities eligible to elect directors of the surviving corporation)**

; or

(iv) During any consecutive two-year period, individuals who at the beginning of such period constituted the Board of the Company (together with any new Directors whose election to such Board or whose nomination for election by the stockholders of the Company was approved by a vote of a majority of the Directors of the Company then still in office who were either Directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of the Company then in office.

None of the foregoing events, however, shall constitute a Change of Control if such event is not a Change in Control Event under Treasury Regulations Section 1.409A-3(i)(5). For purposes of determining whether a Change of Control has occurred, the following Persons and Groups shall not be deemed to be unrelated: (A) such Person or Group

directly or indirectly has Beneficial Ownership of more than 50% of the issued and outstanding voting power of the Company's voting securities immediately before the transaction in question, (B) the Company has Beneficial Ownership of more than 50% of the voting power of the issued and outstanding voting securities of such Person or Group, or (C) more than 50% of the voting power of the issued and outstanding voting securities of such Person or Group are owned, directly or indirectly, by Beneficial Owners of more than 50% of the issued and outstanding voting power of the Company's voting securities immediately before the transaction in question. The terms Person, Group, Beneficial Owner, and Beneficial Ownership shall have the meanings used in the Exchange Act.

A-2

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**Table of Contents**

- 2.8 **Code** shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.
- 2.9 **Committee** shall mean the Committee constituted under Section 4.2 to administer this Plan.
- 2.10 **Company** has the meaning set forth in introductory paragraph of the Plan.
- 2.11 **Consultant** means any person, including an advisor, who (i) is a natural person, (ii) provides bona fide services to the Company or a Parent or Subsidiary, and (iii) provides services that are not in connection with the offer or sale of securities in a capital-raising transaction, and that do not directly or indirectly promote or maintain a market for the securities of the Company; provided that the term **Consultant** does not include (i) Employees or (ii) Directors who are paid only a director's fee by the Company or who are not compensated by the Company for their services as Directors.
- 2.12 **Continuous Status as an Employee, Director or Consultant** means that the employment, director or consulting relationship is not interrupted or terminated by the Company, any Parent or Subsidiary, or by the Employee, Director or Consultant. Continuous Status as an Employee, Director or Consultant will not be considered interrupted in the case of: (i) any leave of absence approved by the Board, including sick leave, military leave, or any other personal leave, provided, that for purposes of Incentive Stock Options, any such leave may not exceed 90 days, unless reemployment upon the expiration of such leave is guaranteed by contract (including certain Company policies) or statute; (ii) transfers between locations of the Company or between the Company, its Parent, its Subsidiaries or its successor; or (iii) in the case of an Award other than an Incentive Stock Option, the ceasing of a person to be an Employee while such person remains a Director or Consultant, the ceasing of a person to be a Director while such person remains an Employee or Consultant or the ceasing of a person to be a Consultant while such person remains an Employee or Director.
- 2.13 **Covered Employee** shall mean a **covered employee** within the meaning of Section 162(m)(3) of the Code, or any successor provision thereto.
- 2.14 **Director** shall mean a non-employee member of the Board or a non-employee member of the board of directors of a Parent or Subsidiary.
- 2.15 **Disability** shall mean total and permanent disability as defined in Section 22(e)(3) of the Code.
- 2.16 **Dividend Equivalents** shall have the meaning set forth in Section 12.5.
- 2.17 **Employee** shall mean any employee of the Company or any Parent or Subsidiary.
- 2.18 **Exchange Act** shall mean the Securities Exchange Act of 1934 and the rules promulgated thereunder, as amended.
- 2.19 **Fair Market Value** shall mean, with respect to any property other than Shares, the market value of such property determined by such methods or procedures as shall be established from time to time by the Committee. The Fair Market Value of Shares as of any date shall be determined as follows:
- (i) If the Shares are listed on any established stock exchange or a national market system, including without limitation, the National Market System of NASDAQ, the Fair Market Value of a Share will be (i) the closing sales price for such Shares (or the closing bid, if no sales are reported) as quoted on that system or exchange (or the system or exchange with the greatest volume of trading in Shares) on the last market trading day prior to the day of determination or (ii) any sales price for such Shares (or the closing bid, if no sales are reported) as quoted on that system or exchange (or the system or exchange with the greatest volume of trading in Shares) on the day of

determination, as the Committee may select, in each case as reported in the Wall Street Journal or any other source the Committee considers reliable.

(ii) If the Shares are quoted on the NASDAQ System (but not on the NASDAQ National Market System) or are regularly quoted by recognized securities dealers but selling prices are not reported, the Fair Market Value of a Share will be the mean between the high bid and low asked prices for the Shares on (i) the last market trading day prior to the day of determination or (ii) the day of determination, as the Committee may select, in each case as reported in the Wall Street Journal or any other source the Committee considers reliable.

A-3

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**Table of Contents**

(iii) If the Shares are not traded as set forth above, the Fair Market Value will be determined in good faith by the Committee with reference to the earnings history, book value and prospects of the Company in light of market conditions generally, and any other factors the Committee considers appropriate, such determination by the Committee to be final, conclusive and binding.

**2.20 Family Member** means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Participant's household (other than a tenant or employee), a trust in which these persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than 50 percent of the voting interests.

**2.21 Incentive Stock Option** means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

**2.22 Limitations** shall have the meaning set forth in Section 3.2.

**2.23 Option** shall mean any right granted to a Participant under the Plan allowing such Participant to purchase Shares at such price or prices and during such period or periods as the Committee shall determine.

**2.24**

**Original Plan** has the meaning set forth in the introductory paragraph of the Plan.

**2.25**

~~2.24~~ **Other Stock Unit Award** shall have the meaning set forth in Section 8.1.

**2.26**

~~2.25~~ **Parent** means a parent corporation with respect to the Company, whether now or later existing, as defined in Section 424(e) of the Code.

**2.27**

~~2.26~~ **Participant** shall mean an Employee, Director or Consultant who is selected by the Committee to receive an Award under the Plan.

**2.28**

~~2.27~~ **Payee** shall have the meaning set forth in Section 13.1.

**2.29**

~~2.28~~ **Performance Award** shall mean any Award of Performance Shares or Performance Units granted pursuant to Article 9.

**2.30**

~~2.29~~ **Performance Period** shall mean that period established by the Committee at the time any Performance Award is granted or at any time thereafter during which any performance goals specified by the Committee with respect to such Award are to be measured.

**2.31**

~~2.30~~ **Performance Share** shall mean any grant pursuant to Article 9 of a unit valued by reference to a designated number of Shares, which value may be paid to the Participant by delivery of such property as the Committee shall



determine, including cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish at the time of such grant or thereafter.

**2.32**

~~2.31~~ **Performance Unit** shall mean any grant pursuant to Article 9 of a unit valued by reference to a designated amount of property (including cash) other than Shares, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish at the time of such grant or thereafter.

**2.33**

~~2.32~~ **Prior Plans** shall mean, collectively, the Company's 1997 Management Equity Plan and 2002 Stock Incentive Plan, as amended.

**2.34**

~~2.33~~ **Restricted Stock** shall mean any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such other restrictions as the Committee, in its sole discretion, may impose (including any restriction on the right to vote such Share and the right to receive any dividends), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

**2.35**

~~2.34~~ **Restricted Period** shall have the meaning set forth in Section 7.1.

**Table of Contents**

**2.36**

~~2.35~~ **Restricted Stock Award** shall have the meaning set forth in Section 7.1.

**2.37**

~~2.36~~ **Shares** shall mean the shares of common stock of the Company, par value ~~\$0.10~~

**0.01**

per share.

**2.38**

~~2.37~~ **Stock Appreciation Right** shall mean the right granted to a Participant pursuant to Article 6.

**2.39**

~~2.38~~ **Subsidiary** shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the Award, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

**2.40**

~~2.39~~ **Substitute Awards** shall mean Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, by a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.

**ARTICLE III  
SHARES SUBJECT TO THE PLAN**

3.1 Number of Shares.

(a) Subject to adjustment as provided in Section 12.2, a

**the**

total

**number**

of ~~2,399,250~~ Shares shall be authorized for grant under ~~the Plan,~~

**this Plan shall be (i) 3,649,250 Shares (representing an increase of 1,250,000 Shares over the amount of Shares authorized under the Original Plan)**

plus

**(ii)**

any Shares subject to awards granted under the Prior Plans, which such awards

**were outstanding as of April 24, 2007 and which have subsequently been forfeited, have expired or have otherwise terminated, or which hereafter**

are forfeited, expire or otherwise terminate

,

without issuance of Shares, or

**were or**

are settled for cash or otherwise

**did not and**

do not result in the issuance of Shares, ~~on or after the effective date of this Plan.~~ Any Shares that are subject to Awards of Options or Stock Appreciation Rights shall be counted against this limit as one Share for every one Share granted, regardless of the number of shares actually delivered pursuant to such Awards. Any Shares that are subject to Awards other than Options or Stock Appreciation Rights (including, but not limited to, Shares delivered in satisfaction

of Dividend Equivalents) shall be counted against this limit as 2.5 Shares for every one Share granted.

(b) If any Shares subject to an Award or to an award under the Prior Plans are forfeited, expire or otherwise terminate without issuance of such Shares, or any Award or award under the Prior Plans is settled for cash or otherwise does not result in the issuance of all or a portion of the Shares subject to such Award, the Shares shall, to the extent of such forfeiture, expiration, termination, cash settlement or non-issuance, again be available for Awards under the Plan, subject to Section 3.1(e) below.

(c) In the event that (i) any Option or other Award granted under this Plan or any option or award granted under the Prior Plans is exercised through the tendering of Shares (either actually, by attestation, or by the giving of instructions to a broker to remit to the Company that portion of the sales price required to pay the exercise price) or by the withholding of Shares by the Company, or (ii) withholding tax liabilities arising from such Options or Awards under this Plan or options or awards under a Prior Plan are satisfied by the tendering of Shares (either actually, by attestation, or by the giving of instructions to a broker to remit to the Company that portion of the sales price required to pay the exercise price) or by the withholding of Shares by the Company, then the Shares so tendered or withheld shall not again be available for Awards under the Plan.

(d) Substitute Awards shall not reduce the Shares authorized for issuance under the Plan or authorized for grant to a Participant in any calendar year. Additionally, in the event that a company acquired by the Company or any Subsidiary, or with which the Company or any Subsidiary combines, has shares available under a pre-existing plan approved by shareholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for issuance under the Plan; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be

**Table of Contents**

made to individuals who were employees, directors or consultants of such acquired or combined company before such acquisition or combination.

(e) Any Shares that again become available for grant pursuant to this Article 3 shall be added back as one Share if such Shares were subject to Options or Stock Appreciation Rights granted under the Plan or options or stock appreciation rights granted under the Prior Plans, and as 2.5 Shares if such Shares were subject to Awards other than Options or Stock Appreciation Rights granted under the Plan.

3.2 **Limitations on Grants to Individual Participant.** Subject to adjustment as provided in Section 12.2, no Participant may be granted (i) Options or Stock Appreciation Rights during any fiscal year of the Company with respect to more than 500,000 Shares, or (ii) Restricted Stock, Performance Awards and/or Other Stock Unit Awards that are denominated in Shares in any fiscal year of the Company with respect to more than 250,000 Shares (the **Limitations** ). In addition to the foregoing, the maximum dollar value payable to any Participant in any fiscal year of the Company with respect to Performance Awards and/or Other Stock Unit Awards that are valued with reference to cash or property other than Shares is \$2,000,000. If an Award is cancelled, the cancelled Award shall continue to be counted toward the applicable Limitations.

3.3 **Character of Shares.** Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise.

**ARTICLE IV  
ELIGIBILITY AND ADMINISTRATION**

4.1 **Eligibility.** Any Employee, Director or Consultant shall be eligible to be selected as a Participant. Only Employees may receive awards of Incentive Stock Options.

4.2 **Administration.**

(a) The Plan shall be administered by the Committee, constituted as follows:

(i) The Committee will consist of the Board, or a committee designated by the Board, which Committee will be constituted to satisfy Applicable Laws. Once appointed, a Committee will serve in its designated capacity until otherwise directed by the Board. The Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and substitute new members, fill vacancies (however caused), and remove all members of the Committee and thereafter directly administer the Plan. Notwithstanding the foregoing, unless the Board expressly resolves to the contrary, while the Company is registered pursuant to Section 12 of the Exchange Act, the Plan will be administered only by the Compensation Committee of the Board (or such other committee designated by the Compensation Committee of the Board), consisting of no fewer than two Directors, each of whom is (A) a non-employee director within the meaning of Rule 16b-3 (or any successor rule) of the Exchange Act, (B) an outside director within the meaning of Section 162(m)(4)(C)(i) of the Code, and (C) an independent director for purpose of the rules and regulations of the NASDAQ National Market System or other exchange or quotation system on which the Shares are principally traded; provided, however, (X) so long as the Committee has at least two directors that meet the above requirements, the Committee may contain one additional director who is not a non-employee director , outside director or independent director , but only if such director abstains from voting on all grants or awards to Covered Employees and to those Participants who have been designated by the Board of Directors as being officers for purposes of Section 16 of the Exchange Act and the rules promulgated thereunder and (Y) the failure of the Committee to be composed solely of individuals who are non-employee directors, outside directors, and independent directors , whether pursuant to clause (X) above or otherwise, shall not render ineffective or void any awards or grants made by, or other actions taken by, such Committee.

(ii) The Plan may be administered by different bodies with respect to Directors, officers who are not Directors, and Employees and Consultants who are neither Directors nor officers, and Covered Employees.

(b) The Committee shall have full discretion, power and authority, subject to the provisions of the Plan and subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be

A-6

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**Table of Contents**

adopted by the Board, to: (i) select the Employees, Consultants and Directors to whom Awards may from time to time be granted hereunder; (ii) determine the type or types of Awards, not inconsistent with the provisions of the Plan, to be granted to each Participant hereunder; (iii) determine the number of Shares to be covered by each Award granted hereunder; (iv) determine the terms and conditions, not inconsistent with the provisions of the Plan, of any Award granted hereunder and the form and content of any Award Agreement; (v) determine whether, to what extent and under what circumstances Awards may be settled in cash, Shares or other property, subject to the provisions of the Plan; (vi) determine whether, to what extent and under what circumstances any Award shall be modified, amended, canceled or suspended; (vii) interpret and administer the Plan and any instrument or agreement entered into under or in connection with the Plan, including any Award Agreement; (viii) correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent that the Committee shall deem desirable to carry it into effect; (ix) establish such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; (x) determine whether any Award will have Dividend Equivalents; (xi) determine whether, to what extent, and under what circumstances cash, Shares, or other property payable with respect to an Award shall be deferred either automatically or at the election of the Participant; provided that the Committee shall take no action that would subject the Participant to a penalty tax under Section 409A of the Code; and (xii) make any other determination and take any other action that the Committee deems necessary or desirable for administration of the Plan.

(c) Decisions of the Committee shall be final, conclusive and binding on all persons or entities, including the Company, any Participant, any stockholder and any Employee or any Affiliate. A majority of the members of the Committee may determine its actions and fix the time and place of its meetings.

(d) The Committee may delegate to a committee of one or more Directors of the Company or, to the extent permitted by Applicable Law, to one or more officers or a committee of officers, the authority to grant Awards to Employees and officers of the Company who are not Directors, Covered Employees, or officers, as such term is defined by Rule 16a-1(f) of the Exchange Act, and to cancel or suspend Awards to Employees and officers of the Company who are not Directors, Covered Employees, or officers, as such term is defined by Rule 16a-1(f) of the Exchange Act.

**ARTICLE V  
OPTIONS**

5.1 Grant of Options. Options may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Any Option shall be subject to the terms and conditions of this Article 5 and to such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable.

5.2 Award Agreements. All Options granted pursuant to this Article 5 shall be evidenced by a written Award Agreement in such form and containing such terms and conditions as the Committee shall determine which are not inconsistent with the provisions of the Plan. Granting of an Option pursuant to the Plan shall impose no obligation on the recipient to exercise such Option. Any individual who is granted an Option pursuant to this Article 5 may hold more than one Option granted pursuant to the Plan at the same time.

5.3 Option Price. Other than in connection with Substitute Awards, the option price per each Share purchasable under any Option granted pursuant to this Article 5 shall not be less than 100% of the Fair Market Value of such Share on the date of grant of such Option. Other than pursuant to Section 12.2, the Committee shall not be permitted to (a) lower the option price per Share of an Option after it is granted, (b) cancel an Option when the option price per Share exceeds the Fair Market Value of the underlying Shares in exchange for cash or for another Award (other than in connection with Substitute Awards), and (c) take any other action with respect to an Option that may be treated as a repricing under the rules and regulations of the NASDAQ National Market System or other exchange or quotation system on which the Shares are principally traded.

5.4 Option Period. The term of each Option shall be fixed by the Committee in its sole discretion; provided that no Option shall be exercisable after the expiration of ten years from the date the Option is granted.

5.5 Exercise of Options. Vested Options granted under the Plan shall be exercised by the Participant or by a

A-7

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**Table of Contents**

Permitted Assignee thereof (or by the Participant's executors, administrators, guardian, beneficiary, or legal representative, or Family Members, as may be provided in an Award Agreement) as to all or part of the Shares covered thereby, by the giving of written notice of exercise to the Company or its designated agent, specifying the number of Shares to be purchased, accompanied by payment of the full purchase price for the Shares being purchased. Unless otherwise provided in an Award Agreement, full payment of such purchase price shall be made at the time of exercise and shall be made (a) in cash or by certified check or bank check or wire transfer of immediately available funds, (b) with the consent of the Committee, by tendering previously acquired Shares (either actually or by attestation, valued at their then Fair Market Value) that have been owned for a period of at least six months (or such other period to avoid accounting charges against the Company's earnings), (c) with the consent of the Committee, by delivery of other consideration (including, where permitted by law and the Committee, other Awards) having a Fair Market Value on the exercise date equal to the total purchase price, (d) with the consent of the Committee, by withholding Shares otherwise issuable in connection with the exercise of the Option, (e) with the consent of the Committee, by delivery of a properly executed exercise notice together with any other documentation as the Committee and the Participant's broker, if applicable, require to effect an exercise of the Option and delivery to the Company of the sale or other proceeds (as permitted by Applicable Law) required to pay the exercise price, , (f) through any other method specified in an Award Agreement, or (g) any combination of any of the foregoing. In connection with a tender of previously acquired Shares pursuant to clause (b) above, the Committee, in its sole discretion, may permit the Participant to constructively exchange Shares already owned by the Participant in lieu of actually tendering such Shares to the Company, provided that adequate documentation concerning the ownership of the Shares to be constructively tendered is furnished in form satisfactory to the Committee. The notice of exercise, accompanied by such payment, shall be delivered to the Company at its principal business office or such other office as the Committee may from time to time direct, and shall be in such form, containing such further provisions consistent with the provisions of the Plan, as the Committee may from time to time prescribe. In no event may any Option granted hereunder be exercised for a fraction of a Share. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date of such issuance.

5.6 **Form of Settlement.** In its sole discretion, the Committee may provide, at the time of grant, that the Shares to be issued upon an Option's exercise shall be in the form of Restricted Stock or other similar securities, or may reserve the right so to provide after the time of grant.

5.7 **Incentive Stock Options.** With respect to the Options that may be granted by the Committee under the Plan, the Committee may grant Options intended to qualify as Incentive Stock Options to any Employee of the Company or any Parent or Subsidiary, subject to the requirements of Section 422 of the Code. The Award Agreement of an Option intended to qualify as an Incentive Stock Option shall designate the Option as an Incentive Stock Option. Notwithstanding anything in Section 3.1 to the contrary and solely for the purposes of determining whether Shares are available for the grant of Incentive Stock Options under the Plan, the maximum aggregate number of Shares with respect to which Incentive Stock Options may be granted under the Plan shall be 2,399,250 Shares. Notwithstanding the provisions of Section 5.3, in the case of an Incentive Stock Option granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent of the voting power of all classes of capital stock of the Company or any Parent or Subsidiary, the per Share exercise price will be no less than 110% of the Fair Market Value per Share on the date of grant. Notwithstanding the provisions of Section 5.4, in the case of an Incentive Stock Option granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than ten percent of the voting power of all classes of capital stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option will be five years from the date of grant or any shorter term specified in the Award Agreement. Notwithstanding the foregoing, if the Shares subject to an Employee's Incentive Stock Options (granted under all plans of the Company or any Parent or Subsidiary), which become exercisable for the first time during any calendar year, have a Fair Market Value in excess of \$100,000, the Options accounting for this excess will be not be treated as Incentive Stock Options. For purposes of the preceding sentence, Incentive Stock Options will be taken into account in the order in which they were granted, and the Fair Market Value of the Shares



will be determined as of the time of grant.

5.8 Termination of Employment or Consulting Relationship or Directorship. If a Participant holds exercisable Options on the date his or her Continuous Status as an Employee, Director or Consultant terminates (other than because of termination due to Cause, but including death or Disability), the Participant may exercise the

A-8

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**Table of Contents**

Options that were vested and exercisable as of the date of termination until the end of the original term or for the period set forth in the Award Agreement or determined by the Committee, whichever is earlier. If the Participant is not entitled to exercise his or her entire Option at the date of such termination, the Shares covered by the unexercisable portion of the Option will revert to the Plan, unless otherwise set forth in the Award Agreement or determined by the Committee. The Committee may determine in its sole discretion that such unexercisable portion of the Option will become exercisable at such times and on such terms as the Committee may determine in its sole discretion. If the Participant does not exercise an Option within the time specified after termination, that Option will expire, and the Shares covered by it will revert to the Plan, except as otherwise determined by the Committee.

**ARTICLE VI  
STOCK APPRECIATION RIGHTS**

6.1 Grant and Exercise. The Committee may provide Stock Appreciation Rights either alone or in addition to other Awards upon such terms and conditions as the Committee may establish in its sole discretion.

6.2 Terms and Conditions. Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Committee, including the following:

(a) Upon the exercise of a Stock Appreciation Right, the holder shall have the right to receive the excess of (i) the Fair Market Value of one Share on the date of exercise or such other amount as the Committee shall so determine at any time during a specified period before the date of exercise over (ii) the grant price of the right on the date of grant, which, except in the case of Substitute Awards or in connection with an adjustment provided in Section 12.2, shall not be less than the Fair Market Value of one Share on such date of grant of the right.

(b) Upon the exercise of a Stock Appreciation Right, payment shall be made in whole Shares or cash as determined by the Committee.

(c) The provisions of Stock Appreciation Rights need not be the same with respect to each recipient.

(d) The Committee may impose such other conditions or restrictions on the terms of exercise and the exercise price of any Stock Appreciation Right, as it shall deem appropriate. In connection with the foregoing, the Committee shall consider the applicability and effect of Section 162(m) of the Code. Notwithstanding the foregoing provisions of this Section 6.2, but subject to Section 12.2, a Stock Appreciation Right shall not have (i) an exercise price less than Fair Market Value on the date of grant, or (ii) a term of greater than ten years. In addition to the foregoing, but subject to Section 12.2, the base amount of any Stock Appreciation Right shall not be reduced after the date of grant.

6.3 Termination of Employment or Consulting Relationship or Directorship. If a Participant holds exercisable Stock Appreciation Rights on the date his or her Continuous Status as an Employee, Director or Consultant terminates (other than because of termination due to Cause, but including death or Disability), the Participant may exercise the Stock Appreciation Rights that were vested and exercisable as of the date of termination until the end of the original term or for the period set forth in the Award Agreement or determined by the Committee, whichever is earlier. If the Participant is not entitled to exercise his or her entire Stock Appreciation Right at the date of such termination, the Shares covered by the unexercisable portion of the Stock Appreciation Right will revert to the Plan, unless otherwise set forth in the Award Agreement or determined by the Committee. The Committee may determine in its sole discretion that such unexercisable portion of the Stock Appreciation Right will become exercisable at such times and on such terms as the Committee may determine in its sole discretion. If the Participant does not exercise a Stock Appreciation Right within the time specified after termination, that Stock Appreciation Right will expire, and the Shares covered by it will revert to the Plan, except as otherwise determined by the Committee.

**ARTICLE VII  
RESTRICTED STOCK AWARDS**

7.1 Grants. Awards of Restricted Stock may be issued hereunder to Participants either alone or in addition to other Awards granted under the Plan (a **Restricted Stock Award** ). A Restricted Stock Award shall be subject to

A-9

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**Table of Contents**

restrictions imposed by the Committee covering a period of time specified by the Committee (the **Restricted Period**); provided, however, that, in the case of Restricted Stock as to which restrictions lapse based solely on the recipient's Continuous Status as an Employee, Director, or Consultant, the Restricted Period over which the restrictions may fully lapse shall not be less than three years, but the restrictions may lapse ratably over such Restricted Period.

**At the Committee's sole and absolute discretion;**

**Executive Compensation** | Compensation Discussion and Analysis (continued)

was 89.4% (Alcoa Inc.) \*10/12 + 76.3% (Arconic) \*2/12 = 87.2%. (See LTI charts in 2016 Equity Awards: Stock Options and Performance-Based Restricted Share Units )

***Below-target IC/LTI was due to aerospace industry transition and soft commercial transportation market.*** The IC miss against plan was primarily caused by a profitability shortfall in the EPS Group, which derives roughly 75% of its revenues from aerospace customers. As the aerospace industry shifted to production of next-generation commercial aircraft, our customers undertook a destocking of their inventories of parts for current models. Meanwhile, Arconic incurred additional costs as it ramped up to respond to an anticipated increase in demand within its aircraft engines business. With more than \$13 billion in multi-year aerospace contracts signed in the past two years, the 2016 issues are not expected to have a long-term impact on EPS. The profitability shortfall in EPS was partially offset by strong cash performance within GRP as well as the inclusion of the 10-month performance of Alcoa Inc.'s Upstream business (now Alcoa Corporation). The biggest driver of below-target LTI was the continued decline in the North American commercial transportation market, which resulted in a significant revenue shortfall against plan.

**For 2017 and Beyond, the Compensation Committee Made Changes to Arconic's Executive Compensation Plans that Reinforce a Commitment to Best-in-Class Compensation and Governance Practices**

Beginning after the announcement of the planned separation of Alcoa Inc. in September 2015, the Chairman and CEO, the Lead Director and the Compensation Committee Chairman had more than 80 meetings with portfolio managers, investor governance officials and proxy advisory firms to discuss separation plans and obtain investor insights and recommendations for Arconic's 2017 executive compensation and governance practices.

The Company also did an exhaustive benchmarking study of companies with a strong track record in executive compensation practices and analyzed the proxies of the 17 companies in Arconic's new CEO peer group (see

Comparator Peer Groups ). The study addressed compensation design and mix, short-term and long-term performance metrics, long-term incentive mix by award type, performance periods, vesting provisions, short-term and long-term incentive payout history, stock ownership guidelines and change-in-control provisions. In a few areas, the study found practices that were unsuitable for Alcoa, Inc. due to limitations caused by the volatility of its commodity market. In several instances, the study identified practices that were ideally suited to the unique needs and opportunities of Arconic.

Based on the investor insights and the peer benchmarking study, as well as counsel from the Compensation Committee's independent consultant, Pay Governance, the Committee made the following important decisions in relation to the design of Arconic's executive compensation plans and practices:

**Compensation Pay Mix:** The Committee endorsed the Company's strong adherence to the compensation principles of pay-for-performance and the emphasis on equity as a major component of the compensation package to ensure shareholder alignment. Arconic's CEO receives 80% of his equity award in the form of performance-based restricted share units, which was the highest percentage of the 17 companies in the new CEO peer group (see Comparator Peer Groups for the list of the new peers).

Demonstrating the Company's alignment between pay and performance, given the financial performance of the Company in 2016 and the significant positive impact on shareholder value, the realizable value of the January 2016 equity grants for the CEO has increased by 8% as of December 31, 2016:

Equity Component	Value at Grant as Shown		Realizable Value as of 12/31/2016	
	Summary Compensation Table	2/31/2016	Summary Compensation Table	Realizable Value as of 12/31/2016
Performance Restricted Share Units	\$ 7,912,221	\$ 9,247,474*		117%
Stock Options	\$ 1,978,002	\$ 1,387,225**		70%
Total	\$ 9,890,223	\$ 10,634,699		108%

\* Units granted 1/19/16, including the earned amount in respect of the first one-year performance period, as described in 2016 Equity Awards: Stock Options and Performance-Based Restricted Share Units.

\*\* In the money value of stock options granted during 2016 based on the year-end stock price of \$18.54 per share. Although these options are not exercisable on 12/31/16, they have a 10-year term, and their final realizable value will depend on the stock price at the time of exercise.

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**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

**Annual Incentive Plan Structure:** The Compensation Committee decided to move from 80% financial and 20% non-financial IC goals to 90% financial and 10% non-financial IC goals for Arconic's 2017 executive compensation plan. The financial metrics will be split between absolute Earnings Before Interest and Tax (EBIT) (45%) and Free Cash Flow (45%), incentivizing management to deliver profitable growth and efficient allocation of capital. Maintaining determination of 10% of the IC based on safety and diversity ensures that Arconic's leaders continue to be incentivized to live by the Company's values and adhere to high standards of social responsibility. Because the heavy environmental impact of Alcoa Inc.'s commodity business is not a factor for Arconic, the Company eliminated the environmental metric.

**Long-Term Equity Plan Structure:** Beginning with the January 2017 performance-based restricted share unit grants, and annually thereafter, performance-based restricted share unit awards will be earned based on performance against 3-year average targets set at the beginning of the performance period, rather than three 1-year targets.

**Discontinued Normalization for LME:** Effective November 1, 2016, Arconic eliminated normalization for LME aluminum price changes under incentive plan results due to the spinoff of the upstream business.

**Return on Net Assets:** To highlight Arconic's increased priority on capital efficiency, 50% of the 2017 performance-based restricted share unit awards will be based on return on net assets (RONA). The remainder of the award will be based on 25% for revenue growth and 25% for adjusted EBITDA margin.

**Relative Total Shareholder Return (TSR):** To reinforce the importance of shareholder alignment and to comply with the increased emphasis on relative metrics, the 2017 performance restricted share unit awards will be subject to up to a 10% TSR multiplier. Failure to achieve a three-year TSR equivalent to that of Arconic's peers will result in a payout decline of up to 10%; a three-year TSR that is higher than that of Arconic's peers will result in up to a 10% increased payout.

**Challenging Payout Curves:** The Committee has continued the practice of setting payout curves with a steep drop-off below target to incentivize hitting target and flatter curve above target so that higher payouts can only be earned with significant performance above target. In the 2017 annual incentive plan, the curves are even more challenging. To earn 50% of the payout for the EBIT metric requires performance at 91% of target, while the 150% payout level requires performance at 118% of target. Similarly, under the 2017 long-term incentive plan, which is based on 3-year average performance, to earn 50% of the payout for the RONA metric requires performance at 80% of target, while the 150% payout level requires performance at 130% of target.

**Change in Control (CIC) Severance Plan:** With the support of management, the Compensation Committee on January 13, 2017 approved amendments to the existing CIC Severance Plan to adhere to best practices. Effective February 27, 2017 the following plan changes took effect:

Eliminated grandfathered modified single trigger, for which Mr. Kleinfeld was the only remaining eligible participant.

Eliminated grandfathered excise tax reimbursement benefit, for which Mr. Kleinfeld was the only remaining eligible participant.

Raised the threshold triggering a CIC from 20% to 30% of shares or total voting power that are acquired.

Reduced severance benefit levels of all participants except the CEO, whose benefit levels are in line with market practice.

Those changes to executive compensation design and the CIC Severance Plan were made as part of Arconic's goal to maintain best-in-class practices for executive compensation and corporate governance. They are also designed to meet the unique needs of Arconic's executive compensation to support our goals for attracting, motivating and retaining key executives; aligning executives' interests with those of Arconic's shareholders; and generating superior operating results that impact Arconic's TSR.

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

**COMPENSATION DESIGN AND ANALYSIS**

**Analysis of 2016 Compensation Decisions**

The Compensation Committee uses its business judgment to determine the appropriate compensation targets and awards for the NEOs, in addition to assessing several factors that include:

Market positioning based on peer group data (described below);

Individual, Group, and Corporate performance;

Complexity and importance of the role and responsibilities;

Aggressiveness of targets;

Signing of contracts that will positively impact future performance;

Unanticipated events impacting target achievement;



Retention of key individuals in a competitive talent market; and

Leadership and growth potential.

Based on these factors, an individual multiplier is applied to each NEO IC award and equity grant to reflect the Committee's assessment of that individual's 2016 performance.

### ***Comparator Peer Groups***

To help determine total direct compensation for the CEO in 2016, we used a peer group consisting of 10 Materials and 10 Industrials companies that are relevant to and aligned with Alcoa Inc.'s upstream (materials) and mid/downstream (industrials) businesses. This was the same peer group used to help determine CEO pay in 2015. Pay Governance, the Compensation Committee's independent compensation consultant, has reviewed and endorsed this peer group. The companies in the CEO peer group are:

Materials Companies	Industrials Companies
Dow Chemical	3M
DuPont	Cummins
Freeport McMoran	Danaher
Huntsman	Deere
International Paper	Eaton
LyondellBasell Industries	Emerson Electric
PPG Industries	General Dynamics
Newmont Mining	L-3 Communications
Nucor	Northrop Grumman Raytheon

United States Steel

2016 Median Revenue: \$18,628 million

For other executive level positions, we continued to use Towers Watson survey data for companies with revenues between \$15 billion and \$50 billion (excluding financial companies) to help estimate competitive compensation for 2016 decisions. This peer group reflects the broad-based group of companies with which we compete for non-CEO executive talent. The Compensation Committee's independent compensation consultant has reviewed and endorsed this peer group. For 2016, 137 companies met the revenue and industry criteria and were used to compare compensation for all of the executive level positions, except the CEO position. See *Attachment B-1 Alcoa Inc. Peer Group Companies for Market Information for 2016 Executive Compensation Decisions*.

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

In 2016, the Compensation Committee approved a new CEO peer group that reflects the mix of Arconic's businesses. This peer group was used to make 2017 compensation decisions. The companies in the new CEO peer group are:

**Arconic's New CEO Peer Group (for 2017 Pay Decisions)**

BorgWarner Inc.

Northrop Grumman Corporation

Cummins Inc.

PACCAR Inc

Danaher Corporation

Parker-Hannifin Corporation

Delphi Automotive PLC

Raytheon Company

Eaton Corporation plc

Rockwell Collins, Inc

Honeywell International Inc.

Spirit AeroSystems Holdings, Inc.  
Stanley Black & Decker, Inc.

Illinois Tool Works Inc.

Ingersoll-Rand plc

Textron Inc.

L-3 Communications Holdings, Inc.

2016 Median Revenue: \$13,788 million

In 2016, the Compensation Committee also approved a new peer definition for other executive level positions within the Towers Watson survey to better reflect the mix of Arconic's businesses after the separation. This peer group was used to make compensation decisions related to Arconic following the separation and consists of companies heavily weighted towards industrials with revenues between \$7 billion and \$30 billion. See *Attachment B-2 Arconic Inc. Peer Group Companies for Market Information for 2016 Executive Compensation Decisions Following the Separation*.

The data from each of these peer groups described above is considered in establishing executive compensation targets and to ensure that Arconic provides and maintains compensation levels in line with the market, including similar companies, and to attract, retain and motivate employees.

#### ***Performance-Based Pay Decisions***

***Chairman and Chief Executive Officer Mr. Kleinfeld.*** In January 2016, the Compensation Committee awarded Mr. Kleinfeld performance share awards and stock options with a total grant-date value of \$9,890,223, based on his individual performance in 2015. Eighty percent of the award (\$7,912,221) was granted as performance share awards, and 20% of the award (\$1,978,002) was granted as stock options. In making this decision, the Compensation Committee considered the operational performance of the Company as Alcoa Inc. in 2015, the performance of the Company's stock during 2015, the importance of aligning Mr. Kleinfeld's compensation with shareholders as he led preparations for the separation of Alcoa and the median level of equity as reported for the then CEO peer group based on 10 Industrials and 10 Materials companies aligned with Alcoa Inc.'s upstream (materials) and mid/downstream (industrials) businesses. The grant-date value of the January 2016 award represents an 8.0% decrease over the prior year's award for 2014 performance, given the extremely challenging environment for commodities in 2015 which had an adverse impact on stock price. Mr. Kleinfeld's annual IC award for 2016 of \$2,137,320 was slightly below plan target reflecting 10 months of Alcoa Inc. performance (100.7% of plan target) prior to separation and 2 months of Arconic Inc. performance (90.2% of plan target) following separation. The award was based on the corporate IC plan weighted result of 99.0%, as described above, and a corresponding 100% individual multiplier.

***Former Executive Vice President and Chief Financial Officer Mr. Oplinger.*** Mr. Oplinger served as the Chief Financial Officer of Alcoa Inc. from January 1, 2016 up until the separation, after which he continued as Chief Financial Officer of Alcoa Corporation. In January 2016, Mr. Oplinger was granted performance share awards valued at \$1,280,061 and stock options valued at \$320,014, which was in line with the total target award value and which, along with other unvested equity awards in Alcoa Inc., have since been converted into unvested equity awards in Alcoa Corporation in accordance with the terms of the Employee Matters Agreement entered into between Arconic and Alcoa Corporation in connection with the separation. As Mr. Oplinger became the Chief Financial Officer of Alcoa Corporation and ceased to be an employee of Alcoa Inc. (and Arconic Inc. as the legacy entity) upon separation, his final IC award for 2016 became subject to approval by the Board of Directors of Alcoa Corporation, a legally separate entity. Consequently, Mr. Oplinger did not receive an annual cash incentive award payment from the

Company and the amount disclosed for his 2016 Non-Equity Incentive Plan

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

Compensation is \$0 for the purposes of the Company's 2016 Summary Compensation Table. However, his annualized target for the year as a named executive officer of Alcoa Inc. is included in the 2016 Grants of Plan-Based Awards Table.

***Executive Vice President and Chief Financial Officer Mr. Giacobbe.*** Mr. Giacobbe was appointed Chief Financial Officer of Arconic effective upon the separation. In January 2016, Mr. Giacobbe was granted performance share awards valued at \$195,190 and restricted share units valued at \$195,190, which was above the target award due to his strong performance in 2015 in his prior role of Group Chief Financial Officer of Engineered Products and Solutions. Mr. Giacobbe's annual IC award for 2016 of \$281,824 was above target at 107% due to the IC plan result and his performance review for 2016. The award was based on 10 months of Alcoa Inc. performance (100.7% of plan target) prior to separation and 2 months of Arconic Inc. performance (90.2% of plan target) following separation. The award was based on the corporate IC plan weighted result of 99.0%, as described above, and a corresponding 110% individual multiplier. Mr. Giacobbe received a 17% salary increase effective June 1, 2016, based on his performance in transition as the designated Chief Financial Officer of Arconic and a subsequent 15% increase effective upon separation to bring his salary closer to the median of the peer group in his new role.

***Executive Vice President and Group President, Engineered Products and Solutions Mr. Tragl.*** Mr. Tragl commenced employment with Alcoa Inc. in February 2016 as Executive Vice President and Group President, Transportation and Construction Solutions. Mr. Tragl did not receive an annual long-term incentive award in January 2016 but was granted a one-time special performance share award valued at \$1,600,176 in July 2016 following his appointment as Executive Vice President and Group President, Engineered Products and Solutions. These awards were earned based on EPS performance in 2016 against the metrics and targets below and will vest three years from the date of grant:

**2016 Special Performance-Based Equity Grant Targets and Results for Karl Tragl**

Performance Measure	Payout Percentage					2016 Result	Plan Result Weighted	% of Target Earned in 2016	
	0%	50%	100% (Target)	150%	200%				
Revenue \$M									
(Excluding Remmele)	\$5,780	\$5,830	\$5,900-\$6,100	\$6,240	\$6,380	\$5,705	0.0%	25%	0.0%
Adjusted EBITDA \$M	\$1,058	\$1,200	\$1,239-\$1,342	\$1,469	\$1,630	\$1,195	47.7%	75%	35.8%
<b>TOTAL</b>								<b>100%</b>	<b>35.8%</b>

The earned value of the special performance-based equity award was \$444,700 as of December 30, 2016, based on Arconic's closing stock price of \$18.54 on that date (see the 2016 Grants of Plan-Based Awards table). Mr. Tragl's annual IC award for 2016 of \$557,756 was above target at 128.7% due to his performance review for 2016. The award was determined based on the following: (1) 50% on the corporate IC plan and 50% on the IC plan results for the TCS business group, prorated for the period from January 1, 2016 through May 2016 during which he led the TCS business group, (2) 50% on the corporate IC plan and 50% on the IC plan results for the EPS business group, prorated for the remainder of 2016, and (3) an individual multiplier of 150%. The TCS and EPS groups' IC plans for 2016 had the same design as the corporate plan and similar financial metrics. The TCS group's IC plan result for 2016 was 92.3%. The EPS group's IC plan result for 2016 was 68.3% in light of missed targets based on aggressive forecasts incorporating the Firth Rixson acquisition and decelerating demand in the aerospace sector (see the discussion on EPS performance in The Company Delivered Solid Operational and Financial Performance in 2016). Mr. Tragl received a 5% salary increase effective May 16, 2016 upon his appointment as Executive Vice President and Group President, Engineered Products and Solutions and to bring his salary closer to the median of the peer group.

**Executive Vice President, Corporate Development, Strategy & New Ventures Mr. Kollatz.** In January 2016, Mr. Kollatz was granted performance share awards valued at \$344,010 and restricted share units valued at \$344,010, which was above the target award due to his strong performance review in 2015. Mr. Kollatz's annual IC award for 2016 of \$551,877 was above target at 148.4% based on the corporate IC plan weighted result of 99.0%, as described above, and a corresponding 150% individual multiplier. Mr. Kollatz received a 5.0% salary increase effective March 1, 2016. Mr. Kollatz's compensation awards were based on his strong performance in 2015 and 2016 when he assumed the additional responsibility to lead the Separation Program Office and drive the complex separation process to a successful conclusion on schedule and on budget.

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

(as described in [The Separation Strategy, Design and Management Delivered Significant Value for Shareholders](#) ) in addition to his other duties.

***Executive Vice President and Group President, Global Rolled Products Mr. Meggers.*** In January 2016, Mr. Meggers was granted performance share awards valued at \$1,280,061 and stock options valued at \$320,014, which was in line with the total target award value. Mr. Meggers' s annual IC award for 2016 of \$556,528 was above target at 117.7% based on the corporate IC plan weighted result of 99.0%, as described above, and 50% on the IC plan results for the GRP business group, which he leads, and an individual multiplier of 110%. The GRP group' s IC plan for 2016 had the same design as the corporate plan and similar financial metrics. The GRP group' s IC plan result for 2016 was 115.2% based on the group' s contribution to the overall corporate results (see the discussion on GRP performance in [The Company Delivered Solid Operational and Financial Performance in 2016](#) ). Mr. Meggers received an 11.1% salary increase effective March 1, 2016 based on his strong performance in 2015 and to bring his salary closer to the median of the peer group. This was his first salary increase since 2011.

***Former Executive Vice President and Group President, Engineered Products and Solutions Mr. Jarrault.*** Mr. Jarrault served as the Company' s Executive Vice President and Group President, EPS from January 1, 2016 and resigned in May 2016. In January 2016, Mr. Jarrault was granted performance share awards valued at \$1,600,076 and stock options valued at \$400,002, which was above the target award, based on his performance review in 2015. Based on Mr. Jarrault' s retirement eligibility at the time of his departure, his 2016 award grant will continue to vest in accordance with the terms and conditions governing those awards. Mr. Jarrault' s annual IC award for 2016 of \$298,215 was below target at 84.5%. The award was based 50% on the corporate IC plan result of 100.7% reflecting Alcoa Inc. performance prior to separation, as described above, and 50% on the IC plan result of 68.3% for the EPS business group, which he led until May 2016, and an individual multiplier of 100%.

***Former Executive Vice President, Chief Legal Officer and Secretary Ms. Strauss.*** Ms. Strauss served as the Company' s Executive Vice President, Chief Legal Officer and Secretary from January 1, 2016 until her retirement upon completion of the separation. In January 2016, Ms. Strauss was granted performance share awards valued at



\$1,408,121 and stock options valued at \$352,005, which was above the target award due to her strong performance review in 2015 and virtually the same total grant-date value as the prior year. Ms. Strauss' annual IC award for 2016 of \$838,601 was above target at 148.4% based on the corporate IC plan weighted result of 99.0%, as described above, and a corresponding 150% individual multiplier. Ms. Strauss was also granted a cash bonus of \$200,000 for 2016 performance. Her individual multiplier and additional cash bonus recognize her outstanding contributions to the successful completion of a complex separation that required a wide range of legal negotiations, including transferring 1,592 vendor contracts, establishing 25 new legal entities, and handling 113 legal name changes. She also oversaw the many required filings with the U.S. Securities and Exchange Commission and Internal Revenue Service as well as a multitude of other government approvals with agencies in the U.S. and the other countries where we do business.

### 2016 Annual Cash Incentive Compensation

The corporate annual cash IC plan for 2016 was designed to achieve operating goals set at the beginning of the year for both Alcoa Inc. and Arconic.

After establishing the targets for the financial measures, the payout ranges were set above and below the target as shown in the tables below:

The steep curve to achieve 100% performance is intended to drive maximum effort.

The payouts above target are aligned with achievement levels that ensure a strong return on the additional IC paid.

Because the separation occurred on November 1, 2016, the final IC plan results for Corporate employees were calculated based on results against 10-month targets for Alcoa Inc. prorated for 10 months plus results against full-year target for Arconic prorated for 2 months. The final 2016 IC result was  $100.7\% \text{ (Alcoa Inc.)} * 10/12 + 90.2\% \text{ (Arconic)} * 2/12 = 99.0\%$ .

**Table of Contents**



**Executive Compensation** | Compensation Discussion and Analysis (continued)

**2016 Annual Cash Incentive Compensation Plan Design, Targets and Results** Alcoa Inc.

		Defined Corporate Level Payout								
		Percentage								
Metric		0%	50%	100%	150%	200%	Result	IC	Formula	
	(\$ in millions)			(Target)				Result	Weighting	Award
<b>Financial Measures<sup>1</sup></b>	<b>Adjusted FCF</b>	-\$ 1,169	-\$ 939	-\$ 710	-\$ 252	\$ 207	-\$ 533	119%	40%	47.7%
	<b>Adjusted EBITDA</b>	\$ 2,023	\$ 2,205	\$ 2,386	\$ 2,790	\$ 3,194	\$ 2,360	93%	40%	<b>84.8%</b>
<b>Non-Financial Measures</b>	<b>Safety<sup>2</sup></b>									
	DART		0.499	0.48		0.458	0.36	200%	5.0%	<b>10.0%</b>
	<b>Environment<sup>3</sup></b>									
	CO <sub>2</sub> Emissions Reduction (metric tons)		131,000	195,000		285,000	101,000	0%	5.0%	<b>0.0%</b>
<b>Diversity<sup>4</sup></b>	Executive Level Women, Global		22.7%	22.8%		23.3%	23.2%	167%	2.5%	4.2%
			15.9%	16.0%		16.5%	16.2%	126%	2.5%	3.1%

Executive Level Minorities, U.S.								
Professional Level Women, Global	27.9%	28.0%	28.5%	28.3%	142%	2.5%	3.6%	
Professional Level Minorities, U.S.	18.9%	19.0%	19.5%	18.6%	0%	2.5%	0.0%	10.9%

<b>IC RESULT (CALCULATED)</b>	<b>100%</b>	<b>105.7%</b>
<b>5% REDUCTION DUE TO FATALITY</b>		<b>-5.0%</b>
<b>FINAL ALCOA INC. IC RESULT</b>		<b>100.7%</b>

2016 Annual Cash Incentive Compensation Plan Design, Targets and Results Arconic Inc.

		Defined Corporate Level Payout Percentage					IC		Formula	
Metric		0%	50%	100% (Target)	150%	200%	Result	Result Weighting	Award	
<b>Financial Measures<sup>1</sup></b>	<b>Adjusted FCF</b>	-\$ 7	\$ 140	\$ 286	\$ 579	\$ 872	\$ 549	145.0%	40%	58.0%
	<b>Adjusted EBITDA</b>	1,766	\$ 1,894	\$ 2,023	\$ 2,328	\$ 2,634	\$ 1,854	34.5%	40%	13.8%
<b>Non-Financial Measures</b>	<b>Safety<sup>2</sup></b>									
	<b>DART</b>		0.534	0.512		0.484	0.426	200%	5.0%	10.0%
	<b>Environment<sup>3</sup></b>									
	<b>CO<sub>2</sub> Emissions Reduction (metric tons)</b>		31,600	63,100		126,300	58,600	93%	5.0%	4.6%
<b>Diversity<sup>4</sup></b>	<b>Executive Level Women, Global</b>		23.7%	23.8%		24.2%	24.2%	200%	2.5%	5.0%
	<b>Executive Level Minorities, U.S.</b>		15.5%	15.6%		16.0%	15.3%	0%	2.5%	0.0%
			29.5%	29.6%		30.0%	29.6%	100%	2.5%	2.5%

Professional Level Women, Global								
Professional Level Minorities, U.S.	19.7%	19.8%	20.2%	19.7%	50%	2.5%	1.3%	<b>8.8%</b>

<b>IC RESULT (CALCULATED)</b>	<b>100%</b>	<b>95.2%</b>
<b>5% REDUCTION DUE TO FATALITY</b>		<b>-5.0%</b>
<b>FINAL ARCONIC INC. IC RESULT</b>		<b>90.2%</b>

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

FX (for Alcoa Inc. and Arconic results) and the price of aluminum on the LME (Alcoa Inc. results only) were normalized to plan rates and prices to eliminate the effects of fluctuation in such rates and prices, both of which are factors outside management's control. See *Attachment C Calculation of Financial Measures* for calculation of financial measures and for the definition of Adjusted FCF and Adjusted EBITDA. The threshold payout is 0% for the financial metrics and 50% for the non-financial metrics. The maximum payout for each metric is 200%. For performance between defined levels, the payout is interpolated.

- 1 For more information on the target setting for the financial metrics, see discussion in *The Company Chose 2016 Metrics that Drive Long-Term Economic Value, and IC and LTI Targets that Drove Solid Performance*.
- 2 Safety targets were based on reductions in the DART (Days Away, Restricted and Transfer) rate, which measures injuries and illnesses that involve one or more days away from work per 100 full-time workers and days in which work is restricted or employees are transferred to another job due to injury per 100 full-time workers.
- 3 The environmental target highlights our commitment to reduce CO2 emissions in 2016 and make progress against previously set 2030 environmental goals.
- 4 Diversity targets were established to increase the representation of executive and professional women on a global basis and to increase the representation of minority executives and professionals in the United States.

**2016 Equity Awards: Stock Options and Performance-Based Restricted Share Units**

***Long-term stock incentives are performance-based.*** We grant long-term stock awards to NEOs to align their interests with those of shareholders, link their compensation to stock price performance over a multi-year period and support their retention. In January 2016, stock awards were made to all of the NEOs.

In general, we provide two types of annual equity awards to the NEOs (except as otherwise noted in the section entitled Performance-Based Pay Decisions above):

20% of the grant date value of 2016 equity awards for each of our NEOs is granted in the form of stock options. We believe that stock options further align our NEOs' interests with those of our shareholders because the options have no value unless the stock price increases. Stock options vest ratably over a three-year period (one-third vests each year on the anniversary of the grant date) subject to continued employment (subject to certain exceptions) and have a ten-year term.

80% of the grant date value of 2016 equity awards for each of our NEOs was granted in the form of performance-based restricted share units.

Performance-based restricted share units support longer-term operational targets, which differ from the financial metrics in our IC plan. Since the grant occurred prior to the separation and the performance of Alcoa Inc. was still subject to the volatility of the aluminum market, performance for the 2016 awards is measured as the 3-year average achievement against annual targets. Awards vest and are paid at the end of three-year performance period subject to continued employment (with certain exceptions).

Beginning with the January 2017 performance-based restricted share unit grants, the awards will be earned based on performance against 3-year targets, rather than three 1-year targets. For further discussion, see For 2017 and Beyond, the Compensation Committee Made Changes to Arconic's Executive Compensation Plans that Reinforce a Commitment to Best-in-Class Compensation and Governance Practices.

Table of Contents

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)***2016-2018 Performance-Based Restricted Share Unit Design and Results for 2016***

As described above, the 2016 performance goals for performance-based restricted share units were based on a combination of goals applicable to Alcoa Inc. pre-separation and goals applicable to Arconic post-separation. The final 2016 result for the performance-based restricted share units was 89.4% (Alcoa Inc.) \*10/12 + 76.3% (Arconic) \*2/12 = 87.2%.

	Weight	0%	50%	100% (Target)	150%	200%	Actual Result	% of Target	Weighted Result
<b><u>Arconic (10-month)</u></b>									
Revenue Growth (%)	25.0%	8.0%	9.3%	10.6%	13.2%	15.9%	1.7%	0.0%	0.0%
Adjusted EBITDA Margin (%)	75.0%	11.8%	13.2%	14.5%	16.0%	18.0%	14.9%	113.5%	85.1%
<b>Arconic Measures</b>	<b>100.0%</b>								<b>85.1%</b>
<b><u>GPP (10-month)</u></b>									
Aluminum EBITDA/MT (\$)	50.0%	34	71	108	183	257	108	100.1%	50.1%
Alumina EBITDA/MT (\$)	50.0%	31	35	39	45	50	38	87.0%	43.5%
<b>GPP Measures</b>	<b>100.0%</b>								<b>93.6%</b>
<b><u>Alcoa Inc. Corporate</u></b>									
Arconic	50.0%								42.5%
GPP	50.0%								46.8%
<b>Alcoa Inc. Corp Measures</b>	<b>100.0%</b>								<b>89.4%</b>

							Actual	% of	Weighted
	Weight	0%	50%	100%	150%	200%	Result	Target	Result
<b>Arconic (Full-year)</b>									
Revenue Growth (%)	25.0%	8.0%	9.3%	10.6%	13.2%	15.9%	<b>0.9%</b>	<b>0.0%</b>	<b>0.0%</b>
Adjusted EBITDA									
Margin (%)	75.0%	11.8%	13.2%	14.5%	16.0%	18.0%	<b>14.5%</b>	<b>101.7%</b>	<b>76.3%</b>
<b>Arconic Final Payout</b>	<b>100.0%</b>								<b>76.3%</b>

### Other Compensation Policies and Practices

We highlight below certain executive compensation practices, both practices we have implemented to incentivize performance and certain other practices that we have not implemented because we do not believe they would serve shareholders' long-term interests.

#### What We Do

**We Pay for Performance.** We link our executives' compensation to measured performance in key financial and nonfinancial areas. As noted above, performance against rigorous adjusted FCF, adjusted net income, adjusted EBITDA margin, revenue growth, safety, environmental, and workplace diversity targets is measured in determining compensation. These metrics, coupled with the individual performance multipliers, incentivize individual, business group, and corporate performance. The Company's strategic priorities are reflected in these compensation metrics.

**We Consider Peer Groups in Establishing Compensation.** Our aluminum industry peers do not provide an adequate basis for compensation comparison purposes because there are too few of them, they are all located outside of the United States and they do not disclose sufficient comparative compensation data. As previously stated under *Analysis of 2016 Compensation Decisions*, for 2016 compensation decisions, we used a focused peer group consisting of 10 Materials and 10 Industrials companies that are relevant to and aligned with Alcoa's upstream (materials) and midstream and downstream (industrials) businesses to help set target total direct compensation for the CEO. We used Towers Watson's broad-based survey data for companies with revenues between \$15 billion and \$50 billion (excluding financial companies) for 2016 compensation decisions to help estimate competitive compensation for other executive level positions. We target our



**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

compensation structure at the median of each of these groups of companies. As discussed above, the peer group has been modified for 2017 to reflect the impact of the separation.

***We Review Tally Sheets.*** The Compensation Committee reviews tally sheets that summarize various elements of historic and current compensation for each NEO in connection with making annual compensation decisions. This information includes compensation opportunity, actual compensation realized and wealth accumulation. We have found that the tally sheets help us synthesize the various components of our compensation program in making decisions.

***We Have Robust Stock Ownership Guidelines.*** Our stock ownership requirements further align the interests of management with those of our shareholders by requiring executives to hold substantial equity in Arconic until retirement. Our stock ownership guidelines require that the CEO retain equity equal in value to six times his base salary and that each of the other NEOs retain equity equal in value to three times salary. Unlike many of our peers, we do not count any unvested or unexercised options, restricted share units, performance-based restricted share units or any stock appreciation rights towards compliance purposes. Our guidelines reinforce management's focus on long-term shareholder value and commitment to the Company. Until the stock ownership requirements are met, each executive is required to retain until retirement 50% of shares acquired upon vesting of restricted share units (including performance-based restricted shares units) or upon exercise of stock options that vest after March 1, 2011, after deducting shares used to pay for the option exercise price and taxes. As of Jan. 31, 2017, Messrs. Kleinfeld and Meggers have met the guidelines. The other continuing NEOs Messrs. Giacobbe, Kollatz and Tragl who were appointed to their current positions within the past two years, have not yet met the guidelines.

***We Schedule and Price Stock Option Grants to Promote Transparency and Consistency.*** We grant stock options to named executive officers at a fixed time every year generally the date of the Board and Compensation Committee meetings in January. The exercise price of employee stock options is the closing price of our stock on the grant date, as reported on the New York Stock Exchange.

***We Have Claw Back Policies Incorporated into Our Incentive Plans.*** The 2009 and 2013 Arconic Stock Incentive Plans, the Incentive Compensation Plan for annual cash incentives and the Arconic Internal Revenue Code Section 162(m) Compliant Annual Cash Incentive Compensation Plan each contain provisions permitting recovery of performance-based compensation. These provisions are explained in Corporate Governance Recovery of Incentive Compensation.

***We Have Double-Trigger Equity Vesting in the Event of a Change in Control.*** Awards granted under our equity compensation plans do not immediately vest upon a change in control if a replacement award is provided. The replacement award will vest immediately if, within a two-year period following a change in control, a plan participant is terminated without cause or leaves for good reason.

Performance based stock awards will be converted to time-vested stock awards upon a change in control under the following terms: (i) if 50% or more of the performance period has been completed as of the date on which the change in control has occurred, then the number of shares or the value of the award will be based on actual performance completed as of the date of the change in control; or (ii) if less than 50% of the performance period has been completed as of the date on which the change in control has occurred, then the number of shares or the value of the award will be based on the target number or value.

***We Have a Conservative Compensation Risk Profile.*** The Compensation Committee evaluates the risk profile of our compensation programs when establishing policies and approving plan design, and the Board of Directors annually considers risks related to compensation in its oversight of enterprise risk management. These evaluations have noted numerous ways in which compensation risk is effectively managed or mitigated, including the following factors:

A balance of corporate and business unit weighting in incentive compensation plans;

A balanced mix between short-term and long-term incentives;

Caps on incentives;

Use of multiple performance measures in the annual cash incentive compensation plan and the equity incentive plan, with a focus on operational targets to drive free cash flow and profitability;

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

Discretion retained by the Compensation Committee to adjust awards;

Stock ownership guidelines requiring holding substantial equity in the Company until retirement;

Claw back policies applicable to all forms of incentive compensation;

Anti-hedging provisions in the Company's Insider Trading Policy; and

Restricting stock options to 20% of the value of equity awards to senior officers.

In addition, (i) no business unit has a compensation structure significantly different from that of other units or that deviates significantly from the Company's overall risk and reward structure; (ii) unlike financial institutions involved in the financial crisis, where leverage exceeded capital by many multiples, the Company has a conservative leverage policy; and (iii) compensation incentives are not based on the results of speculative trading. In 1994, the Board of Directors adopted resolutions creating the Strategic Risk Management Committee with oversight of hedging and derivative risks and a mandate to use such instruments to manage risk and not for speculative purposes. As a result of these evaluations, we have determined that it is not reasonably likely that risks arising from our compensation and benefit plans would have a material adverse effect on the Company. See discussion in *The Board's Role in Risk Oversight*.

***We Consider Tax Deductibility When Designing and Administering Our Incentive Compensation.*** Section 162(m) of the Internal Revenue Code limits deductibility of certain compensation to \$1 million per year for the Company's Chief Executive Officer and each of the three other most highly compensated executive officers (other than the Chief Financial Officer) who are employed at year-end. If certain conditions are met, performance-based compensation may

be excluded from this limitation. Our shareholder-approved incentive compensation plans are designed with the intention that performance-based compensation paid under them may be eligible to qualify for deductibility under Section 162(m) and, in making compensation decisions, the Compensation Committee considers the potential deductibility of the proposed compensation. However, the Compensation Committee retains flexibility in administering our compensation programs and may exercise discretion to authorize awards or payments that it deems to be in the best interests of the Company and its shareholders which may not qualify for tax deductibility.

***The Compensation Committee Retains an Independent Compensation Consultant.*** The Compensation Committee has authority under its charter to retain its own advisors, including compensation consultants. In 2016, the Committee directly retained Pay Governance LLC, which is independent and without conflicts of interest with the Company. See Corporate Governance Compensation Consultants on page 34. Pay Governance LLC provided advice as requested by the Committee, on the amount and form of certain executive compensation components, including, among other things, executive compensation best practices, insights concerning SEC and say-on-pay policies, analysis and review of the Company's compensation plans for executives and advice on setting the CEO's compensation. Pay Governance LLC also provided advice on the Compensation Discussion and Analysis in this proxy statement. Pay Governance LLC did not provide any services to the Company other than the services provided directly to the Compensation Committee. We use comparative compensation data from the proxy statements of the CEO peer group and survey data from Towers Watson to help evaluate whether our compensation programs are competitive with the market. The latter is not customized based on parameters developed by Towers Watson. Towers Watson does not provide any advice or recommendations to the Compensation Committee on the amount or form of executive or director compensation.

***We Actively Engage in Compensation and Governance-Related Discussions with Investors.*** We engage with investors throughout the year to obtain comments and insights that guide our executive compensation programs. Conversations with governance and compensation professionals at our investors help us understand investor priorities and provide us with guidance on our compensation and governance practices.

### **What We Don't Do**

***We Do Not Pay Dividend Equivalents on Stock Options and Unvested Restricted Share Units.*** Dividend equivalents are not paid currently on any restricted share units (including performance-based restricted share units), but are accrued and paid only if the award vests. Dividend equivalents that accrue on restricted share units will be calculated at the same rate as dividends paid on the common stock of the Company. Dividend equivalents are not paid on stock options.

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

***We Do Not Allow Share Recycling.*** The 2009 and 2013 Arconic Stock Incentive Plans prohibit share recycling. Shares tendered in payment of the purchase price of a stock option award or withheld to pay taxes may not be added back to the available pool of shares.

***We Do Not Allow Repricing of Underwater Stock Options (including cash-outs).*** The 2009 and 2013 Arconic Stock Incentive Plans prohibit repricing, including cash-outs of underwater stock options.

***We Do Not Allow Hedging or Pledging of Company Stock.*** Short sales of Arconic securities (a sale of securities which are not then owned) and derivative or speculative transactions in Arconic securities by our directors, officers and employees are prohibited. No director, officer or employee or any designee of such director, officer or employee is permitted to purchase or use financial instruments (including prepaid variable forward contracts, equity swaps, collars, and exchange funds) that are designed to hedge or offset any decrease in the market value of Arconic securities. Directors and officers subject to Section 16 of the Securities Exchange Act of 1934 are prohibited from holding Arconic securities in margin accounts, pledging Arconic securities as collateral, or maintaining an automatic rebalance feature in savings plans, deferred compensation or deferred fee plans.

***We Do Not Have Excise Tax Gross-Ups in Our Change in Control Severance Plan.*** As amended effective February 27, 2017, the Change in Control Severance Plan provides that no excise or other tax gross-ups will be paid, and severance benefits will be available only upon termination of employment for good reason by an officer or without cause by the Company within three years after a change in control of the Company. For a discussion of the Change in Control Severance Plan, see *Potential Payments upon Termination or Change in Control* on page 72.

***We Do Not Enter into Multi-Year Employment Contracts.*** It is the policy of the Compensation Committee not to enter into multi-year employment contracts with senior executives providing for guaranteed payments of cash or equity compensation.

***We Do Not Provide Significant Perquisites.*** Consistent with our executive compensation philosophy and our commitment to emphasize performance-based pay, we limit the perquisites that we provide to our executive officers, including the NEOs, to perquisites that serve reasonable business purposes. (See *Notes to 2016 Summary Compensation Table Column (i) All Other Compensation.* ) For the Chief Executive Officer only, the Company provides for personal use of Company aircraft and a Company car, and maintenance of security features of his personal residence. The transportation benefits provided to the Chief Executive Officer are for security and efficiency reasons and to enable him to focus as much of his personal time on Company business as possible. No tax gross-ups are provided on these perquisites.

Table of Contents

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)**2016 Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non- Qualified Deferred Earnings (\$)	All Other Compensation (\$)	Total (\$)
Klaus Kleinfeld <i>Chairman and Chief</i>	2016	\$ 1,440,000	\$	\$ 7,912,221	\$ 1,978,002	\$ 2,137,320	\$ 3,111,941	\$ 226,304	\$ 16,805,788
	2015	\$ 1,440,000	\$	\$ 8,600,394	\$ 2,150,025	\$ 1,816,020	\$ 3,246,848	\$ 232,942	\$ 17,486,222
<i>Executive Officer</i>	2014	\$ 1,440,000	\$	\$ 6,960,058	\$ 1,740,011	\$ 3,228,984	\$ 4,568,900	\$ 220,569	\$ 18,158,522
Kenneth J. Giacobbe <i>Executive Vice</i>	2016	\$ 386,250	\$	\$ 390,391	\$	\$ 281,824	\$ 149,741	\$ 429,478	\$ 1,637,674
<i>President and Chief</i>									
<i>Financial Officer</i>									

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<b>William F. Oplinger<sup>1</sup></b>	<b>2016</b>	<b>\$ 458,333</b>	<b>\$</b>	<b>\$ 1,280,061</b>	<b>\$ 320,014</b>	<b>\$</b>	<b>\$ 351,494</b>	<b>\$</b>	<b>23,650</b>	<b>\$</b>	<b>2,433,55</b>	
	2015	\$ 541,667	\$	\$ 1,600,406	\$ 400,020	\$	479,375	\$	327,386	\$	37,500	\$ 3,386,35
<i>Former Executive Vice</i>	2014	\$ 500,000	\$	\$ 1,288,037	\$ 322,028	\$	849,375	\$	413,526	\$	30,000	\$ 3,402,96
<i>resident and Chief</i>												
<i>Financial Officer</i>												
<b>Christoph Kollatz</b>	<b>2016</b>	<b>\$ 531,250</b>	<b>\$</b>	<b>\$ 688,019</b>	<b>\$</b>	<b>\$ 551,877</b>	<b>\$</b>	<b>\$</b>	<b>104,068</b>	<b>\$</b>	<b>1,875,21</b>	
<i>Executive Vice</i>												
<i>resident, Corporate</i>												
<i>Development, Strategy</i>												
<i>New Ventures</i>												
<b>Way H. Meggers</b>	<b>2016</b>	<b>\$ 491,667</b>	<b>\$</b>	<b>\$ 1,280,061</b>	<b>\$ 320,014</b>	<b>\$</b>	<b>556,528</b>	<b>\$</b>	<b>\$</b>	<b>27,414</b>	<b>\$</b>	<b>2,675,68</b>
<i>Executive Vice</i>												
<i>resident and Group</i>												
<i>resident, Global</i>												
<i>Controlled Products</i>												
<b>Carl Tragl<sup>2</sup></b>	<b>2016</b>	<b>\$ 453,125</b>	<b>\$</b>	<b>\$ 1,600,176</b>	<b>\$</b>	<b>\$ 557,756</b>	<b>\$</b>	<b>\$</b>	<b>125,243</b>	<b>\$</b>	<b>2,811,30</b>	
<i>Executive Vice</i>												
<i>resident and Group</i>												
<i>resident, Engineered</i>												
<i>Products and Solutions</i>												
<b>Olivier M. Jarrault<sup>3</sup></b>	<b>2016</b>	<b>\$ 352,917</b>	<b>\$</b>	<b>\$ 1,600,076</b>	<b>\$ 400,002</b>	<b>\$</b>	<b>298,215</b>	<b>\$</b>	<b>\$ 1,558,997</b>	<b>\$</b>	<b>4,210,20</b>	
	2015	\$ 595,833	\$	\$ 1,600,406	\$ 400,020	\$	288,830	\$	302,283	\$	15,900	\$ 3,203,27
<i>Former Executive Vice</i>	2014	\$ 550,000	\$	\$ 1,600,027	\$ 400,014	\$	845,625	\$	510,445	\$	25,600	\$ 3,931,71
<i>resident and Group</i>												
<i>resident, Engineered</i>												
<i>Products and Solutions</i>												
<b>Audrey Strauss</b>	<b>2016</b>	<b>\$ 565,000</b>	<b>\$ 200,000</b>	<b>\$ 1,408,121</b>	<b>\$ 352,005</b>	<b>\$</b>	<b>838,601</b>	<b>\$</b>	<b>\$</b>	<b>67,351</b>	<b>\$</b>	<b>3,631,07</b>
	2015	\$ 565,000	\$	\$ 1,408,208	\$ 352,013	\$	550,027	\$	\$	76,189	\$	2,951,43
<i>Former Executive Vice</i>	2014	\$ 565,000	\$	\$ 1,408,042	\$ 352,018	\$	844,619	\$	\$	78,277	\$	3,247,95
<i>resident, Chief Legal</i>												
<i>Officer and Secretary</i>												

[Notes to 2016 Summary Compensation Table](#)



<sup>1</sup>Mr. Oplinger terminated employment with the Company and became Chief Financial Officer of Alcoa Corporation effective as of November 1, 2016, the date of the separation. This table reflects (a) base salary paid to Mr. Oplinger by the Company through November 1, 2016; (b) stock options and performance-based restricted share unit awards granted to Mr. Oplinger by the Company through November 1, 2016, which were assumed by Alcoa Corporation in connection with the separation, and the change in value of Mr. Oplinger's pension, which was assumed by Alcoa Corporation in connection with the separation, through November 1, 2016. Mr. Oplinger did not receive an annual cash incentive award payment from the Company for 2016 due to his termination of employment with the Company in connection with the separation.

<sup>2</sup>The 2016 bonus amount for Mr. Tragl represents half of his negotiated sign-on bonus of \$150,000. The bonus is payable in two equal installments, the first of which was paid upon the commencement of his employment in February 2016 and the second which will be paid upon his first anniversary of employment.

<sup>3</sup>Compensation for Mr. Jarrault reflects payments up until August 1, 2016, the termination date of his employment. His pension value declined by \$328,033 but displays as \$0 for purposes of the summary compensation table which does not allow negative adjustments to the total.

<sup>4</sup>The 2016 bonus amount for Ms. Strauss represents a one-time bonus of \$200,000, associated with her continued service following the separation and her contributions towards successful completion of the transaction.

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)**Columns (e) Stock Awards and (f) Option Awards**

The amounts shown in the **Stock Awards** and **Option Awards** columns represent the grant date fair value of equity awards granted in 2016 determined in accordance with FASB ACS Topic 718 based on the assumptions and methodologies set forth in Note P to Arconic's Annual Report on Form 10-K for fiscal year 2016. These values reflect the number of actual awards that were granted prior to the 1-for-3 reverse stock split in October 2016 and separation in November 2016 (as reflected in the *2016 Grants of Plan-Based Awards* table below). With respect to the performance-based restricted share units granted in 2016, the grant date fair value included in the **Stock Awards** column represents the target payout at the grant date based upon the probable outcome of the performance conditions. The minimum value at the grant date of these performance-based restricted share units assuming that threshold performance levels are not achieved is \$0, and the maximum value at the grant date assuming that the highest level of performance is achieved is: Mr. Kleinfeld, \$15,824,442, Mr. Giacobbe, \$390,381, Mr. Oplinger, \$2,560,122, Mr. Kollatz, \$688,019, Mr. Meggers, \$2,560,122, Mr. Tragl, \$3,200,352, Mr. Jarrault, \$3,200,152, and Ms. Strauss, \$2,816,242.

**Column (i) All Other Compensation.****Company Contributions to Savings Plans.**

Name	Company Matching	3% Retirement	Total
------	------------------	---------------	-------

	Contribution		Contribution		Company Contribution
	Savings	Def. Comp.	Savings	Def. Comp.	
	Plan	Plan	Plan	Plan	
Klaus Kleinfeld	\$ 15,900	\$ 70,500	\$ 7,950	\$ 0	\$ 94,350
Kenneth J. Giacobbe	\$ 13,808	\$ 0	\$ 0	\$ 0	\$ 13,808
William F. Oplinger	\$ 15,900	\$ 2,750	\$ 0	\$ 0	\$ 18,650
Christoph Kollatz	\$ 15,900	\$ 15,975	\$ 7,950	\$ 15,369	\$ 55,194
Kay H. Meggers	\$ 0	\$ 0	\$ 7,950	\$ 19,464	\$ 27,414
Karl Tragl	\$ 0	\$ 0	\$ 7,950	\$ 4,988	\$ 12,938
Olivier M. Jarrault	\$ 15,900	\$ 0	\$ 0	\$ 0	\$ 15,900
Audrey Strauss	\$ 15,900	\$ 18,000	\$ 7,950	\$ 25,501	\$ 67,351

**Company Aircraft, Car Service and Security.** In 2016, the incremental cost of Mr. Kleinfeld's personal use of Company aircraft was valued at \$75,315 and Mr. Kleinfeld had personal use of a Company car and driver valued at \$51,540. The Company also covered maintenance of security features of the CEO's personal residence at a cost of \$5,099 in 2016.

**Relocation Expenses.** In 2016, Arconic provided benefits totaling \$112,305, including a gross-up amount of \$22,526, to Mr. Tragl related to his relocation to New York, NY, from Germany, where he started his employment in his prior role as Executive Vice President and Group President, Transportation and Construction Solutions. Mr. Kollatz received benefits totaling \$48,874, including a gross-up amount of \$7,725, pursuant to his relocation in 2015 to New York, NY from Germany. Arconic also provided \$408,844 in relocation benefits to Mr. Giacobbe related to his move to New York, NY pursuant to his appointment of Executive Vice President and Chief Financial Officer of the Company and \$6,826 in tax services related to an international assignment in a prior role when he was based in Switzerland.

**Charitable Contributions.** In 2016, the Alcoa Foundation matched \$5,000 each in contributions made by Mr. Oplinger to an approved charitable organization and by Mr. Jarrault to an educational institution.

**Severance Payments.** Pursuant to his executive severance agreement, Mr. Jarrault was paid the following amounts on February 1, 2017, which was 6 months following his termination date:

Lump sum severance of \$1,210,000, which is equivalent to two years of salary.

Lump sum payment estimated at \$278,097, which is equivalent to the value of two years additional pension service.

Lump sum payment of \$50,000 for the release of legal claims against the Company.

Continuation of health care benefits for two years.

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)**2016 GRANTS OF PLAN-BASED AWARDS**

The following table reflects grants of plan-based awards as of the applicable grant date. Equity-based awards were subsequently adjusted to reflect the impact of the 1-for-3 reverse stock split of Alcoa Inc. common stock in October 2016 and in connection with the separation. See the table entitled "2016 Outstanding Equity Awards at Fiscal Year-End" for the number of equity-based awards outstanding as of December 31, 2016, after the adjustments to reflect the reverse stock split and the separation.

Grant Dates (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards <sup>1</sup>			Estimated Future Payouts Under Equity Incentive Plan Awards <sup>2</sup>			All Other Stock Awards: Number of Shares of Stock	All Other Option Awards: Number of Securities Underlying Options <sup>4</sup>	Exercise or Base Price of Option Awards (\$/sh) (k)
	Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)	or Units <sup>3</sup> (#) (i)	Options <sup>4</sup> (#) (j)	Awards (k)
	\$1,080,000	\$2,160,000	\$6,480,000						

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01/19/16				0	1,173,920	2,347,840		933,020	\$6.74
01/19/16	\$ 131,209	\$ 262,417	\$ 787,251	0	28,960	57,920	28,960		
01/19/16	\$ 229,167	\$ 458,333	\$1,374,999	0	189,920	379,840		150,950	\$6.74
01/19/16	\$ 265,625	\$ 531,250	\$1,593,750	0	51,040	102,080	51,040		
01/19/16	\$ 236,364	\$ 472,727	\$1,418,181	0	189,920	379,840		150,950	\$6.74
07/21/2016	\$ 216,674	\$ 433,348	\$1,300,044	0	150,960	301,920			
01/19/16	\$ 176,459	\$ 352,917	\$1,058,751	0	237,400	474,800		188,680	\$6.74
01/19/16	\$ 282,500	\$ 565,000	\$1,695,000	0	208,920	417,840		166,040	\$6.74

1 2016 annual cash incentive awards made under the Incentive Compensation Plan. See Compensation Discussion and Analysis.

2 Performance based restricted share units, granted under the 2013 Arconic Stock Incentive Plan, which vest on the third anniversary of grant, subject to achievement of performance conditions and generally subject to continued employment. See Compensation Discussion and Analysis.

3 Time-vested restricted share unit awards, retention and other special awards granted under the 2013 Arconic Stock Incentive Plan, which vest 3 years after the grant date.

4 Time vested stock options granted under the 2013 Arconic Stock Incentive Plan, which vest ratably over a three-year period, generally subject to continued employment and have a maximum term of ten years.

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

**Grants of Plan-Based Awards (Actual Awards)**

The 2016 Grants of Plan-Based Awards table sets forth the 2016 cash incentive and equity incentive opportunity for the NEOs. The 2016 award targets and performance are discussed in Compensation Discussion and Analysis.

**Mr. Kleinfeld**

On January 19, 2016, Mr. Kleinfeld received an annual grant of 933,020 stock options and a performance-based restricted share unit award with a target amount of 1,173,920 restricted share units. The earned amount of the first third of the performance-based restricted share unit award was 341,220 restricted share units (or 151,442 restricted share units on a post reverse stock split and separation basis). He was paid cash incentive compensation for 2016 in the amount of \$2,137,320.

**Mr. Giacobbe**

On January 19, 2016, Mr. Giacobbe received an annual grant of 28,960 restricted share units and a performance-based restricted share unit award with a target amount of 28,960 restricted share units. The earned amount of the first third of the performance-based restricted share unit award was 8,418 restricted share units (or 3,736 restricted share units on a post reverse stock split and separation basis). He was paid cash incentive compensation for 2016 in the amount of \$281,824.

**Mr. Oplinger**

On January 19, 2016, Mr. Oplinger received an annual grant of 150,950 stock options and a performance-based restricted share unit award with a target amount of 189,920 restricted share units. These awards were assumed by Alcoa Corporation, which will also determine and pay his final cash incentive compensation for 2016.

**Mr. Kollatz**

On January 19, 2016, Mr. Kollatz received an annual grant of 51,040 restricted share units and a performance-based restricted share unit award with a target amount of 51,040 restricted share units. The earned amount of the first third of the performance-based restricted share unit award was 14,836 restricted share units (or 6,585 restricted share units on a post reverse stock split and separation basis). He was paid cash incentive compensation for 2016 in the amount of \$551,877.

**Mr. Meggers**

On January 19, 2016, Mr. Meggers received an annual grant of 150,950 stock options and a performance-based restricted share unit award with a target amount of 189,920 restricted share units. The earned amount of the first third of the performance-based restricted share unit award was 48,240 restricted share units (or 21,410 restricted share units on a post reverse stock split and separation basis). He was paid cash incentive compensation for 2016 in the amount of \$556,528.

**Mr. Tragl**

On July 21, 2016, Mr. Tragl received a performance-based restricted share unit award with a target amount of 150,960 restricted share units. The earned amount of the performance-based restricted share unit award was 54,044 restricted share units (or 23,986 restricted share units on a post reverse stock split and separation basis). He was paid cash incentive compensation for 2016 in the amount of \$557,756.

**Mr. Jarrault**

On January 19, 2016, Mr. Jarrault received an annual grant of 188,680 stock options and a performance-based restricted share unit award with a target amount of 237,400 restricted share units. The earned amount of the first third of the performance-based restricted share unit award was 47,401 restricted share units (or 21,038 restricted share units on a post reverse stock split and separation basis). He was paid cash incentive compensation for 2016 in the amount of \$298,215.

**Ms. Strauss**

On January 19, 2016, Ms. Strauss received an annual grant of 166,040 stock options and a performance-based restricted share unit award with a target amount of 208,920 restricted share units. The earned amount of the first third of the performance-based restricted share unit award was 60,726 restricted share units (or 26,952 restricted share units on a post reverse stock split and separation basis). She was paid cash incentive compensation for 2016 in the amount of \$838,601.

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

**2016 Outstanding Equity Awards at Fiscal Year-End**

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (a)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (b)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (c)	Exercise Price (\$) (d)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (h)	Equity Incentive Plan Awards: Number of Shares, Units or Rights That Have Not Vested (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$) (j)
<b>Klaus Kleinfeld</b>									
<i>Stock Awards<sup>1</sup></i>						554,421	\$ 10,278,965*	429,166	\$ 7,956,738*
<i>Performance Options</i>	393,372			30.51	2020/01/26				



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<i>Time-Vested</i>		414,097	15.19	2026/01/19					
<i>Options</i> <sup>2</sup>	71,159	142,317	35.04	2025/01/20					
	181,282	90,640	24.88	2024/01/16					
	324,947		20.01	2023/01/16					
	216,919		22.92	2022/01/20					
	170,016		36.60	2021/01/25					
<b>Kenneth J. Giacobbe</b>									
<i>Stock Awards</i> <sup>1</sup>					39,074	\$ 724,432*	10,425	\$ 193,280*	
<i>Time-Vested</i>	5,040		22.92	2022/01/20					
<i>Options</i> <sup>2</sup>									
<b>William F. Oplinger</b> <sup>3</sup>									
<i>Stock Awards</i> <sup>1</sup>									
<i>Time-Vested</i>									
<i>Options</i> <sup>2</sup>									
<b>Christoph Kollatz</b>									
<i>Stock Awards</i> <sup>1</sup>					32,938	\$ 610,671*	15,101	\$ 279,973*	
<b>Kay H. Meggers</b>									
<i>Stock Awards</i> <sup>1</sup>					87,777	\$ 1,627,386*	68,371	\$ 1,267,598*	
<i>Time-Vested</i>		66,994	15.19	2026/01/19					
<i>Options</i> <sup>2</sup>	10,591	21,182	35.04	2025/01/20					
	33,340	16,670	24.88	2024/01/16					
	72,915		20.01	2023/01/16					
	28,257		22.92	2022/01/20					
<b>Karl Tragl</b>									
<i>Stock Awards</i> <sup>1</sup>					23,986	\$ 444,700*			
<b>Olivier M. Jarrault</b>									
<i>Stock Awards</i> <sup>1</sup>					98,021	\$ 1,817,309*	85,467	\$ 1,584,558*	
<i>Time-Vested</i>		83,740	15.19	2021/08/01					
<i>Options</i> <sup>2</sup>	13,240	26,478	35.04	2021/08/01					
	41,675	20,837	24.88	2021/08/01					
	50,236		22.92	2021/08/01					
	17,899		36.60	2021/01/25					
	16,004		30.51	2020/01/26					
<b>Audrey Strauss</b>									
<i>Stock Awards</i> <sup>1</sup>					103,505	\$ 1,918,983*	75,213	\$ 1,394,449*	
<i>Time-Vested</i>		73,692	15.19	01/01/2022					
<i>Options</i> <sup>2</sup>	11,651	23,300	35.04	01/01/2022					
	36,674	18,337	24.88	01/01/2022					
	69,746		20.01	01/01/2022					

\* Calculated using the closing price of Arconic's common stock on December 30, 2016 which was \$18.54 per share.

Stock awards in column (g) include earned performance-based restricted share unit awards and time-vested restricted share unit awards. Stock awards in column (i) include unearned performance-based restricted share unit awards at the target level. In January 2017, the payout for certain performance-based restricted share unit awards was determined. The full earned amount is shown in column (g). All stock awards are in the form of restricted share units that vest three years from the date of grant, generally subject to continued employment and are paid in common stock when they vest.

2. Time-vested options include stock options granted at the regular annual grant date when the Compensation Committee meets in January. Options granted since 2009 have a term of ten years and vest over three years (1/3 each year), generally subject to continued employment.
- 3 Mr. Oplinger did not hold any Arconic equity awards as of fiscal year end. His equity awards granted in 2016 were assumed by Alcoa Corporation in connection with the separation.

Table of Contents

## 2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)**2016 OPTION EXERCISES AND STOCK VESTED**

This table sets forth the value and number of stock options on the actual date of exercise and the value and number of restricted share units on the actual date of vesting for each of the named executive officers in 2016, which were prior to the reverse stock split of Alcoa Inc. common stock in October 2016 and the separation in November 2016 so do not reflect any adjustments to account for these two events.

Name	Option Awards		Stock Awards	
	Number of Shares	Value Realized	Number of Shares	Value Realized on
(a)	Acquired on Exercise	on Exercise	Acquired on Vesting	Vesting
(#)	(#)	(\$)	(#)	(\$)
(b)	(c)	(d)	(e)	
<b>Klaus Kleinfeld</b>			796,610	\$ 5,369,151
<b>Kenneth J. Giacobbe</b>			23,680	\$ 159,603
<b>William F. Oplinger</b>			97,159	\$ 654,852
<b>Christoph Kollatz</b>				
<b>Kay H. Meggers</b>			178,758	\$ 1,204,829
<b>Karl Tragl</b>				
<b>Olivier M. Jarrault</b>	110,290	\$ 190,294	178,758	\$ 1,204,829
<b>Audrey Strauss</b>			170,982	\$ 1,152,419

## 2016 Pension Benefits

Name <sup>1</sup>	Plan Name(s)	Years of Credited Service	Present Value		Payments
			of Accumulated Benefits		During Last Fiscal Year
<b>Klaus Kleinfeld</b>	Individual Agreement	9.25	\$	<b>19,047,979</b>	N/A
<b>Kenneth J. Giacobbe</b>	Arconic Retirement Plan	12.53	\$	312,593	
	Excess Benefits Plan C		\$	331,445	
	<b>Total</b>		\$	<b>644,038</b>	N/A
<b>William F. Oplinger<sup>2</sup></b>	Arconic Retirement Plan	16.61	\$	397,536	
	Excess Benefits Plan C		\$	1,213,977	
	<b>Total</b>		\$	<b>1,611,513</b>	N/A
<b>Olivier M. Jarrault</b>	Arconic Retirement Plan	13.66	\$	317,040	
	Excess Benefits Plan C		\$	1,285,463	
	<b>Total</b>		\$	<b>1,602,503</b>	\$ 7,626

1 Ms. Strauss and Messrs. Kollatz, Meggers, and Tragl do not appear in the table as they are not eligible to participate in the defined benefit pension plan, which was closed to employees hired after March 1, 2006.

2 Mr. Oplinger's years of credited service and present values are calculated through November 1, 2016 when Mr. Oplinger began serving as the Chief Financial Officer of Alcoa Corporation. In connection with the separation, Alcoa Corporation assumed all liability for Mr. Oplinger's pension.

Valuation and Assumptions: For a discussion of the valuation method and assumptions applied in quantifying the present value of the accumulated benefit, please refer to the following sections in the Company's Annual Report on Form 10-K for the year ended December 31, 2016: *Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Critical Accounting Policies and Estimates*, *Pension and Other Postretirement Benefits* and Note U to the Consolidated Financial Statements.

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

**Qualified Defined Benefit Plan.** In 2016, Messrs. Giacobbe, Oplinger, and Jarrault participated in the Arconic Retirement Plan. The Arconic Retirement Plan is a funded, tax-qualified, non-contributory defined benefit pension plan that covers a majority of U.S. salaried employees. Benefits under the plan are based upon years of service and final average earnings. Final average earnings include salary plus 100% of annual cash incentive compensation, and are calculated using the average of the highest consecutive five of the last ten years of earnings. The amount of annual compensation that may be taken into account under the Arconic Retirement Plan is subject to a limit imposed by the U.S. tax code, which was \$265,000 for 2016. The base benefit payable at age 65 is 1.1% of final average earnings up to the Social Security covered compensation limit plus 1.475% of final average earnings above the Social Security covered compensation limit, times years of service. Benefits are payable as a single life annuity, a reduced 50% joint and survivor annuity, or a reduced 75% joint and survivor annuity upon retirement.

**Nonqualified Defined Benefit Plans.** Messrs. Giacobbe, Oplinger and Jarrault participate in the Excess Benefits Plan C. This plan is a nonqualified plan which provides for benefits taking into account compensation that exceeds the limits on compensation imposed by the U.S. tax code. The benefit formula is identical to the Arconic Retirement Plan formula. Benefits under the nonqualified plan are payable as a reduced 50% joint and survivor annuity if the executive is married. Otherwise, the benefit is payable as a single life annuity.

**Individual Agreements.** Mr. Kleinfeld is entitled to a supplemental retirement benefit payable annually after retirement equal to the excess of the product of 4.35% multiplied by years of service multiplied by average final compensation, over a retirement pension payable by Siemens AG (Mr. Kleinfeld's previous employer).

**Arconic Retirement Savings Plan.** For U.S. salaried employees hired on or after March 1, 2006, including Messrs. Kleinfeld, Kollatz, Meggers and Tragl and Ms. Strauss, the Company makes an Employer Retirement Income Contribution (ERIC) in an amount equal to 3% of salary and annual incentive eligible for contribution to the Arconic Retirement Savings Plan as a pension contribution in lieu of a defined benefit pension plan, which was available to employees hired before March 1, 2006. The Company contributed \$7,950 to each of these individuals' accounts in 2016. In addition, all U.S. salaried employees, including the named executive officers, are eligible to receive a

Company matching contribution of 100% up to the first 6% of deferred salary. In 2016, the Company matching contribution amount was \$15,900 each for Messrs. Kleinfeld, Oplinger, Kollatz and Jarrault, and Ms. Strauss and \$13,808 for Mr. Giacobbe. These amounts are included in the column *All Other Compensation* in the *2016 Summary Compensation Table*.

### 2016 Nonqualified Deferred Compensation

Name	Executive	Registrant	Aggregate		
	Contributions	Contributions	Aggregate	Withdrawals	Aggregate Balance
	in 2016	in 2016	Earnings	Distributions	at 12/31/2016
	(\$)	(\$)	in 2016	(\$)	(\$)
(a)	(b)	(c)	(d)	(e)	(f)
<b>Klaus Kleinfeld</b>	\$ 70,500	\$ 70,500	\$ 22,309 E		\$ 1,433,701
			\$ 4,025 D		
<b>Kenneth J. Giacobbe</b>			\$ 432 E		\$ 24,001
<b>William F. Oplinger<sup>1</sup></b>	\$ 32,083	\$ 2,750	\$ 45,230 E		\$ 896,549
			\$ 165 D		
<b>Christoph Kollatz</b>	\$ 15,975	\$ 31,344	\$ 3,078 E		\$ 55,831
<b>Kay H. Meggers</b>		\$ 19,464	\$ 45,992 E		\$ 853,544
			\$ 99 D		
<b>Karl Tragl</b>		\$ 4,988	\$ 52 E		\$ 5,040
<b>Olivier M. Jarrault</b>					
<b>Audrey Strauss</b>	\$ 18,000	\$ 43,501	\$ 3,600 E		\$ 298,400
			\$ 365 D		

E Earnings

D Dividends on Arconic common stock or share equivalents

**Table of Contents**

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

1 Mr. Oplinger's values are calculated through November 1, 2016 when Mr. Oplinger began serving as the Chief Financial Officer of Alcoa Corporation. In connection with the separation, Alcoa Corporation assumed all liability for Mr. Oplinger's deferred compensation account.

The investment options under the nonqualified Deferred Compensation Plan are the same choices available to all salaried employees under the Arconic Retirement Savings Plan and the named executive officers do not receive preferential earnings on their investments. The named executive officers may defer up to 25% of their salaries in total to the Arconic Retirement Savings Plan and Deferred Compensation Plan and up to 100% of their annual cash incentive compensation to the Deferred Compensation Plan.

The Company contributes matching contributions on employee base salary deferrals that exceed the limits on compensation imposed by the U.S. tax code. In 2016, the Company matching contribution amount was \$70,500 for Mr. Kleinfeld, \$2,750 for Mr. Oplinger, \$15,975 for Mr. Kollatz, and \$18,000 for Ms. Strauss.

In addition, when the U.S. tax code limits on Employer Retirement Income Contributions (ERIC) to the Arconic Retirement Savings Plan are reached, the ERIC contributions are made into the Deferred Compensation Plan. In 2016, the Company contributed \$15,369 for Mr. Kollatz, \$19,464 for Mr. Meggers, \$4,988 for Mr. Tragl, and \$25,501 for Ms. Strauss. Mr. Kleinfeld does not receive these deferred compensation contributions due to his individual pension agreement. Messrs. Giacobbe, Oplinger and Jarrault do not receive these deferred compensation contributions because they participate in the Company's defined benefit pension plan.

These amounts are included in the column *All Other Compensation* in the *2016 Summary Compensation Table*.

All nonqualified pension and deferred compensation obligations are general unsecured liabilities of the Company until paid. Upon termination of employment, deferred compensation will be paid in cash as a lump sum or in up to ten annual installments, depending on the individual's election, account balance and retirement eligibility.

**Potential Payments upon Termination or Change in Control**

**Executive Severance Agreements.** Arconic has, from time to time, entered into severance agreements with certain executives to facilitate transitioning of key executive positions in an orderly manner that suits the needs of the Company. These agreements require the executives to agree to a two-year non-competition and non-solicitation provision. Mr. Meggers and Mr. Kleinfeld each are party to executive severance agreements, which provide that, if the applicable executive's employment is terminated without cause, he will receive a cash severance payment equal to, in the case of Mr. Meggers, two years of base salary, and, in the case of Mr. Kleinfeld, two years of base salary and two years of target annual cash incentive, continued health care benefits for a two-year period, and two additional years of pension accrual calculated as described in the agreements. Each agreement also provides for a lump sum cash payment of \$50,000 upon execution of a general release of legal claims against the Company prior to the scheduled payment date. No severance payments will be made under these agreements unless the general release is signed and not revoked. If severance payments or benefits are payable under the Change in Control Severance Plan, described below, no payments will be paid under the executive severance agreements.

The following table shows the severance payments and benefits that would have been payable to Messrs. Kleinfeld and Meggers under their executive severance agreements upon a termination without cause on December 31, 2016.

Name	Estimated	Estimated	Estimated	Total
	net present value of cash severance payments	net present value of additional pension credits	net present value of continued health care benefits	
<b>Klaus Kleinfeld</b>	\$7,079,261	\$4,066,123	\$39,986	\$11,185,370
<b>Kay Meggers</b>	\$1,026,286	\$ 58,577	\$13,055	\$ 1,097,918

Messrs. Giacobbe, Kollatz and Tragl do not have an executive severance agreement. Ms. Strauss had an executive severance agreement, but her agreement terminated upon her retirement effective December 31, 2016. Mr. Jarrault had an executive severance agreement pursuant to which he received severance payments and benefits, as shown in the Summary



Table of Contents

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

Compensation Table above, in connection with his termination of employment on August 1, 2016. Mr. Oplinger had an executive severance agreement that was assumed by Alcoa Corporation in connection with the separation.

The Company adopted a new Executive Severance Plan effective as of February 27, 2017. All of the continuing NEOs participate in the plan, including Messrs. Kleinfeld and Meggers, who waived the severance benefits under their individual agreements in consideration for their eligibility to participate in the plan. The plan provides that, upon a termination of employment without cause and subject to execution and non-revocation of a general release of legal claims against the Company, the applicable NEO will receive a cash severance payment equal to one times (or, in the case of Mr. Kleinfeld, two times) the sum of the NEO's base salary and target annual cash incentive, continued health care benefits for a two-year period, and two additional years of pension accrual calculated as described in the plan.

***Potential Payments upon a Change in Control.*** The Company maintains a Change in Control Severance Plan for certain key executives, including the continuing NEOs. The plan is designed to serve shareholders by assuring that the Company will have the continued dedication of the covered executives, notwithstanding the possibility, threat or occurrence of a change in control. These protections are intended to encourage the executives' full attention and dedication to the Company in the event of any threatened or pending change in control, which can result in significant distraction by virtue of the personal uncertainties and risks that executives frequently face under such circumstances. Severance benefits under the Change in Control Severance Plan are provided on a termination of employment without cause or resignation by the executive for good reason, in either case within three years after a change in control of the Company. The terms of the Change in Control Severance Plan as adopted in 2002 included a provision allowing certain eligible executives to resign for any reason during a window period of 30 days which begins six months after a change in control and receive severance benefits under the plan. The Compensation Committee removed this provision for new entrants on and after January 1, 2010 and, as of December 31, 2016, Mr. Kleinfeld was the only remaining participant who was eligible for this benefit. Effective February 27, 2017, the Company eliminated this window period resignation right for Mr. Kleinfeld.

Severance benefits under the Change in Control Severance Plan as of December 31, 2016 included (i) a cash payment equal to three times annual salary plus target annual cash incentive compensation, (ii) continuation of health care benefits for three years, (iii) three additional years of pension credit calculated as described in the plan, and (iv) six months of outplacement benefits. As discussed more fully below, the benefits were reduced for most participants, effective February 27, 2017.

The terms of the Change in Control Severance Plan as adopted in 2002 included an excise tax reimbursement provision. The Compensation Committee removed the excise tax reimbursement provision effective for new plan participants on and after January 1, 2010 and, as of December 31, 2016, Mr. Kleinfeld was the only remaining participant who was eligible for this benefit. Effective February 27, 2017, the Compensation Committee eliminated the excise tax reimbursement provision for Mr. Kleinfeld.

Also effective February 27, 2017, the Compensation Committee reduced the severance benefits under the Change in Control Severance Plan for participants below the level of Chief Executive Officer, bringing them in line with current market practices in the Company's peer group. Consequently, the current benefit for continuing NEOs, other than Mr. Kleinfeld, who experience a qualifying termination is (i) a cash payment equal to two times annual salary plus target annual cash incentive compensation, (ii) continuation of health care benefits for two years, (iii) two additional years of pension credit calculated as described in the plan, and (iv) six months of outplacement benefits.

The terms of Arconic's 2013 Stock Incentive Plan provide that unvested equity awards, including awards held by the continuing NEOs, do not immediately vest upon a change in control if a replacement award is provided. However, the replacement award will vest immediately if, within a two-year period following a change in control, a plan participant is terminated without cause or leaves for good reason. Performance-based stock awards will be converted to time-vested stock awards upon a change in control under the following terms: (i) if 50% or more of the performance period has been completed as of the date on which the change in control has occurred, then the number of shares or the value of the award will be based on actual performance completed as of the date of the change in control; or (ii) if less than 50% of the performance period has been completed as of the date on which the change in control has occurred, then the number of shares or the value of the award will be based on the target number or value.

Table of Contents

2017 PROXY STATEMENT

**Executive Compensation** | Compensation Discussion and Analysis (continued)

The following table shows the severance payments and benefits that would have been payable to the continuing NEOs under the Change in Control Severance Plan if both a change in control and a termination without cause or resignation for good reason occurred on December 31, 2016, under the terms of the plan as in effect on such date, as well as the estimated net present value of unvested equity awards that would have become vested upon such termination or resignation. Equity award values are estimated using the Company's closing stock price on December 30, 2016, which was \$18.54 per share.

***Change in Control Severance Benefits***

Name	Estimated net	Potential excise tax	Total
	present value of change in control severance and benefits	liability and gross-up for excise taxes	
<b>Klaus Kleinfeld</b>	\$20,501,115	\$0	\$20,501,115
<b>Kenneth J. Giacobbe</b>	\$ 3,436,341	Not eligible beginning 2/27/17	\$ 3,436,341
<b>Christoph Kollatz</b>	\$ 3,157,901	Not eligible	\$ 3,157,901
<b>Kay H. Meggers</b>	\$ 3,581,595	Not eligible	\$ 3,581,595
<b>Karl Tragl</b>	\$ 3,349,719	Not eligible	\$ 3,349,719

**Retirement benefits.** If Mr. Kleinfeld had voluntarily terminated employment as of December 31, 2016, it is estimated that his supplemental executive retirement pension would have paid an annual annuity of \$1,245,067 starting at age

60. If Mr. Giacobbe had voluntarily terminated employment as of December 31, 2016, it is estimated that his pension would have paid an annual annuity of \$36,055 starting at age 55.

Messrs. Kollatz, Meggers and Tragl are not eligible to participate in the defined benefit pension plan, which was closed to employees hired after March 1, 2006.

**Table of Contents**

2017 PROXY STATEMENT

**Item 4 Advisory Vote on Frequency of Advisory Vote on Executive Compensation**

The Company is presenting the following proposal, which gives you the opportunity to vote on the frequency of the required advisory vote on the compensation of the Company's named executive officers. This proposal is required by SEC rules. You may elect to have the vote held annually, every two years or every three years, or you may abstain. Because your vote is advisory, it will not be binding upon the Board of Directors. However, the Company has adopted a policy that it will follow the alternative that receives the plurality of votes cast.

The Board of Directors recommends that you vote in favor of an advisory vote on executive compensation annually so that our shareholders may provide us with direct and timely input on our executive compensation program. We believe that current best corporate practices and governance trends favor an annual advisory vote and have previously determined to hold an annual advisory vote. While we believe that annually is an appropriate timeframe in which to solicit shareholders' feedback on compensation design, this proposal is not to approve or disapprove of the company's recommendation.

**The Board of Directors recommends that an advisory vote on the compensation of named executive officers be held each year.**

Table of Contents

2017 PROXY STATEMENT

Items 5, 6 and 7 Eliminate Supermajority Voting Provisions in Articles of Incorporation

Our Company has a simple majority voting standard for fundamental corporate changes, such as a merger or sale of the Company. There are no supermajority requirements in our By-Laws. However, there are three provisions in our Articles of Incorporation that require a supermajority vote. Under Pennsylvania law, amendments to those provisions of the Articles of Incorporation require the approval of the holders of 80% of the outstanding common stock of the Company. In recent years, at several annual meetings, the Board of Directors has recommended to shareholders that they approve eliminating these three supermajority vote requirements in our Articles of Incorporation. However, these proposals did not receive sufficient support of the shareholders to be adopted. The Board of Directors is re-submitting these proposals, which are summarized below, for approval by shareholders. The Board of Directors once again recommends that shareholders vote FOR each of the three proposals so that shareholders are generally permitted to act by a vote of a majority of the votes entitled to be cast. That standard will ensure that actions may be taken to reflect the expressed views of the holders of a majority of the voting power, rather than requiring that a supermajority percentage of the Company's outstanding shares be voted in favor of a proposal, which can result in the failure of the proposal to be approved if more than 20% of the Company's outstanding shares simply fail to vote either for or against the proposal.

Each of the supermajority voting proposals requires the approval of the holders of 80% of the outstanding common stock of the Company. If such proposals receive the approval of less than 80% of the outstanding common stock of the Company, the Company intends to submit for shareholder approval at or prior to the 2018 annual meeting one or more proposals to effect the transfer of the Company's jurisdiction from Pennsylvania to Delaware by means of a reincorporation merger. The Board structure of the Delaware corporation that would be owned by the Company's shareholders as a result of the reincorporation merger would be declassified, and its organizational documents would not contain any supermajority vote requirements.

The three supermajority voting requirements that the Company is proposing to eliminate require an 80% shareholder vote to (a) amend Article SEVENTH of the Articles of Incorporation, which provides that certain repurchases of capital stock from interested shareholders require approval by the Company's other shareholders; (b) amend Article EIGHTH of the Articles of Incorporation, which addresses the Board size, the classified Board structure, nominations for the election of directors, removal of directors and filling vacancies on the Board; and (c) remove directors with or without cause.

The proposed amendments to the Company's Articles of Incorporation to eliminate these supermajority provisions are described under Items 5, 6 and 7.

You will have the opportunity to vote separately on each of these proposed amendments to the Company's Articles of Incorporation. The Board of Directors recommends that shareholders vote FOR each of the three proposals.

**Table of Contents**

2017 PROXY STATEMENT

**Item 5 Eliminate Supermajority Voting Requirement in the Articles of Incorporation Regarding Amending Article SEVENTH (Fair Price Protection)**

Item 5 requests approval to eliminate the supermajority voting requirement in Article SEVENTH of the Articles of Incorporation by approving the changes set forth below:

**Article SEVENTH. F.**

Notwithstanding any other provisions of the Articles or the By-Laws of the Company (and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law, these Articles or the By-Laws of the Company), the affirmative vote of the holders of not less than ~~eighty percent (80%)~~ a majority of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article Seventh.

Article SEVENTH provides that the Company may not knowingly engage, directly or indirectly, in any stock repurchase with a purchase price in excess of the fair market value of shares from an interested shareholder (a person who has held 5% or more of the Company's voting stock within two years of the repurchase) without the affirmative vote of at least a majority of the outstanding voting shares, exclusive of those owned by the interested shareholder (with exceptions for self-tenders and Board approved open market purchase programs).

Please see Attachment D on page 103 for the current text of the Articles of Incorporation.

**The Board of Directors recommends a vote FOR Item 5, to eliminate the supermajority voting requirement that applies for any amendments to Article SEVENTH (Fair Price Protection).**



**Table of Contents**

2017 PROXY STATEMENT

**Item 6 Eliminate Supermajority Voting Requirement in the Articles of Incorporation Regarding Amending Article EIGHTH (Director Elections)**

Item 6 requests approval to eliminate the supermajority voting requirement in Article EIGHTH of the Articles of Incorporation by approving the changes set forth below:

**Article EIGHTH. B.**

Notwithstanding any other provisions of the Articles or the By-Laws of the Company (and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law, these Articles or the By-Laws of the Company), the affirmative vote of not less than ~~eighty percent (80%)~~ a majority of the votes which all shareholders of the then outstanding shares of capital stock of the Company would be entitled to cast in an annual election of directors, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article Eighth.

Article EIGHTH provides for processes and procedures related to the structure and composition of the Board of Directors, including the process for determining the size of the Board, the classified Board structure, nominations for the election of directors, removal of directors, and filling vacancies on the Board.

Please see Attachment D on page 103 for the current text of the Articles of Incorporation.

**The Board of Directors recommends a vote FOR Item 6, to eliminate the supermajority voting requirement that applies for any amendments to Article EIGHTH (Director Elections).**



**Table of Contents**

2017 PROXY STATEMENT

**Item 7 Eliminate Supermajority Voting Requirement in Article EIGHTH of the Articles of Incorporation Relating to the Removal of Directors**

Item 7 requests approval to eliminate the supermajority voting requirement that applies to any removal of directors by approving the changes set forth below:

**Article EIGHTH. A. (4)**

Any director, any class of directors, or the entire Board of Directors may be removed from office by shareholder vote at any time, with or without assigning any cause, but only if shareholders entitled to cast at least ~~80%~~ a majority of the votes which all shareholders of the then outstanding shares of capital stock of the Company would be entitled to cast at an annual election of directors or of such class of directors shall vote in favor of such removal.

If the foregoing change is approved by shareholders, any removal of directors would require the approval of holders of a majority of the Company's outstanding voting power.

Please see Attachment D on page 103 for the current text of the Articles of Incorporation.

**The Board of Directors recommends a vote FOR Item 7, to eliminate the supermajority voting requirement in the Articles of Incorporation relating to the removal of directors.**

**Table of Contents**

2017 PROXY STATEMENT

**Item 8 Eliminate the Classified Board Structure by Approving Amendments to the Articles of Incorporation**

Under Article EIGHTH of the Articles of Incorporation, the Board of Directors is divided into three classes, as nearly equal in number as possible, composed of directors each serving terms of office of three years. The Board of Directors recommends that shareholders approve an amendment to the Articles of Incorporation that will eliminate this classified Board structure, so that directors will be elected on an annual basis. The Board of Directors considered arguments in favor and against continuation of the classified Board structure and determined that it is in the Company's best interests to recommend this declassification amendment.

The Board of Directors considered, among other things, that a classified Board structure provides time to solicit higher bids in a hostile takeover situation because it is more difficult to change a majority of directors on the Board in a single year. A classified Board structure also fosters continuity and stability, not only on the Board but also in the overall management of the business of the Company, because a majority of directors will always have experience as continuing directors of the Company. The Board of Directors also noted that it previously recommended in favor of a declassification proposal that the Company submitted to shareholders at the Company's 2012 annual meeting of shareholders. The proposal did not receive sufficient support of shareholders to be adopted at that time.

While the Board of Directors believes that these are important considerations, it also considered potential advantages of declassification, including the ability of shareholders to evaluate directors annually. An annually elected Board structure is perceived by many institutional shareholders as increasing the accountability of directors to such shareholders. After carefully weighing these considerations, the Board of Directors has approved the proposed amendment to the Articles of Incorporation described below.

If the proposed declassification amendment is approved by shareholders at the 2017 Annual Meeting, all of the Company's directors, including directors elected at the 2017 Annual Meeting, would serve until the 2018 annual meeting, and thereafter would be eligible for annual re-election. Accordingly, if the proposed measure is approved, the Board of Directors will be completely declassified, the terms of all directors will expire at the 2018 annual meeting, and all directors elected at and after the 2018 annual meeting will be elected on an annual basis with one-year terms.

The proposed amendment to the Articles of Incorporation to eliminate the classified Board structure and provide for the annual election of directors will be approved if 80% of the shares outstanding are voted in favor of the proposal, and the proposal will become effective upon the filing of the amendments with the Secretary of State of the Commonwealth of Pennsylvania.

If the proposed declassification amendment is not approved by the shareholders, the Board intends to take such actions as may be necessary to provide for all directors to be subject to annual elections by, for example, submitting for shareholder approval at or prior to the 2018 annual meeting one or more proposals to effect the transfer of the Company's jurisdiction from Pennsylvania to Delaware by means of a reincorporation merger. The Board structure of the Delaware corporation that would be owned by the Company's shareholders as a result of the reincorporation merger would not have a classified Board structure.

Proposed amendments to Article EIGHTH, Section A(2) are set forth below.

~~Beginning with the Board of Directors to be elected at~~ Until the annual meeting of shareholders held in ~~1985~~ 2018, directors shall be classified with respect to the time for which they shall severally hold office by dividing them into three classes, as nearly equal in number as possible. ~~At such meeting, each class of directors shall be elected in a separate election. Directors of the first class shall be elected for a term of office to expire at the 1986 annual meeting of shareholders, those of the second class shall be elected for a term of office to expire at the 1987 annual meeting of shareholders, and those of the third class shall be elected for a term of office to expire at the 1988 annual meeting of shareholders. At each annual election held after the 1985 annual meeting of shareholders the class of directors then being elected shall be elected to hold office for a term of office to expire at the third succeeding annual meeting of~~

**Table of Contents**

2017 PROXY STATEMENT

**Item 8 Eliminate the Classified Board Structure by Approving Amendments to the Articles of Incorporation**  
(continued)

~~shareholders after their election.~~ Effective at the 2018 annual meeting of shareholders, the foregoing classification of the Board of Directors shall cease and the terms of all directors shall expire at such annual meeting of shareholders. Directors elected at the 2018 annual meeting of shareholders and each annual election held thereafter shall be elected for a term expiring at the next annual meeting of shareholders. If the number of directors is increased, any additional director elected to fill a vacancy resulting from such increase shall hold office for a term expiring at the next annual meeting of shareholders. In no case shall a decrease in the number of directors remove or shorten the term of any incumbent director. Each director shall hold office for the term for which elected and until his or her successor shall have been elected and qualified, except in the case of earlier death, resignation or removal.

Proposed amendments to Article EIGHTH, Section A(5) are set forth below.

Vacancies in the Board of Directors, including vacancies resulting from an increase in the number of directors, shall be filled only by a majority vote of the remaining directors then in office, though less than a quorum, except that vacancies resulting from removal from office by a vote of the shareholders may be filled by the shareholders at the same meeting at which such removal occurs. All directors elected to fill vacancies shall hold office for a term expiring at the annual meeting of shareholders ~~at which the term of the class to which they have been elected expires. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.~~

Please see Attachment D on page 103 for the current text of the Articles of Incorporation.

The Board of Directors recommends a vote FOR Item 8, to eliminate the classified Board structure by approving amendments to the Articles of Incorporation set forth above.

**Table of Contents**

2017 PROXY STATEMENT

Item 9 Shareholder Proposal

The following shareholder proposal will be voted on at the annual meeting if properly presented by or on behalf of the shareholder proponent. Kenneth Steiner, 14 Stoner Avenue, 2M, Great Neck, NY 11021, sponsored this proposal.

The text of the shareholder proposal follows:

**Proposal 9 Simple Majority Vote**

RESOLVED, Shareholders request that our board take the steps necessary so that each voting requirement in our charter and bylaws that calls for a greater than simple majority vote be eliminated, and replaced by a requirement for a majority of the votes cast for and against applicable proposals, or a simple majority in compliance with applicable laws. If necessary this means the closest standard to a majority of the votes cast for and against such proposals consistent with applicable laws.

Shareowners are willing to pay a premium for shares of companies that have excellent corporate governance. Supermajority voting requirements have been found to be one of 6 entrenching mechanisms that are negatively related to company performance according to *What Matters in Corporate Governance* by Lucien Bebchuk, Alma Cohen and Allen Ferrell of the Harvard Law School. Supermajority requirements are used to block initiatives supported by most shareowners but opposed by a status quo management.

This proposal topic won from 74% to 88% support at Weyerhaeuser, Alcoa, Waste Management, Goldman Sachs, FirstEnergy, McGraw-Hill and Macy's. The proponents of these proposals included Ray T. Chevedden and William Steiner.

Currently a 1%-minority can frustrate the will of our 79%-shareholder majority. In other words a 1%-minority could have the power to prevent shareholders from improving our charter and bylaws.

Please vote to enhance shareholder value:

**Simple Majority Vote Proposal 9.**



## Board of Directors Statement in Support

**The Board has considered the above proposal carefully, and agrees that it is in the best interests of our shareholders. The Board therefore recommends that you vote FOR the proposal.**

The Board believes that shareholders should generally be able to act by majority vote. For this reason, the Board has previously approved proposals to eliminate the supermajority provisions in the Company's Articles of Incorporation, and has approved proposals to do so again at the 2017 Annual Meeting, which such proposals are included in this proxy statement as follows:

Item 5 Elimination of the supermajority voting requirement in the Articles of Incorporation regarding amending Article SEVENTH (fair price protection)

Item 6 Elimination of the supermajority voting requirement in the Articles of Incorporation regarding amending Article EIGHTH (director elections)

Item 7 Elimination of the supermajority voting requirement in the Articles of Incorporation relating to the removal of directors

In addition to this Item 9, the Board also recommends a vote in favor of the above items, each of which will implement the change requested by the shareholder proposal by authorizing amendments to the Company's Articles of Incorporation if approved by shareholders. If Items 5, 6 and 7 are approved by shareholders, the Company will file articles of amendment to the Company's Articles of Incorporation that will eliminate the supermajority voting provisions.

**The Board of Directors recommends a vote FOR ITEM 9, the shareholder proposal, for the reasons discussed above.**

Table of Contents

2017 PROXY STATEMENT

Questions and Answers

About the Meeting and Voting

**1. Has Arconic been notified that a shareholder intends to propose alternative director nominees at the 2017 Annual Meeting?**

Yes. Elliott has notified Arconic that Elliott intends to nominate a slate of four nominees for election to the Board of Directors at the meeting in opposition to the nominees recommended by the Board of Directors. **The Arconic Board of Directors does not endorse any Elliott nominees and unanimously recommends that you vote FOR the election of each of the nominees proposed by the Board of Directors. The Board of Directors strongly urges you not to sign or return any Blue proxy card sent to you by Elliott. If you have previously submitted a Blue proxy card sent to you by Elliott, you can revoke that proxy and vote for our Board of Directors nominees and on the other matters to be voted on at the meeting by using the enclosed WHITE proxy card.**

**2. How does the Board of Directors recommend that shareholders vote?**

The Arconic Board of Directors unanimously recommends that shareholders vote shares on the **WHITE** proxy card as follows:

**FOR** the election of each of the director nominees proposed by the Board of Directors (Item 1);

**FOR** the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's Independent Registered Public Accounting Firm for 2017 (Item 2);

**FOR** the approval, on an advisory basis, of executive compensation (Item 3);

**FOR** the approval, on an advisory basis, of the advisory vote on executive compensation to be held every year (Item 4);

**FOR** an amendment of the Articles of Incorporation to eliminate the supermajority voting requirement in the Articles of Incorporation regarding amending Article SEVENTH (fair price protection) (Item 5);

**FOR** an amendment of the Articles of Incorporation to eliminate the supermajority voting requirement in the Articles of Incorporation regarding amending Article EIGHTH (director elections) (Item 6);

**FOR** an amendment of the Articles of Incorporation to eliminate the supermajority voting requirement in the Articles of Incorporation relating to the removal of directors (Item 7);

**FOR** the approval of an amendment of the Articles of Incorporation to eliminate the classification of the Board of Directors (Item 8); and

**FOR** the approval of a shareholder proposal (Item 9).

### 3. Who is entitled to vote and how many votes do I have?

If you were a holder of record of Arconic common stock, par value \$1.00 per share (the "common stock"), at the close of business on March 1, 2017, you are eligible to vote at the annual meeting. For each matter presented for vote, you have one vote for each share you own.

### 4. What is the difference between holding shares as a shareholder of record/registered shareholder and as a beneficial owner of shares?

**Shareholder of Record or Registered Shareholder.** If your shares of common stock are registered directly in your name with our transfer agent, Computershare, you are considered a "shareholder of record" or a "registered shareholder" of those shares.



Table of Contents

2017 PROXY STATEMENT

**Questions and Answers About the Meeting and Voting** (continued)

***Beneficial Owner of Shares.*** If your shares are held in an account at a bank, brokerage firm or other similar organization, then you are a beneficial owner of shares held in street name. In that case, you will have received these proxy materials from the bank, brokerage firm or other similar organization holding your account and, as a beneficial owner, you have the right to direct your bank, brokerage firm or similar organization as to how to vote the shares held in your account.

**5. How do I vote if I am a shareholder of record?**

***By Telephone or Internet.*** All shareholders of record can vote by touchtone telephone within the U.S., U.S. territories and Canada, or through the Internet. **We request that you vote your shares using the toll-free telephone number on the WHITE proxy card, or through the Internet, using the procedures and instructions described on the WHITE proxy card. WHITE proxy cards are being solicited on behalf of the Arconic Board of Directors.** The telephone and Internet voting procedures are designed to authenticate shareholders' identities, to allow shareholders to vote their shares and to confirm that their instructions have been recorded properly.

***By Mail.*** All shareholders of record can also vote by mail, by signing, dating and returning the enclosed **WHITE** proxy card. **WHITE proxy cards are being solicited on behalf of the Arconic Board of Directors.** If you sign and return your **WHITE** proxy card but do not mark any selections giving specific voting instructions, your shares represented by that proxy will be voted as recommended by the Board of Directors.

***In Person.*** All shareholders of record may vote in person at the meeting. See Question 9 below regarding how to vote in person at the annual meeting.

***Whether you plan to attend the meeting or not, we encourage you to vote by proxy as soon as possible by using the enclosed WHITE proxy card. The proxy committee will vote your shares according to your directions.***

## 6. How do I vote if I am a beneficial owner of shares?

Your broker is not permitted to vote on your behalf on the election of directors or any of the other matters to be considered at the annual meeting, unless you provide specific instructions by completing and returning the voting instruction form from your broker, bank or other financial institution or following the instructions provided to you for voting your shares via telephone or the Internet. **Please return your signed and dated WHITE proxy card or voting instruction form to your broker, bank or other nominee and contact the person responsible for your account so that your vote can be counted. If your broker, bank or other nominee permits you to provide voting instructions via the Internet or by telephone, you may vote that way as well.** For your vote to be counted, you will need to communicate your voting decisions to your broker, bank or other financial institution before the date of the annual meeting. If you wish to vote your shares at the meeting, you must obtain a legal proxy from that entity and bring it with you to hand in with your ballot.

## 7. How will my shares be voted if I submit a WHITE proxy card but do not specify how I want to vote?

If you are the record holder of your shares and do not specify on your **WHITE** proxy card (or when giving your proxy by telephone or via the Internet) how you want to vote your shares, your shares will be voted in accordance with the recommendations of the Arconic Board of Directors as described in Question 2 above.

If you are a beneficial owner of shares and return instructions to the record holder with respect to the **WHITE** proxy card but do not specify how you want to vote, your shares will be voted by the record holder in line with the Board's recommendations. If your shares are held of record by a bank, broker or other nominee, the Company urges you to give instructions to your bank, broker or other nominee as to how you wish your shares to be voted so you may participate in the shareholder voting at the annual meeting.

As of the date of this proxy statement, the Board knows of no business other than that set forth above to be transacted at the annual meeting, but if other matters requiring a vote do arise, it is the intention of the persons named in the **WHITE** proxy card, to whom you are granting your proxy and to whom such proxy confers discretionary authority to vote on any unanticipated matters, to vote in accordance with their best judgment on such matters.



Table of Contents

2017 PROXY STATEMENT

**Questions and Answers About the Meeting and Voting** (continued)

**8. What should I do if I receive a Blue proxy card or other proxy materials from Elliott?**

Elliott has notified Arconic that Elliott intends to nominate a slate of four nominees for election to the Board of Directors at the meeting in opposition to the nominees recommended by our Board of Directors. You may receive a proxy statement, Blue proxy card and other solicitation materials from Elliott. Arconic is not responsible for the accuracy of any information provided by or relating to Elliott or its nominees contained in solicitation materials filed or disseminated by or on behalf of Elliott or any other statements that Elliott may make.

**The Arconic Board of Directors does not endorse any Elliott nominees and unanimously recommends that you vote FOR the election of each of the nominees proposed by the Board of Directors on your WHITE proxy card. The Board of Directors strongly urges you not to sign or return any Blue proxy card sent to you by Elliott. Voting to withhold with respect to any Elliott nominee on a Blue proxy card sent to you by Elliott is not the same as voting for the Board of Directors nominees because a vote to withhold with respect to any Elliott nominee on its Blue proxy card will revoke any WHITE proxy you may have previously submitted. To support the Board of Directors nominees, you should vote FOR the Board s nominees on the WHITE proxy card and disregard, and not return, any Blue proxy card sent to you by Elliott. If you have previously submitted a Blue proxy card sent to you by Elliott, you can revoke that proxy and vote for our Board of Directors nominees and on the other matters to be voted on at the meeting by using the enclosed WHITE proxy card. Only the latest dated proxy you submit will be counted.**

If you have any questions or need assistance voting, please contact Innisfree M&A Incorporated ( Innisfree ), our proxy solicitor assisting us in connection with the annual meeting. Shareholders may call toll free at 1-877-750-5836. Banks and brokers may call collect at 1-212-750-5833.



**9. How can I attend the annual meeting?**

Only shareholders and authorized guests of the Company may attend the meeting and all attendees will be required to show a valid form of ID (such as a government-issued form of photo identification). If you hold your shares in street-name (i.e., through a bank or broker), you must also provide proof of share ownership, such as a letter from your bank or broker or a recent brokerage statement. Street-name holders planning on voting in person at the annual meeting must provide a legal proxy from their bank or broker.

**10. What does it mean if I receive more than one WHITE proxy card or set of proxy materials?**

If your shares are held in more than one account, you will receive more than one **WHITE** proxy card, and in that case, you can and are urged to vote all of your shares by signing, dating and returning all **WHITE** proxy cards you receive from the Company. If you choose to vote by phone or via the Internet, please vote once for each **WHITE** proxy card you receive to ensure that all of your shares are voted. Only your latest dated proxy for each account will be voted.

If Elliott proceeds with its previously announced alternative nominations, you will likely receive multiple mailings from Elliott, and the Company will likely conduct multiple mailings prior to the annual meeting date to ensure shareholders have the Company's latest proxy information and materials to vote. The Company will send you a new **WHITE** proxy card with each mailing, regardless of whether you have previously voted. The latest dated proxy you submit will be counted, and, if you wish to vote as recommended by the Board of Directors, then you should only submit the **WHITE** proxy cards.

**11. How do I vote if I participate in one of the employee savings plans?**

You must provide the trustee of the employee savings plan with your voting instructions in advance of the meeting. You may do so by returning your voting instructions by mail, or submitting them by telephone or electronically using the Internet. You cannot vote your shares in person at the annual meeting; the trustee is the only one who can vote your shares. The trustee will vote your shares as you have instructed. If the trustee does not receive your instructions, your shares generally will be voted in proportion to the way the other plan participants voted. The voting deadline for employee savings plan participants will be in advance of the date of the annual meeting. The trustee will notify participants of the deadline when it distributes the proxy materials for the annual meeting.

**Table of Contents**

2017 PROXY STATEMENT

**Questions and Answers About the Meeting and Voting** (continued)

**12. Can I change my vote?**

There are several ways in which you may revoke your proxy or change your voting instructions before the time of voting at the meeting (please note that, in order to be counted, the revocation or change must be before your proxy is voted at the annual meeting or by a date to be specified by the trustee, in the case of instructions to the trustee of an employee savings plan). To revoke your proxy or change your voting instructions:

Vote again by telephone or at the Internet website;

Mail a proxy card or voting instruction form that is dated later than the prior one;

Shareholders of record may vote in person at the annual meeting;

Shareholders of record may notify Arconic's Corporate Secretary in writing that a prior proxy is revoked; or

Employee savings plan participants may notify the plan trustee in writing that prior voting instructions are revoked or are changed.

Only the latest validly executed proxy that you submit will be counted.

### 13. Is my vote confidential?

Yes. Proxy cards, ballots and voting tabulations that identify shareholders are kept confidential except:

as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company;

to allow for the tabulation and certification of votes; or

if a shareholder makes a written comment on the proxy card or otherwise communicates his or her vote to management.

IVS Associates, Inc., the independent proxy tabulator used by Arconic, counts the votes and acts as the judge of election for the 2017 Annual Meeting.

### 14. What is the effect of an ABSTAIN vote?

Abstentions are considered to be present and entitled to vote with respect to each relevant proposal. Abstentions are counted for the purpose of determining whether a quorum is present, but are not considered votes cast FOR or AGAINST a particular proposal. As a result of the voting requirements for each of the proposals to be considered at the annual meeting (see Question 17 below), abstentions will have no effect on the outcome of Items 1, 2, 3, 4 and 9, but will have the same effect as a vote AGAINST Items 5, 6, 7 and 8.

### 15. What is a Broker Non-Vote?

A broker non-vote occurs when a broker submits a proxy for the meeting with respect to a discretionary matter but does not vote on non-discretionary matters because the beneficial owner did not provide voting instructions on those matters. **Given the delivery to brokers of competing sets of proxy materials, the NYSE rules governing brokers discretionary authority will not permit such brokers to exercise discretionary authority regarding any of the proposals to be voted on at the annual meeting, whether routine or not, to the extent street-name holders have been provided with Elliott's materials.** Therefore, if you hold your shares in street name, it is important that you cast your vote by instructing your bank, broker or other nominee on how to vote if you want your vote to be counted at the annual meeting.

**16. What constitutes a quorum for the meeting?**

A quorum consists of a majority of the outstanding shares, present at the meeting or represented by proxy. A quorum is necessary to conduct business at the annual meeting. You are part of the quorum if you have voted by proxy. Abstentions and broker non-votes (if any) count as shares present at the meeting for purposes of determining a quorum. If you vote to abstain on one or more proposals, your shares will be counted as present for purposes of determining the presence of a quorum unless you vote to abstain on all proposals.

**Table of Contents**

2017 PROXY STATEMENT

**Questions and Answers About the Meeting and Voting** (continued)

**17. What is the voting requirement to approve each of the proposals, and how are votes counted?**

At the close of business on March 1, 2017, the record date for the meeting, Arconic had outstanding 440,644,293 shares of common stock. Each share of common stock outstanding on the record date is entitled to one vote on all matters to be voted on.

Arconic's Articles of Incorporation and By-Laws provide that an election of directors is considered to be contested if there are more nominees for election than positions on the Board to be filled by election at the meeting of shareholders. Elliott has notified Arconic that Elliott intends to nominate a slate of four nominees for election to the Board at the 2017 Annual Meeting in opposition to the nominees recommended by the Board. This means that, if Elliott in fact nominates any individuals for election as directors at the meeting, the election will be considered to be contested. In that case, the five candidates for election as directors receiving the highest number of FOR votes will be elected at the annual meeting. Abstentions and broker non-votes (if any) will have no effect on the outcome of the director elections.

For Item 2 (ratification of appointment of PricewaterhouseCoopers LLP as the Company's Independent Registered Public Accounting Firm for 2017) and Item 9 (shareholder proposal), approval requires that the votes cast in favor of the proposal exceed the votes cast against the proposal. Votes cast on these proposals means votes FOR or AGAINST a particular proposal, whether by proxy or in person. Abstentions and broker non-votes (if any) will have no effect on the outcome of these proposals.

Item 3 (advisory vote to approve executive compensation) and Item 4 (advisory vote on frequency of advisory vote on executive compensation) are non-binding, advisory votes requiring further action by the Company to

implement any changes. The Company has a practice of taking action to implement changes supported by a majority of its shareholders. Abstentions and broker non-votes (if any) will have no effect on the outcome of these proposals.

For Item 5 (amendment of the Articles of Incorporation to eliminate the supermajority voting requirement in the Articles of Incorporation regarding amending Article SEVENTH (fair price protection), Item 6 (amendment of the Articles of Incorporation to eliminate the supermajority voting requirement in the Articles of Incorporation regarding amending Article EIGHTH (director elections), Item 7 (amendment of the Articles of Incorporation to eliminate the supermajority voting requirement in the Articles of Incorporation relating to the removal of directors) and Item 8 (amendment of the Articles of Incorporation to eliminate the classification of the Board of Directors), authorization requires the approval of shareholders holding 80% of the shares outstanding. Abstentions and broker non-votes (if any) will have the same effect as a vote AGAINST each of these proposals.

#### 18. Who pays for the solicitation of proxies?

Arconic is paying the costs of preparing, assembling, printing, mailing and distributing these proxy materials, as well as the costs of this proxy solicitation on behalf of the Board of Directors. The Company will provide copies of these proxy materials to banks, brokerage houses, fiduciaries and custodians holding in their names shares of the Company's common stock beneficially owned by others so that they may forward these proxy materials to the beneficial owners. After the proxy solicitation materials become available to shareholders, proxies may be solicited by directors, officers and employees of the Company and its subsidiaries personally, by telephone or otherwise. Such persons will not receive any fees or other compensation for such solicitation. The Company has retained Innisfree for an approximate fee of up to \$1.2 million plus expense reimbursement to assist in proxy solicitation activities. Innisfree expects that approximately 350 of its employees will assist in the solicitation. In addition, Arconic will reimburse brokers, custodians, nominees and other persons holding shares for others for their reasonable expenses in sending proxy materials to the beneficial owners of such shares and in obtaining their proxies. The total amount estimated to be spent for the Company's proxy solicitations related to the annual meeting is estimated to be approximately \$17.5 million, approximately \$2.5 million of which has been incurred to date. Costs represented by the amounts normally expended for a solicitation for an election of directors in the absence of a contest have not been excluded from these estimates. Costs represented by salaries and wages of regular employees and officers have been excluded from these estimates. Additional information about persons who are participants in this proxy solicitation is set forth in Appendix A.

**Table of Contents**

2017 PROXY STATEMENT

**Questions and Answers About the Meeting and Voting** (continued)

**19. How do I comment on Company business?**

Your comments are collected when you vote using the Internet. We also collect comments from the proxy card if you vote by mailing the proxy card. You may also send your comments to us in care of the Corporate Secretary: Arconic Inc., Corporate Secretary's Office, 390 Park Avenue, New York, NY 10022-4608. Although it is not possible to respond to each shareholder, your comments help us to understand your concerns.

**20. May I nominate someone to be a director of Arconic?**

Yes, please see *Nominating Board Candidates Procedures and Director Qualifications* on page 19 for details on the procedures for shareholder nominations of director candidates.

**21. When are 2018 shareholder proposals due?**

To be considered for inclusion in the Company's 2018 proxy statement, shareholder proposals submitted in accordance with SEC Rule 14a-8 must be received in writing at our principal executive offices no later than November 17, 2017. Address all shareholder proposals to: Arconic Inc., Corporate Secretary's Office, 390 Park Avenue, New York, NY 10022-4608. Shareholder nominations for candidates for election at the 2018 annual

meeting which the shareholder wishes to include in the Company's proxy materials relating to the 2018 annual meeting must be received by the Company at the above address no earlier than October 18, 2017 and no later than November 17, 2017, together with all information required to be provided by the shareholder in accordance with the proxy access provision in the Company's By-Laws. For any proposal that is not submitted for inclusion in next year's proxy statement, but is instead sought to be presented directly at the 2018 annual meeting, notice of intention to present the proposal, including all information required to be provided by the shareholder in accordance with the Company's By-Laws, must be received in writing at our principal executive offices by February 15, 2018. Address all notices of intention to present proposals at the 2018 annual meeting to: Arconic Inc., Corporate Secretary's Office, 390 Park Avenue, New York, NY 10022-4608.

## 22. What is householding ?

Shareholders of record who have the same last name and address and who request paper copies of the proxy materials will receive only one copy unless one or more of them notifies us that they wish to receive individual copies. This method of delivery, known as householding, will help ensure that shareholder households do not receive multiple copies of the same document, helping to reduce our printing and postage costs, as well as saving natural resources. Householding will not in any way affect dividend check mailings.

We will deliver promptly upon written or oral request a separate copy of the Annual Report, proxy statement, or other proxy materials, as applicable, to a security holder at a shared address to which a single copy of the document was delivered. Please direct such requests to Diane Thumma at Arconic Inc., 201 Isabella Street, Pittsburgh, PA 15212-5858, Attention: Diane Thumma, or email to [diane.thumma@arconic.com](mailto:diane.thumma@arconic.com) or call 1-412-553-1245.

Shareholders of record may request to begin or to discontinue householding in the future by contacting our transfer agent, Computershare, at 1-888-985-2058 (in the U.S. and Canada), 1-201-680-6578 (all other locations), by mail to Computershare, P.O. Box 30170, College Station, TX 77842-3170 or through the Computershare website, [www.computershare.com](http://www.computershare.com). Shareholders owning their shares through a bank, broker or other nominee may request to begin or to discontinue householding by contacting their bank, broker or other nominee.

## 23. Can I access the proxy materials on the Internet?

Yes. The Company's proxy statement and 2016 Annual Report are available at [www.arconic.com/annualmeeting](http://www.arconic.com/annualmeeting).

## 24. How may I obtain a copy of Arconic's Annual Report on Form 10-K?



Edgar Filing: BIG 5 SPORTING GOODS CORP - Form DEF 14A

The Company will provide by mail, without charge, a copy of its Annual Report on Form 10-K for the year ended December 31, 2016 (not including exhibits and documents incorporated by reference), at your request. Please direct all requests to Arconic Inc., Corporate Communications, 201 Isabella Street, Pittsburgh, PA 15212-5858.

**Table of Contents**



2017 PROXY STATEMENT

**Questions and Answers About the Meeting and Voting** (continued)

**25. Who should I contact if I have questions or need assistance voting?**

Please contact Innisfree, our proxy solicitor assisting us in connection with the annual meeting. Shareholders may call toll free at 1-877-750-5836. Banks and brokers may call collect at 1-212-750-5833.

**Table of Contents**

2017 PROXY STATEMENT

Attachments

**ATTACHMENT A Pre-Approval Policies and Procedures For Audit and Non-Audit Services**

**I. Statement of Policy**

The Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditor in order to assure that the provision of such services does not impair the auditor's independence. Unless a type of service to be provided by the independent auditor has received pre-approval under this policy, it will require specific pre-approval by the Audit Committee before the service is provided. Any proposed services exceeding pre-approved cost levels under this policy will require specific pre-approval by the Audit Committee before the service is provided.

The term of any pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period. The Audit Committee will periodically revise the list of pre-approved services, based on subsequent determinations.

**II. Delegation**

The Audit Committee delegates pre-approval authority to the Chairman of the Committee. In addition, the Chairman may delegate pre-approval authority to one or more of the other members of the Audit Committee. The Chairman or member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent auditor to management.

**III. Audit Services**

The annual Audit services engagement terms and fees will be subject to the specific pre-approval of the Audit Committee. The Audit Committee will approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, company structure or other matters.

In addition to the annual Audit services engagement approved by the Audit Committee, the Audit Committee may grant pre-approval for other Audit services, which are those services that only the independent auditor reasonably can provide.

#### **IV. Audit-Related Services**

Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and that are traditionally performed by the independent auditor. The Audit Committee believes that the provision of Audit-related services does not impair the independence of the auditor.

#### **V. Tax Services**

The Audit Committee believes that the independent auditor can provide Tax services to the Company such as tax compliance and support, without impairing the auditor's independence. However, the Audit Committee will not permit the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor, the sole purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code and related regulations.

#### **VI. All Other Services**

The Audit Committee may grant pre-approval to those permissible non-audit services classified as All Other services that it believes are routine and recurring services, and would not impair the independence of the auditor.

**Table of Contents**

2017 PROXY STATEMENT

**Attachment A** (continued)

**VII. Pre-Approval Fee Levels**

Pre-approval fee levels for all services to be provided by the independent auditor will be established periodically by the Audit Committee. Any proposed services exceeding these levels will require specific pre-approval by the Audit Committee.

**VIII. Supporting Documentation**

With respect to each proposed pre-approved service, the independent auditor has provided detailed descriptions regarding the specific services to be provided. Upon completion of services, the independent auditor will provide to management detailed back-up documentation, including hours, personnel and task description relating to the specific services provided.

**IX. Procedures**

Requests or applications to provide services that require separate approval by the Audit Committee will be submitted to the Audit Committee by both the independent auditor and the Chief Financial Officer and must include a joint statement as to whether, in their view, the request or application is consistent with the Securities and Exchange Commission's rules on auditor independence.



**Table of Contents**

2017 PROXY STATEMENT

Attachments

**ATTACHMENT B-1 Alcoa Inc. Peer Group Companies for Market Information for 2016 Executive Compensation Decisions**

(CEO peer group listed on pages 55-56)

3M	DuPont	NextEra Energy Inc.
ABB	Duke Energy	Nike
ACH Food	EMC	Nokia
AES Corporation	EMD Millipore	Northrop Grumman
AbbVie	Eaton	Occidental Petroleum
Accenture	Eli Lilly	Office Depot
Adecco	Emerson Electric	Pacific Gas & Electric
Agrium	EnLink Midstream	Pfizer
Air Liquide	Ericsson	Philips Electronics
Altria Group	Exelon	Qualcomm
American Electric Power	Faurecia US Holdings	Ricoh Americas
Amgen	FirstEnergy	Rio Tinto
Anadarko Petroleum	Freeport-McMoRan	Rolls-Royce North America
Arrow Electronics	Gap	Sanofi
Arvato Finance Services	General Dynamics	Sasol USA
AstraZeneca	General Mills	Schlumberger
Avnet	Gilead Sciences	Schneider Electric
BAE Systems	GlaxoSmithKline	Sears
Baxter	HBO	Sodexo
Beam Suntory	HCA Healthcare	Southern Company Services
Bechtel Nuclear, Security & Environmental	HollyFrontier Corporation	Southwest Airlines

Berkshire Hathaway Energy	Honeywell	Sprint
Best Buy	Iberdrola Renewables	Starbucks Coffee
Boehringer Ingelheim US	Iberdrola USA	SuperValu Stores
Bristol-Myers Squibb	Indianapolis Power & Light Company	Syngenta
C&S Wholesale Grocers	International Paper	Sysco Corporation
CHS	Jabil Circuit	T-Mobile USA
CNH Industrial	Johnson Controls	TRW Automotive
Carnival	KPMG	Takeda Pharmaceuticals
CenturyLink	Kimberly-Clark	Tenet Healthcare Corporation
Chesapeake Energy	Kinder Morgan	Tesoro
Coca-Cola	L Oréal	Teva Pharmaceutical
Colgate-Palmolive	Lafarge North America	Thermo Fisher Scientific
Compass	Lear	Time Warner
ConAgra Foods	Lehigh Hanson	Time Warner Cable
Continental Automotive Systems	Liberty Global	Turbomeca



**Table of Contents**

2017 PROXY STATEMENT

**Attachment B-1** (continued)

Cox Enterprises  
DENSO International  
DIRECTV Group  
Danaher  
Delhaize America  
Delta Air Lines

Devon Energy  
Diageo North America  
Dignity Health  
Direct Energy

Lockheed Martin  
LyondellBasell  
Medtronic  
Merck & Co  
Messier Bugatti Dowty  
Micron Technology

Mondelez  
Monroe Energy, LLC  
Monsanto  
NRG Energy

Tyson Foods  
Union Pacific Corporation  
United States Steel  
United Water  
University of California  
Veolia Environmental Services  
North America  
Walt Disney  
Whirlpool  
eBay

**Table of Contents**

2017 PROXY STATEMENT

Attachments

**ATTACHMENT B-2 Arconic Peer Group Companies for Market Information for 2016 Executive Compensation Decisions Following the Separation**

(CEO peer group listed on pages 55-56)

3M	Dominion Resources	Lear
American Electric Power	Dover	Mosaic
Avnet	Eastman Chemical	Navistar International
Edison International	Eaton	Northrop Grumman
FirstEnergy	Ecolab	Occidental Petroleum
Kinder Morgan	Emerson Electric	Parker Hannifin
NRG Energy	Entergy	Praxair
Air Products and Chemicals	Freeport-McMoRan	Stanley Black & Decker
Arrow Electronics	Goodyear Tire & Rubber	Stryker
Ball	Huntsman	Terex
BorgWarner	Ingersoll Rand	Textron
Consolidated Edison	International Paper	Thermo Fisher Scientific
Corning	Jabil Circuit	United States Steel
Crown Holdings	Jacobs Engineering	W.W. Grainger
Danaher	L-3 Communications	Whirlpool

**Table of Contents**

2017 PROXY STATEMENT

Attachments

**ATTACHMENT C Calculation of Financial Measures****RECONCILIATION OF ADJUSTED INCOME**

(\$ in millions, except per share amounts)	Year ended	
	December 31,	December 31,
	2016	2015
Net (loss) income attributable to Arconic	\$ (941)	\$ (322)
Discontinued operations <sup>(1)</sup>	(121)	165
Special items <sup>(2)</sup> :		
Restructuring and other charges	155	214
Discrete tax items <sup>(3)</sup>	1,290	216
Other special items <sup>(4)</sup>	196	39
Tax impact <sup>(5)</sup>	(74)	(14)
Net income attributable to Arconic as adjusted	\$ 505	\$ 298
Diluted EPS <sup>(6)</sup> :		
Net (loss) income attributable to Arconic common shareholders	\$ (2.31)	\$ (0.93)
Net (loss) income attributable to Arconic common shareholders as adjusted	\$ 0.98	\$ 0.54

Net (loss) income attributable to Arconic as adjusted is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because management reviews the operating results of Arconic excluding the impacts of restructuring and other charges, discrete tax items, and other special items (collectively, special items). There can be no assurances that additional special items will not occur in future periods. To compensate for this limitation, management believes that it is appropriate to consider both Net (loss) income attributable to Arconic determined under GAAP as well as Net income (loss) attributable to Arconic as adjusted.

(1) On November 1, 2016, the former Alcoa Inc. was separated into two standalone, publicly-traded companies, Arconic and Alcoa Corporation, by means of a pro rata distribution of 80.1 percent of the outstanding common stock of Alcoa Corporation to Alcoa Inc. shareholders. Accordingly, the results of operations of Alcoa Corporation

have been reflected as discontinued operations for all periods presented.

- (2) In the second quarter of 2016, management changed the manner in which special items are presented in Arconic's reconciliation of Adjusted Income. This change resulted in special items being presented on a pretax basis and the related tax and noncontrolling interest's impacts on special items being aggregated into separate respective line items. The special items for the year ended December 31, 2015 were updated to conform to the current period presentation.
- (3) Discrete tax items include the following:
- for the year ended December 31, 2016, a charge for valuation allowances related to the November 1, 2016 separation (see Note 1 above) (\$1,267), a net charge for the remeasurement of certain deferred tax assets due to tax rate and tax law changes (\$51), a net benefit for valuation allowances not associated with the separation (\$18), and a net benefit for a number of small items (\$10); and
  - for the year ended December 31, 2015, a charge for valuation allowances related to certain deferred tax assets in the U.S. and Iceland (\$190), a net charge for other valuation allowances and for a number of small items (\$26).
- (4) Other special items include the following:
- for the year ended December 31, 2016, costs associated with the planned separation of Alcoa (\$205), unfavorable tax costs associated with the redemption of company-owned life insurance policies (\$100), a favorable adjustment to the contingent earn-out liability and a post-closing adjustment both of which related to the November 2014 acquisition of Firth Rixson (\$76), a favorable tax benefit related to the currency impacts of a distribution of previously taxed income (\$49), and unfavorable tax costs associated with the sale of a US subsidiary with book goodwill (\$16); and
  - for the year ended December 31, 2015, costs associated with the acquisitions of RTI International Metals and TITAL (\$28), an impairment of goodwill related to the soft alloy extrusions business in Brazil (\$25), costs associated with the planned separation of Alcoa (\$24), a gain on the sale of land (\$19), and a gain on the sale of an equity investment in a China rolling mill (\$19).

**Table of Contents**

2017 PROXY STATEMENT

**Attachment C** (continued)

- (5) The tax impact on special items is based on the applicable statutory rates whereby the difference between such rates and Arconic's consolidated estimated annual effective tax rate is itself a special item (see footnote 2 above). The noncontrolling interest's impact on special items represents Arconic's partners' share of certain special items.
- (6) At a special meeting of Arconic common shareholders held on October 5, 2016, shareholders approved a 1-for-3 reverse stock split of Arconic's outstanding and authorized shares of common stock which became effective on October 6, 2016. All share and per share data for all periods presented have been updated to reflect the reverse stock split.

The average number of shares applicable to diluted EPS for Net (loss) income attributable to Arconic common shareholders excludes certain share equivalents as their effect was anti-dilutive (see footnote 4 to the Statement of Consolidated Operations). However, certain of these share equivalents may become dilutive in the EPS calculation applicable to Net income attributable to Arconic common shareholders as adjusted due to a larger and/or positive numerator. Specifically:

for the year ended December 31, 2016, share equivalents associated with both outstanding employee stock options and awards and convertible notes related to the acquisition of RTI International Metals were dilutive based on Net income attributable to Arconic common shareholders as adjusted, resulting in a diluted average number of shares of 453,118,372 (after-tax interest expense of \$9 needs to be added back to the numerator since the convertible notes were dilutive); and

for the year ended December 31, 2015, share equivalents associated with employee stock options and awards were dilutive based on Net income attributable to Arconic common shareholders as adjusted, resulting in a diluted average number of shares of 424,628,747.

**RECONCILIATION OF ADJUSTED EBITDA**

(\$ in millions)	Year ended	
	December 31,	December 31,

	2016	2015
Net loss attributable to Arconic	\$ (941)	\$ (322)
Discontinued operations <sup>(1)</sup>	(121)	165
Loss from continuing operations after income taxes and noncontrolling interest	(1,062)	(157)
Add:		
Net income attributable to noncontrolling interests		1
Provision for income taxes	1,476	339
Other (income) expenses, net	(94)	(28)
Interest expense	499	473
Restructuring and other charges	155	214
Impairment of goodwill		25
Provision for depreciation and amortization	535	508
Adjusted EBITDA	1,509	1,375
Separation costs	193	24
Adjusted EBITDA excluding separation costs	\$ 1,702	\$ 1,399
Adjusted EBITDA Measures:		
Sales	\$ 12,394	\$ 12,413
Adjusted EBITDA Margin	12.2%	11.1%
Total Debt	\$ 8,084	\$ 8,827
Debt-to-Adjusted EBITDA Ratio	5.36	6.42

Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. Adjusted EBITDA is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because Adjusted EBITDA provides additional information with respect to Arconic's operating performance and the Company's ability to meet its financial obligations. The Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

**Table of Contents**

2017 PROXY STATEMENT

**Attachment C** (continued)

(1) On November 1, 2016, the former Alcoa Inc. was separated into two standalone, publicly-traded companies, Arconic and Alcoa Corporation, by means of a pro rata distribution of 80.1 percent of the outstanding common stock of Alcoa Corporation to Alcoa Inc. shareholders. Accordingly, the results of operations of Alcoa Corporation have been reflected as discontinued operations for all periods presented.

**RECONCILIATION OF COMBINED SEGMENT ADJUSTED EBITDA**

(\$ in millions, except metric per ton amounts)	Year ended December 31, 2016	Year ended December 31, 2015
Net (loss) income attributable to Arconic	\$ (941)	\$ (322)
Discontinued operations <sup>(1)</sup>	(121)	165
Unallocated amounts (net of tax):		
Impact of LIFO	11	(66)
Metal price lag	(21)	115
Interest expense	324	307
Noncontrolling interests		1
Corporate expense	306	252
Impairment of goodwill		25
Restructuring and other charges	114	192
Other <sup>(2)</sup>	1,415	317
Combined segment After-tax operating income (ATOI)	\$ 1,087	\$ 986
Add combined segment:		
Depreciation and amortization	504	479
Income taxes	472	430
Other		(2)

Combined segment Adjusted EBITDA	\$	2,063	\$	1,893
Third party sales	\$	12,394	\$	12,477
Adjusted EBITDA Margin		16.6%		15.2%

Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. The Other line in the table above includes gains/losses on asset sales and other nonoperating items. Adjusted EBITDA is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because Adjusted EBITDA provides additional information with respect to Arconic's operating performance and the Company's ability to meet its financial obligations. The Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

- (1) On November 1, 2016, the former Alcoa Inc. was separated into two standalone, publicly-traded companies, Arconic and Alcoa Corporation, by means of a pro rata distribution of 80.1 percent of the outstanding common stock of Alcoa Corporation to Alcoa Inc. shareholders. Accordingly, the results of operations of Alcoa Corporation have been reflected as discontinued operations for all periods presented.
- (2) Other includes a charge for valuation allowances related to the November 1, 2016 separation (\$1,267) and a net charge for the remeasurement of certain deferred tax assets due to tax rate and tax law changes (\$51).



**Table of Contents**

2017 PROXY STATEMENT

**Attachment C** (continued)

(\$ in millions, except metric per ton amounts)	Year ended December 31, 2008
After-tax operating income (ATOI)	\$ 532
Add:	
Depreciation and amortization	361
Income taxes	275
Other	6
Adjusted EBITDA	\$ 1,174
Add: Wire harness and electrical distribution adjusted EBITDA	(115)
Adjusted EBITDA including wire harness and electrical distribution	\$ 1,059 <sup>(2)</sup>
Third Party Sales	\$ 14,144
Add: Wire harness and electrical distribution third party sales	1,206
Third Party Sales including wire harness and electrical distribution	\$ 15,350 <sup>(2)</sup>
Adjusted EBITDA Margin including wire harness and electrical distribution	6.9% <sup>(2)</sup>

Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. The Other line in the table above includes gains/losses on asset sales and other nonoperating items. Adjusted EBITDA is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because Adjusted EBITDA provides additional information with respect to Arconic's operating performance and the Company's ability to meet its financial obligations. The Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

(1) For 2008, a reconciliation of combined segments adjusted EBITDA to combined segments ATOI, which was the segment profit metric at the time, has been provided. A reconciliation to Net (loss) income attributable to Arconic is not available without unreasonable efforts.

(2)Includes the wire harness and electrical distribution business which was sold in 2009 and reflected in discontinued operations in the 2008 historical presentation.

### RECONCILIATION OF GLOBAL ROLLED PRODUCTS ADJUSTED EBITDA

(\$ in millions)	Year ended		
	December 31, 2016	December 31, 2015	December 31, 2008
After-tax operating income (ATOI)	\$ 269	\$ 225	\$ (15)
Add:			
Depreciation and amortization	201	203	190
Income taxes	107	85	50
Other		(1)	4
Adjusted EBITDA	\$ 577	\$ 512	\$ 229
Total shipments (thousand metric tons) (kmt)	1,587	1,570	2,029
Adjusted EBITDA / Total shipments (\$ per metric ton)	\$ 364	\$ 326	\$ 113
Third Party Sales	\$ 4,864	\$ 5,253	\$ 7,659
Adjusted EBITDA Margin	11.9%	9.7%	3.0%

Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. The Other line in the table above includes gains/losses on asset sales and other nonoperating items. Adjusted EBITDA is a non-GAAP financial measure. Management believes that this measure is

**Table of Contents**

2017 PROXY STATEMENT

**Attachment C** (continued)

meaningful to investors because Adjusted EBITDA provides additional information with respect to Arconic's operating performance and the Company's ability to meet its financial obligations. The Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

**RECONCILIATION OF ENGINEERED PRODUCTS AND SOLUTIONS<sup>(1)</sup> ADJUSTED EBITDA**

(\$ in millions)	December 31,	Year ended December 31,	December 31,
	2016	2015	2008
After-tax operating income (ATOI)	\$ 642	\$ 595	\$ 465
Add:			
Depreciation and amortization	255	233	118
Income taxes	298	282	225
Other			2
Adjusted EBITDA	\$ 1,195	\$ 1,110	\$ 810
Add: Wire harness and electrical distribution adjusted EBITDA	N/A	N/A	(115)
Adjusted EBITDA including wire harness and electrical distribution	\$ 1,195	\$ 1,110	\$ 695 <sup>(1)</sup>
Third Party Sales	\$ 5,728	\$ 5,342	\$ 4,215
Add: Wire harness and electrical distribution third party sales	N/A	N/A	1,206
Third Party Sales including Wire harness and electrical distribution	\$ 5,728	\$ 5,342	\$ 5,421 <sup>(1)</sup>

Adjusted EBITDA Margin including wire harness and electrical distribution	20.9%	20.8%	12.8% <sup>(1)</sup>
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Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. The Other line in the table above includes gains/losses on asset sales and other nonoperating items. Adjusted EBITDA is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because Adjusted EBITDA provides additional information with respect to Arconic's operating performance and the Company's ability to meet its financial obligations. The Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

(1) Includes the wire harness and electrical distribution business which was sold in 2009 and reflected in discontinued operations in the 2008 historical presentation.

#### RECONCILIATION OF TRANSPORTATION AND CONSTRUCTION SOLUTIONS ADJUSTED EBITDA

(\$ in millions)	Year ended		
	December 31, 2016	December 31, 2015	December 31, 2008
After-tax operating income (ATOI)	\$ 176	\$ 166	\$ 82
Add:			
Depreciation and amortization	48	43	53
Income taxes	67	63	
Other		(1)	
Adjusted EBITDA	\$ 291	\$ 271	\$ 135
Third Party Sales	\$ 1,802	\$ 1,882	\$ 2,270
Adjusted EBITDA Margin	16.1%	14.4%	5.9%

Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. The Other line in the table above includes gains/losses on asset sales and other

**Table of Contents**

2017 PROXY STATEMENT

**Attachment C** (continued)

nonoperating items. Adjusted EBITDA is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because Adjusted EBITDA provides additional information with respect to Arconic's operating performance and the Company's ability to meet its financial obligations. The Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

**RECONCILIATION OF FREE CASH FLOW**

	Ten Months Ended October 31,	Twelve Months Ended December 31,
(\$ in millions)	2016 <sup>(1)</sup>	2016 <sup>(2)</sup>
Cash from Operations	\$ 277	\$ 870
Capital expenditures	(913)	(1,125)
Free cash flow	\$ (636)	\$ (255)
Adjustments for incentive compensation <sup>(3)</sup>	\$ 103	\$ 804
Free cash flow as adjusted for incentive compensation	\$ (533)	\$ 549

Free Cash Flow is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because management reviews cash flows generated from operations after taking into consideration capital expenditures due to the fact that these expenditures are considered necessary to maintain and expand Arconic's asset base and are expected to generate future cash flows from operations. It is important to note that Free Cash Flow does not represent the residual cash flow available for discretionary expenditures since other non-discretionary expenditures, such as mandatory debt service requirements, are not deducted from the measure.

(1)

Because the separation occurred on November 1, 2016, the final IC plan results for Corporate employees were calculated based on results against 10-month targets for Alcoa Inc. prorated for 10 months plus results against full-year targets for Arconic prorated for 2 months. This column represents 10-month results for Alcoa Inc.

(2) Because the separation occurred on November 1, 2016, the final IC plan results for Corporate employees were calculated based on results against 10-month targets for Alcoa Inc. prorated for 10 months plus results against full-year targets for Arconic prorated for 2 months. This column represents 12-month results for Arconic Inc.

(3) Adjustments for incentive compensation include the following:

for the ten months ended October 31, 2016, a negative amount (\$226) for capital expenditures and equity contributions to the joint venture in Saudi Arabia contemplated in Alcoa Inc.'s 2016 Plan but deferred until 2017; a positive amount (\$297) for costs related to the Separation Transaction; and a positive amount (\$32) for other miscellaneous adjustments including the normalization of London Metal Exchange aluminum prices and foreign currency exchange rates realized in 2016 results to those contemplated in Alcoa Inc.'s 2016 Plan; and for the twelve months ended December 31, 2016, a negative amount (\$36) for capital expenditures contemplated in Arconic Inc.'s 2016 Plan but deferred until 2017; a positive amount (\$372) for costs related to the Separation Transaction; and a positive amount (\$468) for other miscellaneous adjustments including the normalization of London Metal Exchange aluminum prices and foreign currency exchange rates realized in 2016 results to those contemplated in Arconic Inc.'s 2016 Plan as well as the elimination of Alcoa Corporation's free cash flow and the elimination of certain corporate allocations to the segments.

### RECONCILIATION OF ADJUSTED EBITDA FOR INCENTIVE COMPENSATION

(\$ in millions)	Ten Months Ended October 31, 2016 <sup>(1)</sup>	Twelve Months Ended December 31, 2016 <sup>(2)</sup>
Adjusted EBITDA	\$ 2,226	\$ 1,509
Adjustments for incentive compensation <sup>(3)</sup>	\$ 134	\$ 345
Adjusted EBITDA as adjusted for incentive compensation	\$ 2,360	\$ 1,854

Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. The Other line in the table above includes gains/losses on asset sales and other nonoperating items. Adjusted EBITDA is a non-GAAP financial measure. Management believes that this measure is meaningful to investors because Adjusted EBITDA provides additional information with respect to Arconic's operating

**Table of Contents**

2017 PROXY STATEMENT

**Attachment C** (continued)

performance and the Company's ability to meet its financial obligations. The Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies.

- (1) Because the separation occurred on November 1, 2016, the final IC plan results for Corporate employees were calculated based on results against 10-month targets for Alcoa Inc. prorated for 10 months plus results against full-year targets for Arconic prorated for 2 months. This column represents 10-month results for Alcoa Inc.
- (2) Because the separation occurred on November 1, 2016, the final IC plan results for Corporate employees were calculated based on results against 10-month targets for Alcoa Inc. prorated for 10 months plus results against full-year targets for Arconic prorated for 2 months. This column represents 12-month results for Arconic Inc.
- (3) Adjustments for incentive compensation include the following:
- for the ten months ended October 31, 2016, a positive amount (\$151) for costs related to the Separation Transaction; and a negative amount (\$17) for other miscellaneous adjustments including the normalization of London Metal Exchange aluminum prices and foreign currency exchange rates realized in 2016 results to those contemplated in Alcoa Inc.'s 2016 Plan; and
  - for the twelve months ended December 31, 2016, a positive amount (\$195) for costs related to the Separation Transaction; and a positive amount (\$150) for other miscellaneous adjustments including the normalization of London Metal Exchange aluminum prices and foreign currency exchange rates realized in 2016 results to those contemplated in Arconic Inc.'s 2016 Plan as well as the elimination of certain corporate allocations to the segments.

**RECONCILIATION OF ADJUSTED EBITDA MARGIN FOR PERFORMANCE-BASED RESTRICTED SHARES**

(\$ in millions)	Ten Months Ended October 31,	Twelve Months Ended December 31,
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	2016 <sup>(1)</sup>	2016 <sup>(2)</sup>
Combined segments third party sales	\$ 10,450	\$ 12,394
Adjustments for performance-based restricted shares <sup>(3)</sup>	770	841
Combined segments third party sales as adjusted for performance-based restricted shares	\$ 11,220	\$ 13,235
Combined segments adjusted EBITDA	\$ 1,778	\$ 2,063
Adjustments for performance-based restricted shares <sup>(4)</sup>	(108)	(142)
Combined segments adjusted EBITDA as adjusted for performance-based restricted shares	\$ 1,670	\$ 1,921
Combined segments adjusted EBITDA margin as adjusted for performance-based restricted shares	14.9%	14.5%

Arconic's definition of Adjusted EBITDA (Earnings before interest, taxes, depreciation, and amortization) is net margin plus an add-back for depreciation and amortization. Net margin is equivalent to Sales minus the following items: Cost of goods sold; Selling, general administrative, and other expenses; Research and development expenses; and Provision for depreciation and amortization. Arconic's definition of Adjusted EBITDA margin is Adjusted EBITDA divided by Third Party Sales. Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. Management believes that these measures are meaningful to investors because Adjusted EBITDA and Adjusted EBITDA margin provide additional information with respect to Arconic's operating performance and the Company's ability to meet its financial obligations. The Adjusted EBITDA and Adjusted EBITDA margin presented may not be comparable to similarly titled measures of other companies.

- (1) Because the separation occurred on November 1, 2016, the final IC plan results for Corporate employees were calculated based on results against 10-month targets for Alcoa Inc. prorated for 10 months plus results against full-year targets for Arconic prorated for 2 months. This column represents 10-month results for Alcoa Inc.
- (2) Because the separation occurred on November 1, 2016, the final IC plan results for Corporate employees were calculated based on results against 10-month targets for Alcoa Inc. prorated for 10 months plus results against full-year targets for Arconic prorated for 2 months. This column represents 12-month results for Arconic Inc.
- (3) Third party sales adjustments for performance-based restricted shares include the following:  
for the ten months ended October 31, 2016, a positive amount (\$924) primarily for portfolio differences between Arconic's 2016 combined segment results and those contemplated in Alcoa Inc.'s 2016 Plan; and a negative amount (\$154) for the normalization of London Metal Exchange aluminum prices and foreign currency exchange rates realized in 2016 results to those contemplated in Alcoa Inc.'s 2016 Plan; and



**Table of Contents**

2017 PROXY STATEMENT

**Attachment C** (continued)

for the twelve months ended December 31, 2016, a positive amount (\$961) primarily for portfolio differences between Arconic's 2016 combined segment results and those contemplated in Alcoa Inc.'s 2016 Plan; and a negative amount (\$120) for the normalization of London Metal Exchange aluminum prices and foreign currency exchange rates realized in 2016 results to those contemplated in Alcoa Inc.'s 2016 Plan.

(4) Adjusted EBITDA adjustments for performance-based restricted shares include the following:

for the ten months ended October 31, 2016, a negative amount (\$191) for the allocation of corporate expenses to the segments; and a positive amount (\$83) for other miscellaneous adjustments including the normalization of London Metal Exchange aluminum prices and foreign currency exchange rates realized in 2016 results to those contemplated in Alcoa Inc.'s 2016 Plan; and

for the twelve months ended December 31, 2016, a negative amount (\$229) for the allocation of corporate expenses to the segments; and a positive amount (\$87) for other miscellaneous adjustments including the normalization of London Metal Exchange aluminum prices and foreign currency exchange rates realized in 2016 results to those contemplated in Alcoa Inc.'s 2016 Plan.

Table of Contents

2017 PROXY STATEMENT

Attachments

**ATTACHMENT D Articles of Incorporation of Arconic Inc.**

**ARCONIC INC.**

**ARTICLES OF INCORPORATION**

(Amended as of November 1, 2016)

**FIRST.** The name of the corporation is Arconic Inc.

**SECOND.** The location and post office address of the corporation's current registered office is c/o CT Corporation System, Dauphin County, Pennsylvania.

**THIRD.** The purpose or purposes of the corporation are: to acquire and dispose of deposits of and rights to bauxite, clay, ores and minerals of any sort or description, and to acquire, extract, treat and dispose of any materials recovered or recoverable therefrom; to reduce ores of aluminum and any and all other ores to their basic metals; to manufacture, alloy and fabricate any and all metals into articles of commerce; to acquire, produce, transport, trade in and dispose of goods, wares and merchandise of every class and description; to purchase, lease, or otherwise acquire improved or unimproved real property, leaseholds, easements and franchises, to manage, use, deal with and improve the same or any part thereof, and to sell, exchange, lease, sublease, or otherwise dispose of any of said property or the improvements thereon or any part thereof; to acquire, use and dispose of all land, minerals, materials, apparatus, machinery and other agencies, means and facilities, to perform all operations, and to do all things, necessary, convenient or incident to the foregoing; and to carry on any business directly or indirectly related thereto; and the corporation shall have unlimited power to engage in and to do any lawful act concerning any or all lawful business for which corporations may be incorporated under the Pennsylvania Business Corporation Law.

**FOURTH.** The term for which the corporation is to exist is perpetual.

**FIFTH.** The authorized capital stock of the corporation shall be 660,000 shares of Serial Preferred Stock of the par value of \$100 per share, 10,000,000 shares of Class B Serial Preferred Stock of the par value of \$1.00 per share and 600,000,000 shares of Common Stock of the par value of \$1.00 per share.

Upon the filing (the Effective Time ) of the Articles of Amendment effecting the adoption of the authorized capital set forth in the immediately preceding sentence, each three (3) shares of the corporation's Common Stock issued and outstanding immediately prior to the Effective Time shall, automatically and without further action on the part of the corporation or any holder thereof, be reclassified, combined, converted and changed into one (1) fully paid and nonassessable share of Common Stock of the par value of \$1.00 per share, subject to the treatment of fractional share interests as described below. The reclassification of the Common Stock pursuant to the Articles of Amendment will be deemed to occur at the Effective Time. From and after the Effective Time, certificates representing Common Stock prior to such reclassification shall represent the number of shares of Common Stock into which such Common Stock prior to such reclassification shall have been reclassified pursuant to the Articles of Amendment. No fractional shares shall be issued upon the effectiveness of the Articles of Amendment and, in lieu thereof, the corporation's transfer agent shall aggregate all fractional shares and sell them as soon as practicable after the Effective Time at the then-prevailing prices on the open market, on behalf of those shareholders who would otherwise be entitled to receive a fractional share, and after the transfer agent's completion of such sale, shareholders shall receive a cash payment from the transfer agent in an amount equal to their respective pro rata shares of the total net proceeds of that sale.

Hereinafter in this Article Fifth, the term Preferred Stock shall mean each of the Serial Preferred Stock and the Class B Serial Preferred Stock.

<sup>1</sup> This Attachment D omits the Statement with Respect to the \$3.75 Cumulative Preferred Stock, a Series of the Serial Preferred Stock, and the Statement with Respect to Shares with Respect to the 5.375% Mandatory Convertible Preferred Stock, Series 1.

**Table of Contents**

2017 PROXY STATEMENT

**Attachment D** (continued)

A description of each class of shares which the corporation shall have authority to issue and a statement of the rights, voting powers, preferences, qualifications, limitations, restrictions and the special or relative rights granted to or imposed upon the shares of each class and of the authority vested in the Board of Directors of the corporation to establish series of the Preferred Stock and to fix and determine the variations in the relative rights and preferences as between the series thereof are as follows:

1. Establishment of Series of Preferred Stock. Preferred Stock shall be issued in one or more series. Each series shall be designated by the Board of Directors so as to distinguish the shares thereof from the shares of all other series and classes. The Board of Directors may, by resolution, from time to time divide shares of Preferred Stock into series and fix and determine the number of shares and, subject to the provisions of this Article Fifth, the relative rights and preferences of any series so established, provided that all shares of Preferred Stock shall be identical except as to the following relative rights and preferences, in respect of any or all of which there may be variations between different series, namely: the rate of dividend (including the date from which dividends shall be cumulative and, with respect to Class B Serial Preferred Stock, whether such dividend rate shall be fixed or variable and the methods, procedures and formulas for the recalculation or periodic resetting of any variable dividend rate); the price at, and the terms and conditions on, which shares may be redeemed; the amounts payable on shares in the event of voluntary or involuntary liquidation; sinking fund provisions for the redemption or purchase of shares in the event shares of any series are issued with sinking fund provisions; and the terms and conditions on which the shares of any series may be converted in the event the shares of any series are issued with the privilege of conversion. Each share of any series of Preferred Stock shall be identical with all other shares of such series, except as to date from which dividends shall be cumulative.

2. Dividends.

(a) The holders of Serial Preferred Stock of any series shall be entitled to receive, when and as declared by the Board of Directors, out of surplus or net profits legally available therefor, cumulative dividends at the rate of dividend fixed by the Board of Directors for such series as hereinbefore provided, and no more, payable quarter yearly on the first

days of January, April, July and October in each year. The dividends on any shares of Serial Preferred Stock shall be cumulative from such date as shall be fixed for that purpose by the Board of Directors prior to the issue of such shares or, if no such date shall be so fixed by the Board of Directors, from the quarter yearly dividend payment date next preceding the date of issue of such shares.

(b) The holders of Class B Serial Preferred Stock of any series shall be entitled to receive, when and as declared by the Board of Directors or any authorized committee thereof, out of funds legally available therefor, cumulative dividends at the rate of dividend fixed by the Board of Directors for such series including any such rate which may be reset or recalculated from time to time pursuant to procedures or formulas established therefor by the Board of Directors, and no more; provided, however, that no dividend shall be declared or paid on the Class B Serial Preferred Stock so long as any of the Serial Preferred Stock remains outstanding, unless all quarter yearly dividends accrued on the Serial Preferred Stock and the dividend thereon for the current quarter yearly dividend period shall have been paid or declared and a sum sufficient for the payment thereof set apart. The dividends on any shares of Class B Serial Preferred Stock shall be cumulative from such date as shall be fixed for that purpose by the Board of Directors prior to the issue of such shares or, if no such date shall be so fixed by the Board of Directors, from the dividend payment date for such series next preceding the date of issue of such shares. If full cumulative dividends on shares of a series of Class B Serial Preferred Stock have not been paid or declared and a sum sufficient for the payment thereof set apart, dividends thereon shall be declared and paid pro rata to the holders of such series entitled thereto. Accrued dividends shall not bear interest.

(c) The holders of Common Stock shall be entitled to receive dividends, when and as declared by the Board of Directors, out of surplus or net profits legally available therefor, provided, however, that no dividend shall be declared or paid on the Common Stock so long as any of the Preferred Stock remains outstanding, unless all dividends accrued on all classes of Preferred Stock and the dividend on Serial Preferred Stock for the current quarter yearly dividend period shall have been paid or declared and a sum sufficient for the payment thereof set apart.

3. Liquidation. In the event of any liquidation, dissolution or winding up of the corporation, whether voluntary or involuntary, then before any payment or distribution shall be made to the holders of Common Stock or Class B Serial

**Table of Contents**

2017 PROXY STATEMENT

**Attachment D** (continued)

Preferred Stock the holders of Serial Preferred Stock shall be entitled to be paid such amount as shall have been fixed by the Board of Directors as hereinbefore provided, plus all dividends which have accrued on the Serial Preferred Stock and have not been paid or declared and a sum sufficient for the payment thereof set apart. Thereafter, the holders of Class B Serial Preferred Stock of each series shall be entitled to be paid such amount as shall have been fixed by the Board of Directors as hereinbefore provided, plus all dividends which have accrued on the Class B Serial Preferred Stock and have not been paid or declared and a sum sufficient for the payment thereof set apart. Thereafter, the remaining assets shall belong to and be divided among the holders of the Common Stock. The consolidation or merger of the corporation with or into any other corporation or corporations or share exchange or division involving the corporation in pursuance of applicable statutes providing for the consolidation, merger, share exchange or division shall not be deemed a liquidation, dissolution or winding up of the corporation within the meaning of any of the provisions of this subdivision.

4. **Voting Rights.** The holders of Preferred Stock shall have no voting rights except as otherwise required by law or hereinafter provided:

(a) If at any time the amount of any dividends on Preferred Stock which have accrued and which have not been paid or declared and a sum sufficient for the payment thereof set apart shall be at least equal to the amount of four quarter yearly dividends, the holders of Preferred Stock shall have one vote per share, provided, however, that such voting rights of the holders of Preferred Stock shall continue only until all quarter yearly dividends accrued on the Preferred Stock have been paid or declared and a sum sufficient for the payment thereof set apart.

(b) Without the consent of the holders of at least a majority of the shares of Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by vote at a meeting called for that purpose at which the holders of Preferred Stock shall vote as a class,

(i) no additional class of stock ranking on a parity with the Preferred Stock as to dividends or assets shall be authorized;

(ii) the authorized number of shares of Preferred Stock or of any class of stock ranking on a parity with the Preferred Stock as to dividends or assets shall not be increased; and

(iii) the corporation shall not merge or consolidate with or into any other corporation if the corporation surviving or resulting from such merger or consolidation would have after such merger or consolidation any authorized class of stock ranking senior to or on a parity with the Preferred Stock except the same number of shares of stock with the same rights and preferences as the authorized stock of the corporation immediately preceding such merger or consolidation.

(c) Except in pursuance of the provisions of subdivision 4(b) (iii) of this Article Fifth, without the consent of the holders of at least sixty-six and two-thirds ( $66\frac{2}{3}$ ) per cent. of the number of shares of Preferred Stock at the time outstanding, given in person or by proxy, either in writing or by a vote at a meeting called for that purpose at which the holders of Preferred Stock shall vote as a class,

(i) no change shall be made in the rights and preferences of the Preferred Stock as set forth in the Articles of Incorporation or as fixed by the Board of Directors so as to affect such stock adversely; provided, however, that if any such change would affect any series of Preferred Stock adversely as compared with the effect thereof upon any other series of Preferred Stock, no such change shall be made without the additional consent given as aforesaid of the holders of at least sixty-six and two-thirds ( $66\frac{2}{3}$ ) per cent. of the number of shares at the time outstanding of the Preferred Stock of the series which would be so adversely affected;

(ii) no additional class of stock ranking senior to the Preferred Stock as to dividends or assets shall be authorized;

(iii) the authorized number of shares of any class of stock ranking senior to the Preferred Stock as to dividends or assets shall not be increased; and

(iv) the corporation shall not (a) sell, lease, convey or part with control of all or substantially all of its property or business; or (b) voluntarily liquidate, dissolve or wind up its affairs.

**Table of Contents**

2017 PROXY STATEMENT

**Attachment D** (continued)

Notwithstanding the foregoing:

(i) except as otherwise required by law, the voting rights of any series of Class B Serial Preferred Stock may be limited or eliminated by the Board of Directors prior to the issuance thereof; and

(ii) provided no shares of Serial Preferred Stock are then outstanding, any series of Class B Serial Preferred Stock may be issued with such additional voting rights in the event of dividend arrearages as the Board of Directors may determine to be required to qualify such series for listing on one or more securities exchanges of recognized standing.

The holders of Common Stock of the corporation shall have one vote per share.

5. Redemption.

(a) The corporation, at the option of the Board of Directors, may redeem the whole or any part of the Serial Preferred Stock, or the whole or any part of any series thereof, at any time or from time to time, at such redemption price therefor as shall have been fixed by the Board of Directors as hereinbefore provided, plus all dividends which on the redemption date have accrued on the shares to be redeemed and have not been paid or declared and a sum sufficient for the payment thereof set apart. Notice of every such redemption shall be published not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption in a daily newspaper printed in the English language and published and of general circulation in the Borough of Manhattan, City and State of New York, and in a daily newspaper printed in the English language and published and of general circulation in the City of Pittsburgh, Pennsylvania. Notice of every such redemption shall also be mailed not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption to the holders of record of the shares of Serial Preferred Stock to be redeemed at their respective addresses as the same appear upon the books of the corporation; but no failure to mail such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Serial Preferred Stock. In case of a redemption of a part only of any series of the Serial Preferred Stock at the time outstanding, the corporation shall select shares so to be redeemed in such manner, whether



pro rata or by lot, as the Board of Directors may determine. Subject to the provisions herein contained, the Board of Directors shall have full power and authority to prescribe the manner in which and the terms and conditions on which the Serial Preferred Stock shall be redeemed from time to time. If notice of redemption shall have been published as hereinbefore provided and if before the redemption date specified in such notice all funds necessary for such redemption shall have been set apart so as to be available therefor, then on and after the date fixed for redemption the shares of Serial Preferred Stock so called for redemption, notwithstanding that any certificate therefor shall not have been surrendered for cancellation, shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith cease and terminate except only the right of the holders thereof to receive upon surrender of certificates therefor the amount payable upon redemption thereof, but without interest; provided, however, that if the corporation shall, after the publication of notice of any such redemption and prior to the redemption date, deposit in trust for the account of the holders of the Serial Preferred Stock to be redeemed with a bank or trust company in good standing, designated in such notice, organized under the laws of the United States of America or of the State of New York or of the Commonwealth of Pennsylvania, doing business in the Borough of Manhattan, The City of New York, or in the City of Pittsburgh, Pennsylvania, and having a capital, undivided profits and surplus aggregating at least five million dollars (\$5,000,000), all funds necessary for such redemption, then from and after the time of such deposit the shares of Serial Preferred Stock so called for redemption, notwithstanding that any certificate therefor shall not have been surrendered for cancellation, shall no longer be deemed outstanding and all rights with respect to such shares shall forthwith cease and terminate except only the right of the holders of such shares to receive from such bank or trust company upon surrender of certificates therefor the amount payable upon redemption thereof, but without interest.

All shares of Serial Preferred Stock so redeemed shall be cancelled and shall not be reissued.

(b) The terms and conditions under which the whole or any part of any series of the Class B Serial Preferred Stock may be redeemed shall be established by the Board of Directors prior to the issuance thereof. Unless otherwise determined by the Board of Directors, all shares of Class B Serial Preferred Stock so redeemed or otherwise acquired by the corporation shall be returned to the status of authorized but unissued shares.

**Table of Contents**

2017 PROXY STATEMENT

**Attachment D** (continued)

6. Preemptive Rights. Neither the holders of the Preferred Stock nor the holders of the Common Stock shall be entitled to participate in any right of subscription to any increased or additional capital stock of the corporation of any kind whatsoever.

7. Uncertificated Shares. Shares of Common Stock, or any part thereof, to the extent determined by the Board of Directors, shall be uncertificated; provided that this section 7 shall not apply to shares represented by a certificate until the certificate is surrendered to the corporation.

**SIXTH.** In each election of directors every shareholder entitled to vote shall have the right to cast one vote for each share of stock standing in his name on the books of the Company for each of such number of candidates as there are directors to be elected, but no shareholder shall have any right to cumulate his votes and cast them for one candidate or distribute them among two or more candidates.

**SEVENTH.** A. In addition to any affirmative vote required by law, the Articles or the By-Laws of the corporation (the Company), and except as otherwise expressly provided in Section B of this Article Seventh, the Company shall not knowingly engage, directly or indirectly, in any Stock Repurchase (as hereinafter defined) from an Interested Shareholder (as hereinafter defined) without the affirmative vote of not less than a majority of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock (as hereinafter defined) which are beneficially owned by persons other than such Interested Shareholder, voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage or separate class vote may be specified, by law or in any agreement with any national securities exchange or otherwise.

B. The provisions of Section A of this Article Seventh shall not be applicable to any particular Stock Repurchase from an Interested Shareholder, and such Stock Repurchase shall require only such affirmative vote, if any, as is required by law or by any other provision of the Articles or the By-Laws of the Company, or any agreement with any national securities exchange or otherwise, if the conditions specified in either of the following Paragraphs (1) or (2) are met:

(1) The Stock Repurchase is made pursuant to a tender offer or exchange offer for a class of Capital Stock (as hereinafter defined) made available on the same basis to all holders of such class of Capital Stock.

(2) The Stock Repurchase is made pursuant to an open market purchase program approved by a majority of the Continuing Directors (as hereinafter defined), provided that such repurchase is effected on the open market and is not the result of a privately negotiated transaction.

C. For the purposes of this Article Seventh:

(1) The term **Stock Repurchase** shall mean any repurchase, directly or indirectly, by the Company or any Subsidiary of any shares of Capital Stock at a price greater than the then Fair Market Value of such shares.

(2) The term **Capital Stock** shall mean all capital stock of the Company authorized to be issued from time to time under Article FIFTH of the Articles of the Company, and the term **Voting Stock** shall mean all Capital Stock which by its terms may be voted on all matters submitted to shareholders of the Company generally.

(3) The term **person** shall mean any individual, firm, company or other entity and shall include any group comprised of any person and any other person with whom such person or any Affiliate or Associate of such person has any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of Capital Stock.

(4) The term **Interested Shareholder** shall mean any person (other than the Company or any Subsidiary and other than any savings, profit-sharing, employee stock ownership or other employee benefit plan of the Company or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who is on the date in question, or who was at any time within the two year period immediately prior to the date in question, the beneficial owner of Voting Stock representing five percent (5%) or more of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock.

(5) A person shall be a **beneficial owner** of any Capital Stock (a) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly; (b) which such person or any of its Affiliates or Associates has, directly or

**Table of Contents**

2017 PROXY STATEMENT

**Attachment D** (continued)

indirectly, (i) the right to acquire (whether such right is exercisable immediately or subject only to the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (ii) the right to vote pursuant to any agreement, arrangement or understanding; or (c) which is beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Capital Stock. For the purposes of determining whether a person is an Interested Shareholder pursuant to Paragraph 4 of this Section C, the number of shares of Capital Stock deemed to be outstanding shall include shares deemed beneficially owned by such person through application of Paragraph 5 of this Section C, but shall not include any other shares of Capital Stock that may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(6) The terms *Affiliate* and *Associate* shall have the respective meanings ascribed to such terms in Rule 12b-2 under the Securities Exchange Act of 1934 as in effect on March 8, 1985 (the term *registrant* in said Rule 12b-2 meaning in this case the Company).

(7) The term *Subsidiary* shall mean any corporation of which a majority of any class of equity security is beneficially owned by the Company; provided, however, that for the purposes of the definition of Interested Shareholder set forth in Paragraph 4 of this Section C, the term *Subsidiary* shall mean only a corporation of which a majority of each class of equity security is beneficially owned by the Company.

(8) The term *Continuing Director* shall mean any member of the Board of Directors of the Company (the *Board*), while such person is a member of the Board, who is not an Affiliate or Associate or representative of the Interested Shareholder and was a member of the Board prior to the time that the Interested Shareholder became an Interested Shareholder, and any successor of a Continuing Director, while such successor is a member of the Board, who is not an Affiliate or Associate or representative of the Interested Shareholder and is recommended or elected to succeed the Continuing Director by a majority of Continuing Directors.

(9) The term Fair Market Value shall mean (a) in the case of cash, the amount of such cash; (b) in the case of stock, the closing sale price on the trading day immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Act on which such stock is listed, or, if such stock is not listed on any such exchange, the closing bid quotation with respect to a share of such stock on the trading day immediately preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any similar system then in use, or if no such quotation is available, the fair market value on the date in question of a share of such stock as determined by a majority of the Continuing Directors in good faith; and (c) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of the Continuing Directors.

D. The Board of Directors shall have the power and duty to determine for the purposes of this Article Seventh, on the basis of information known to them after reasonable inquiry, (a) whether a person is an Interested Shareholder, (b) the number of shares of Capital Stock or other securities beneficially owned by any person, (c) whether a person is an Affiliate or Associate of another and (d) whether the consideration to be paid in any Stock Repurchase has an aggregate Fair Market Value in excess of the then Fair Market Value of the shares of Capital Stock being repurchased. Any such determination made in good faith shall be binding and conclusive on all parties.

E. Nothing contained in this Article Seventh shall be construed to relieve any Interested Shareholder from any fiduciary obligation imposed by law.

F. Notwithstanding any other provisions of the Articles or the By-Laws of the Company (and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law, these Articles or the By-Laws of the Company), the affirmative vote of the holders of not less than eighty percent (80%) of the votes entitled to be cast by the holders of all then outstanding shares of Voting Stock, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article Seventh.

**Table of Contents**

2017 PROXY STATEMENT

**Attachment D** (continued)

**EIGHTH.** A. The business and affairs of the corporation (the Company) shall be managed by a Board of Directors comprised as follows:

(1) The Board of Directors shall consist of the number of persons fixed from time to time by the Board of Directors pursuant to a resolution adopted by a majority vote of the directors then in office.

(2) Beginning with the Board of Directors to be elected at the annual meeting of shareholders held in 1985, directors shall be classified with respect to the time for which they shall severally hold office by dividing them into three classes, as nearly equal in number as possible. At such meeting, each class of directors shall be elected in a separate election. Directors of the first class shall be elected for a term of office to expire at the 1986 annual meeting of shareholders, those of the second class shall be elected for a term of office to expire at the 1987 annual meeting of shareholders, and those of the third class shall be elected for a term of office to expire at the 1988 annual meeting of shareholders. At each annual election held after the 1985 annual meeting of shareholders the class of directors then being elected shall be elected to hold office for a term of office to expire at the third succeeding annual meeting of shareholders after their election. Each director shall hold office for the term for which elected and until his or her successor shall have been elected and qualified, except in the case of earlier death, resignation or removal.

(3) Nominations for the election of directors at an annual meeting of the shareholders may be made by the Board of Directors or a committee appointed by the Board of Directors or by any shareholder entitled to vote in the election of directors at the meeting. Shareholders entitled to vote in such election may nominate one or more persons for election as directors only if written notice of such shareholder's intent to make such nomination or nominations has been given either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Company not later than ninety days prior to the anniversary date of the immediately preceding annual meeting. Such notice shall set forth: (a) the name and address of the shareholder who intends to make the nomination and of the persons or person to be nominated; (b) a representation that the shareholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the shareholder and each nominee and any

other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (d) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission as then in effect; and (e) the consent of each nominee to serve as a director of the Company if so elected. The presiding officer of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

(4) Any director, any class of directors, or the entire Board of Directors may be removed from office by shareholder vote at any time, with or without assigning any cause, but only if shareholders entitled to cast at least 80% of the votes which all shareholders would be entitled to cast at an annual election of directors or of such class of directors shall vote in favor of such removal.

(5) Vacancies in the Board of Directors, including vacancies resulting from an increase in the number of directors, shall be filled only by a majority vote of the remaining directors then in office, though less than a quorum, except that vacancies resulting from removal from office by a vote of the shareholders may be filled by the shareholders at the same meeting at which such removal occurs. All directors elected to fill vacancies shall hold office for a term expiring at the annual meeting of shareholders at which the term of the class to which they have been elected expires. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

B. Notwithstanding any other provisions of the Articles or the By-Laws of the Company (and notwithstanding the fact that a lesser percentage or separate class vote may be specified by law, these Articles or the By-laws of the Company), the affirmative vote of not less than eighty percent (80%) of the votes which all shareholders of the then outstanding shares of capital stock of the Company would be entitled to cast in an annual election of directors, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article Eighth.

**NINTH.** To the fullest extent that the laws of the Commonwealth of Pennsylvania, as in effect on May 15, 1987 or as thereafter amended, permit elimination or limitation of the liability of directors, no director of the corporation shall be personally liable for monetary damages for any action taken, or any failure to take any action. This Article Ninth shall not

Table of Contents

2017 PROXY STATEMENT

**Attachment D** (continued)

apply to any action filed prior to May 15, 1987, nor to any breach of performance of duty or any failure of performance of duty occurring prior to May 15, 1987. The provisions of this Article shall be deemed to be a contract with each director of the corporation who serves as such at any time while such provisions are in effect, and each such director shall be deemed to be serving as such in reliance on the provisions of this Article. Any amendment or repeal of this Article or adoption of any other provision of the Articles or By-laws of the corporation which has the effect of increasing director liability shall operate prospectively only and shall not affect any action taken, or any failure to act, prior to such amendment, repeal or adoption.

**TENTH.** Except as prohibited by law, the corporation may indemnify any person who is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (including, without limitation, any employee benefit plan) and may take such steps as may be deemed appropriate by the Board of Directors, including purchasing and maintaining insurance, entering into contracts (including, without limitation, contracts of indemnification between the corporation and its directors and officers), creating a trust fund, granting security interests or using other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect such indemnification. This Article shall be effective May 15, 1987.

**ELEVENTH.** A nominee for director shall be elected to the Board of Directors at a meeting of shareholders if the votes cast for such nominee by holders of shares entitled to vote in the election, exceed the votes cast against such nominee's election (excluding abstentions), except in a contested election (as such term shall be defined in the By-Laws of the company). Any nominee for director in a non-contested election who is not an incumbent director and is not so elected shall not take office. Any incumbent director nominated for re-election in a non-contested election but not so elected shall, in the event the director's successor shall not be duly elected and qualified, take such actions (which may include the tender of the director's resignation for consideration by the Board of Directors) as shall be consistent with applicable law and the company's By-Laws. The Board of Directors shall have the authority to adopt and amend appropriate By-Laws to implement this Article Eleventh.



**TWELFTH.** Subject to any requirements set forth in the By-Laws of the corporation, an action may be authorized by the shareholders without a meeting by less than unanimous written consent, provided that (a) the shareholder(s) of record seeking to have shareholders of the corporation authorize or take the action by written consent complies with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder, as amended, applicable to solicitations, including the requirement to file with the U.S. Securities and Exchange Commission a consent solicitation statement containing the information specified in Schedule 14A and to file and distribute such consent solicitation statement, and (b) no action by written consent shall be effective until the later of (1) such date as independent inspectors appointed by the corporation certify to the corporation that the consents delivered to the corporation in accordance with the By-Laws of the corporation represent at least the minimum number of votes that would be necessary to take the corporate action and (2) the date that is at least ten (10) days after notice of the action has been given to each shareholder entitled to vote thereon who has not consented thereto.

**THIRTEENTH.** Subject to any requirements and limitations set forth in the By-Laws of the company, special meetings of the shareholders may be called only by (1) the chairman of the board, (2) the board of directors pursuant to a resolution adopted by the board, (3) the Secretary of the company at the request in proper form of an interested shareholder (as defined in section 2553 of the Pennsylvania Business Corporation Law ( PBCL )) for the purpose of approving a business combination under section 2555(3) or 2555(4) of the PBCL or (4) the Secretary of the company at the request in proper form of shareholders who have continuously held as shareholders of record Net Long Shares (as determined in accordance with the By-Laws of the company) representing in the aggregate at least twenty-five (25) percent of the outstanding shares of common stock of the company for at least one year prior to the date such request is delivered to the Secretary. Special meetings of shareholders shall be held at such place, on such date, and at such time as the board of directors shall fix pursuant to a resolution adopted by the board. Following receipt by the Secretary of the company of a request of shareholders that complies with the requirements set forth in the By-Laws of the company, the Secretary of the company shall call a special meeting of the shareholders, except as otherwise provided in the company s By-Laws. References to sections of the PBCL in this Article Thirteenth shall be deemed to be a reference to any successor provision of similar import.

**Table of Contents**

2017 PROXY STATEMENT

Appendices

**APPENDIX A Supplemental Information Regarding Participants**

The following tables ( Directors and Nominees and Officers and Employees ) set forth the name and business address of our directors and nominees, and the name, present principal occupation and business address of our officers and employees who, under the rules of the SEC, are considered to be participants in our solicitation of proxies from our shareholders in connection with our 2017 Annual Meeting of Shareholders (collectively, the Participants ).

**Directors and Nominees**

The principal occupations of our directors and nominees are set forth under Item 1 of this Proxy Statement, titled *Election of Directors*. The names of our directors and nominees are set forth below and the business address for all our directors and nominees is c/o Arconic Inc., 390 Park Avenue, New York, NY 10022-4608.

Amy E. Alving

Arthur D. Collins, Jr.

Rajiv L. Gupta

David P. Hess

Klaus Kleinfeld

Sean O. Mahoney

E. Stanley O Neal

John C. Plant

L. Rafael Reif

Julie G. Richardson

Patricia F. Russo

Ulrich R. Schmidt

Ratan N. Tata

## Officers and Employees

The principal occupations of our executive officers and employees who are considered Participants are set forth below. The principal occupation refers to such person's position with the Company, and the business address for each person is c/o Arconic Inc., 390 Park Avenue, New York, NY 10022-4608.

Name	Title
Klaus Kleinfeld	Chairman and Chief Executive Officer
Kenneth J. Giacobbe	Executive Vice President and Chief Financial Officer
Libby Archell	Vice President and Chief Communications Officer
Patricia Figueroa	Vice President, Investor Relations
Katherine Hargrove Ramundo	Executive Vice President, Chief Legal Officer and Secretary

## Information Regarding Ownership of Company Securities by Participants

The number of shares of Arconic common stock held by our directors and named executive officers as of February 17, 2017 is set forth under the "Stock Ownership of Directors and Executive Officers" section of this Proxy Statement. The following table sets forth the number of shares held as of February 17, 2017 by our other employees who are deemed participants in our solicitation of proxies. Except as otherwise noted below, each person identified in the table below, to our knowledge, has sole voting and investment power with respect to the securities they hold, other than property rights of spouses.

Names of Beneficial Owner	Shares of		Total
	Common Stock <sup>1</sup>	Deferred Share Units <sup>2</sup>	
Libby Archell	29,162		29,162
Patricia Figueroa	9,206		9,206
Katherine Hargrove Ramundo			

**Table of Contents**

2017 PROXY STATEMENT

**Appendix A** (continued)

- 1 This column also includes shares of Arconic common stock that may be acquired under employee stock options that are exercisable as of February 17, 2017 or will become exercisable within 60 days after February 17, 2017 as follows: Libby Archell (19,937); and Patricia Figueroa (9,017).
- 2 This column lists deferred share equivalent units held under the Arconic Deferred Compensation Plan. Each deferred share equivalent unit tracks the economic performance of one share of Arconic common stock and is fully vested upon grant, but does not have voting rights.

**Information Regarding Transactions in Company Securities by Participants**

The following table sets forth information regarding purchases and sales of Arconic securities by each Participant during the past two years as reflected in the stock transfer records and plan administration records of the Company. Unless otherwise indicated, all transactions were in the public market or pursuant to our equity compensation plans and none of the purchase price or market value of these securities is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities. Transactions with transaction dates prior to October 6, 2016 were in securities of Alcoa Inc. (which subsequently became Arconic Inc.) and have not been adjusted to reflect Alcoa Inc.'s 1-for-3 reverse stock split of its common stock on such date. Transactions with transaction dates prior to November 1, 2016 were in securities of Alcoa Inc. Transactions with transaction dates on or after November 1, 2016 were in securities of Arconic Inc.

Name	Transaction Date	Number of Shares	Transaction Description
Amy E. Alving	November 30, 2016	3,112	14
Arthur D. Collins, Jr.	January 2, 2015	3,807	11

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Arthur D. Collins, Jr.	April 1, 2015	4,836	11
Arthur D. Collins, Jr.	July 1, 2015	5,663	11
Arthur D. Collins, Jr.	October 1, 2015	6,590	11
Arthur D. Collins, Jr.	January 4, 2016	6,519	11
Arthur D. Collins, Jr.	February 2, 2016	50,000	1
Arthur D. Collins, Jr.	April 1, 2016	6,607	11
Arthur D. Collins, Jr.	July 1, 2016	6,654	11
Arthur D. Collins, Jr.	October 3, 2016	6,236	11
Arthur D. Collins, Jr.	November 30, 2016	3,112	14
Rajiv L. Gupta	November 30, 2016	3,112	14
Klaus Kleinfeld	January 14, 2015	800,000	12
Klaus Kleinfeld	January 14, 2015	716,448	13
Klaus Kleinfeld	January 20, 2015	480,990	3
Klaus Kleinfeld	January 20, 2015	553,080	5
Klaus Kleinfeld	January 20, 2015	384,254	7
Klaus Kleinfeld	January 20, 2015	360,856	9
Klaus Kleinfeld	January 16, 2016	389,975	7
Klaus Kleinfeld	January 16, 2016	406,635	9
Klaus Kleinfeld	January 19, 2016	933,020	3
Klaus Kleinfeld	January 19, 2016	1,173,920	5
Klaus Kleinfeld	January 13, 2017	287,540	3
Klaus Kleinfeld	January 13, 2017	340,750	5
Klaus Kleinfeld	January 16, 2017	134,569	7
Klaus Kleinfeld	January 16, 2017	139,454	9
Sean O. Mahoney	April 1, 2016	6,607	11
Sean O. Mahoney	July 1, 2016	6,654	11

**Table of Contents**

2017 PROXY STATEMENT

**Appendix A** (continued)

Name	Transaction Date	Number of Shares	Transaction Description
Sean O. Mahoney	October 3, 2016	6,236	11
Sean O. Mahoney	November 30, 2016	3,112	14
E. Stanley O Neal	April 1, 2015	4,836	11
E. Stanley O Neal	July 1, 2015	5,663	11
E. Stanley O Neal	October 1, 2015	6,590	11
E. Stanley O Neal	January 4, 2016	6,519	11
E. Stanley O Neal	April 1, 2016	6,607	11
E. Stanley O Neal	July 1, 2016	6,654	11
E. Stanley O Neal	October 3, 2016	6,236	11
E. Stanley O Neal	November 30, 2016	3,112	14
John C. Plant	February 9, 2016	30,000	1
John C. Plant	April 1, 2016	3,304	11
John C. Plant	July 1, 2016	3,327	11
John C. Plant	October 3, 2016	3,118	11
John C. Plant	November 30, 2016	3,112	14
L. Rafael Reif	April 1, 2015	2,312	11
L. Rafael Reif	July 1, 2015	2,708	11
L. Rafael Reif	October 1, 2015	3,150	11
L. Rafael Reif	January 4, 2016	3,117	11
L. Rafael Reif	April 1, 2016	3,159	11
L. Rafael Reif	July 1, 2016	3,181	11
L. Rafael Reif	October 3, 2016	2,981	11
L. Rafael Reif	November 30, 2016	3,112	14
Julie G. Richardson	November 30, 2016	3,112	14

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Patricia F. Russo	January 2, 2015	1,975	11
Patricia F. Russo	April 1, 2015	2,505	11
Patricia F. Russo	July 1, 2015	2,933	11
Patricia F. Russo	October 1, 2015	3,741	11
Patricia F. Russo	January 4, 2016	3,701	11
Patricia F. Russo	April 1, 2016	3,705	11
Patricia F. Russo	July 1, 2016	3,731	11
Patricia F. Russo	October 3, 2016	3,497	11
Patricia F. Russo	November 30, 2016	3,112	14
Ulrich R. Schmidt	April 1, 2016	3,159	11
Ulrich R. Schmidt	April 26, 2016	5,000	1
Ulrich R. Schmidt	July 1, 2016	3,181	11
Ulrich R. Schmidt	July 20, 2016	5,000	1
Ulrich R. Schmidt	October 3, 2016	2,981	11
Ulrich R. Schmidt	November 30, 2016	3,112	14
Ratan N. Tata	April 10, 2015	3,405	11
Ratan N. Tata	October 16, 2015	4,555	11
Ratan N. Tata	February 4, 2016	2,662	11
Ratan N. Tata	April 20, 2016	2,150	11

**Table of Contents**

2017 PROXY STATEMENT

**Appendix A** (continued)

Name	Transaction Date	Number of Shares	Transaction Description
Ratan N. Tata	July 13, 2016	2,045	11
Ratan N. Tata	October 13, 2016	845	11
Ratan N. Tata	November 30, 2016	3,112	14
Kenneth J. Giacobbe	January 20, 2015	12,560	4
Kenneth J. Giacobbe	January 20, 2015	12,560	5
Kenneth J. Giacobbe	January 16, 2016	8,334	6
Kenneth J. Giacobbe	January 16, 2016	15,346	8
Kenneth J. Giacobbe	January 19, 2016	28,960	4
Kenneth J. Giacobbe	January 19, 2016	28,960	5
Kenneth J. Giacobbe	January 13, 2017	51,760	3
Kenneth J. Giacobbe	January 13, 2017	61,340	5
Kenneth J. Giacobbe	January 16, 2017	3,960	6
Kenneth J. Giacobbe	January 16, 2017	3,547	7
Kenneth J. Giacobbe	January 16, 2017	3,104	8
Kenneth J. Giacobbe	January 16, 2017	3,372	9
Libby Archell	January 20, 2015	22,120	4
Libby Archell	January 20, 2015	22,120	5
Libby Archell	January 19, 2016	134,760	3
Libby Archell	January 19, 2016	44,920	5
Libby Archell	January 13, 2017	23,440	4
Libby Archell	January 13, 2017	23,440	5
Libby Archell	January 16, 2017	3,501	6
Libby Archell	January 16, 2017	3,109	7
Libby Archell	January 16, 2017	4,238	8



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Libby Archell	January 16, 2017	4,471	9
Patricia Figueroa	January 20, 2015	7,140	3
Patricia Figueroa	January 19, 2016	17,880	3
Patricia Figueroa	January 13, 2017	26,530	3
Patricia Figueroa	January 13, 2017	7,580	4
Patricia Figueroa	January 16, 2017	165	6
Patricia Figueroa	January 16, 2017	189	8
Katherine Hargrove Ramundo	September 15, 2016	42,240	10
Katherine Hargrove Ramundo	January 13, 2017	38,340	3
Katherine Hargrove Ramundo	January 13, 2017	45,440	5

**Table of Contents**

2017 PROXY STATEMENT

**Appendix A** (continued)

**Transaction descriptions:**

1	Open Market Acquisition
2	Open Market Sales
3	Grant of Non-Qualified Options
4	Grant of Restricted Stock Units
5	Grant of Performance-Based Restricted Stock Units
6	Shares withheld for taxes/costs upon vesting of RSUs
7	Shares withheld for taxes/costs upon vesting of Performance RSUs
8	Shares issued at vest of Restricted Stock Units
9	Shares issued at vesting of Performance Restricted Stock Units
10	Grant of Restricted Stock Units - New Hire
11	Stock units acquired through deferral of director fees
12	Exercise of Non-Qualified Options
13	Shares sold in Options exercise
14	Grant of Restricted Stock Units for Directors Deferral Plan

**Miscellaneous Information Regarding Participants**

Except as described in this Appendix A or otherwise disclosed in the Proxy Statement, to our knowledge, no Participant owns any Arconic securities of record that such Participant does not own beneficially. Except as described in this Appendix A or otherwise disclosed in the Proxy Statement, to our knowledge, no Participant is, or was within

the past year, a party to any contract, arrangements or understandings with any person with respect to any Arconic securities, including, but not limited to joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies. Except as described in this Appendix A or otherwise disclosed in the Proxy Statement, to our knowledge, no associate of any Participant owns beneficially, directly or indirectly, any Arconic securities. Except as described in this Appendix A or otherwise disclosed in the Proxy Statement, to our knowledge, no Participant owns beneficially, directly or indirectly, any securities of any parent or subsidiary of Arconic. Except as described in this Appendix A or otherwise disclosed in the Proxy Statement, to our knowledge, no Participant nor any associate of a Participant is a party to any transaction, since the beginning of Arconic's last fiscal year, or any currently proposed transaction, in which (i) Arconic was or is to be a participant, (ii) the amount involved exceeds \$120,000 and (iii) any Participant or any related person thereof had or will have a direct or indirect material interest. Except as described in this Appendix A or otherwise disclosed in the Proxy Statement, to our knowledge, no Participant, nor any associate of a Participant, has any arrangement or understanding with any person (i) with respect to any future employment by Arconic or its affiliates or (ii) with respect to any future transactions to which Arconic or any of its affiliate will or may be a party. Except as described in this Appendix A or otherwise disclosed in the Proxy Statement, and excluding any director or officer of the Company acting solely in that capacity, to our knowledge, no Participant has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon at the annual meeting.

**Table of Contents**

**Table of Contents**

**YOUR VOTE IS IMPORTANT!**

Please take a moment now to vote your shares of Arconic Inc.

common stock for the upcoming Annual Meeting of Shareholders.

**YOU CAN VOTE TODAY USING ANY OF THE FOLLOWING METHODS:**

**Vote by Internet**

Please access <https://www.proxyvotenow.com/arnc> (please note you must type an s after http ). Then, simply follow the easy instructions on the voting site. You will be required to provide the unique Control Number printed below.

**Vote by Telephone**

Please call toll-free in the U.S. or Canada at 1-866-235-8897, on a touch-tone telephone. (If outside the U.S. or Canada, call 1-646-880-9096.) Then, simply follow the easy voice prompts. You will be required to provide the unique Control Number printed below.

CONTROL NUMBER:

You may vote by telephone or Internet 24 hours a day, 7 days a week.

Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you had marked, signed and returned a proxy card.

**Vote by Mail**

Please complete, sign, date and return the proxy card in the envelope provided to: Arconic Inc., c/o Innisfree M&A Incorporated, FDR Station, P.O. Box 5155, New York, NY 10150-5155.

**TO VOTE BY MAIL, PLEASE DETACH PROXY CARD HERE AND SIGN, DATE AND RETURN IN THE POSTAGE PAID ENVELOPE PROVIDED**

**Please mark**

**your vote as in**

**this example**

**THE BOARD OF DIRECTORS RECOMMENDS YOU VOTE FOR ALL OF THE NOMINEES IN ITEM 1; FOR ITEMS 2, 3, AND 5 THROUGH 9; AND FOR 1 YEAR IN ITEM 4.**

1. Election of Directors - **Nominees:** (01) Amy E. Alving; (02) David P. Hess (3) Klaus Kleinfeld; (04) Ulrich R. Schmidt; (05) Ratan N. Tata

**FOR ALL**

**WITHHOLD ALL**

**FOR ALL EXCEPT**

**(INSTRUCTION: To withhold authority to vote for any individual nominee(s), mark the For All Except box above and write the name(s) of the nominee(s) for which you would like to withhold authority in the space provided below)**

- |   | <b>FOR</b>    | <b>AGAINST</b> | <b>ABSTAIN</b> |
|---|---------------|----------------|----------------|
| 2. Ratification of Appointment of Independent Registered Public Accounting Firm   |               |                |                |
| 3. Approval, on an Advisory Basis, of Executive Compensation  |               |                |                |
|   | <b>1 YEAR</b> | <b>2 YEARS</b> | <b>3 YEARS</b> |
| 4. Approval, on an Advisory Basis, of Frequency of Advisory Vote on Executive Compensation  |               |                | <b>ABSTAIN</b> |
|   | <b>FOR</b>    | <b>AGAINST</b> | <b>ABSTAIN</b> |
| 5. Amendment of Articles of Incorporation to Eliminate Supermajority Voting Requirement in the Articles of Incorporation Regarding Amending Article SEVENTH (Fair Price Protection) |               |                |                |
| 6. Amendment of Articles of Incorporation to Eliminate Supermajority Voting Requirement in the Articles of Incorporation Regarding Amending Article EIGHTH (Director Elections)     |               |                |                |
| 7. Amendment of Articles of Incorporation to Eliminate Supermajority Voting Requirement in Article EIGHTH of the Articles of Incorporation Relating to the Removal of Directors     |               |                |                |
| 8. Amendment to Articles of Incorporation to Eliminate the Classification of the Board of Directors   |               |                |                |
| 9. Shareholder Proposal Regarding Elimination of Supermajority Provisions   |               |                |                |

**Please sign and date this WHITE proxy card below.**

Date: \_\_\_\_\_, 2017

(Signature)

(Signature)

Title(s)

**NOTE:** Please sign exactly as name appears hereon. If more than one owner, each should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in full partnership name by authorized person.

Table of Contents

**PRELIMINARY PROXY MATERIALS**

**SUBJECT TO COMPLETION**

**PLEASE VOTE TODAY.**

**SEE REVERSE SIDE FOR THREE EASY WAYS TO VOTE.**

TO VOTE BY MAIL, PLEASE DETACH PROXY CARD HERE AND SIGN, DATE AND RETURN IN THE  
POSTAGE PAID ENVELOPE PROVIDED

**ARCONIC INC.**

2017 Annual Meeting of Shareholders

**This Proxy is Solicited on Behalf of the Arconic Inc. Board of Directors**

The undersigned hereby appoints Libby Archell, Max Laun and Christoph Kollatz, or any of them, each with full power of substitution, as proxies for the undersigned to represent the undersigned and act and vote all shares of common stock of Arconic Inc. which the undersigned is entitled to vote at the Annual Meeting of Shareholders to be held at The Performing Arts Center, Purchase College, SUNY, 735 Anderson Hill Road, Purchase, New York 10577, at 9:00 a.m., Eastern Time on May 16, 2017, and any adjournment or postponement thereof, as hereinafter specified and, in their discretion, upon such other matters as may properly come before the meeting or any adjournment or postponement thereof. The undersigned hereby revokes all proxies previously given. When properly executed, this proxy will be voted in the manner directed herein. **On matters for which you do not specify a choice, the shares will be voted in accordance with the recommendation of the Board of Directors; therefore, if no direction is made, this proxy will be voted FOR all of Arconic Inc. s director nominees in Item 1; FOR Items 2, 3, and 5 through 9; and FOR 1 YEAR in Item 4.**

The undersigned acknowledges receipt with this proxy of a copy of the Notice of 2017 Annual Meeting of Shareholders and the Proxy Statement of Arconic Inc.



**YOUR VOTE IS VERY IMPORTANT PLEASE VOTE TODAY**

(continued and to be signed on the reverse side)