Performance Pay Program
Design Details

# Program Concept

The Performance Pay Program (“PPP”) is a target-type annual incentive program that pays out in cash. The program is governed by the Southern Company 2011 Omnibus Incentive Compensation Plan, as amended from time to time (“Omnibus Plan”). The Omnibus Plan is administered by the Compensation and Management Succession Committee of the Board of Directors of Southern Company (the “Committee”). These Design Details describe various components of PPP awards. These Design Details and any other administrative documents may be amended at any time by the Committee.

# Eligibility

All regular full-time and part-time employees (except as described below) are eligible to participate in PPP if hired by December 31 of the performance year. Collective bargaining employees, however, only participate to the extent that their bargaining units have approved participation. In addition, some companies and groups of employees have their own incentive plans. Those employees do not participate in PPP.

The following are not currently participating in PPP.

|  |  |
| --- | --- |
| Groups Not Eligible for PPP (including some but not all applicable job codes) |  |
|  |  |
| Sales employees of Georgia Power Lighting Services | Appliance Salesperson Job Code 004074Merchandise Salesperson Sr. 000995Merchandise Salesperson I 000708Merchandise Salesperson II 000664Merchandise Salesperson III 000707 |

# Process for Determining Eligibility

The following employees and other persons are not eligible for PPP payouts:

• Employees working for a non-adopting employer

• Employees working for a company that has a different short-term incentive plan or program

• Independent contractors (even if such classification is determined to have been incorrect)

• Leased employees (even if such classification is determined to have been incorrect)

• Co-ops

• Interns

• Temporary employees (even if such classification is determined to have been incorrect)

• Outside directors

• Collective bargaining employees who have not been approved for participation

• Georgia Power bargaining unit employees who have not completed their probationary period and who are not approved by their manager to participate as of December 31

In accordance with the terms of a memorandum of understanding, collective bargaining unit employees may be eligible for some but not all awards under PPP. Also, in accordance with the terms of a memorandum of understanding, the adopting employer has the right to continue or not continue participation in PPP.

# Award Sizes

Target award sizes are as follows:

|  |  |
| --- | --- |
| Salary Grade | Target Award (% of Base Salary)[[1]](#footnote-1)  |
| Alabama Power IBEW bargaining unit employees, Georgia Power IBEW bargaining unit employees, Southern Nuclear (Farley, Hatch, and Vogtle) IBEW bargaining unit employees, Gulf Power IBEW bargaining unit employees and Mississippi Power IBEW bargaining unit employees | 5% |
| Nonexempt/NonCovered | 10% |
| 1 to 5 (Exempt) | 10% |
| 6 | 12.5% |
| 7 | 25% |
| 8 | 30% |
| 9 | 35% |
| 10 | 35% |
| 11 | 40% |
| 12 | 45% |
| 13 | 50% |
| 14 | 55% |
| 15 | 60% |
| Other Executive Officers | Determined by the Committee |

# How Payouts are Determined

Payouts are determined as follows:

• Each participant has a target award, expressed as a percent of base salary.

• Each participant also has performance goal measures assigned to him or her, along with a weight for each performance goal measure. The standard weights are 1/3 Southern Company EPS, 1/3 business unit(s) ROE and 1/3 business unit(s) operational goals. Certain employees may have different performance goal weights or performance goal measures, with approval by the Southern Company CEO. The goal performance determines the Primary Goal Achievement.

* The Primary Goal Achievement may be reduced by 10 percentage points, due to the following event: Southern Company EPS trigger – EPS is less than 90% of the EPS target.
* Southern Company EPS must exceed prior year dividend to provide any PPP opportunity.

• Each participant can have his PPP payout reduced if his individual performance expectations are not met. The PPP payout may be reduced to zero based upon individual performance. Individual performance expectations are determined during the performance year and are measured by the participant’s management.

• The Committee establishes each year the criteria for payouts with respect to executive officers.

• Southern Excellence Awards (SEA) may be given throughout the year to provide immediate recognition for exceptional contribution of individuals and teams. Southern Excellence Awards are in addition to the PPP payout.

# How Performance Is Measured

Performance is measured over Southern Company’s business year, which is the calendar year. Each year new goals are set, using the performance measures most important to the company. Performance is determined as follows:

| Payout Structure | Entity at Which Performance Is Measured | Performance Measures |
| --- | --- | --- |
| Primary financial determinant of payout | Southern Company | Basic Earnings Per Share from Continuing Operations |
| Primary financial determinant of payout | Business Unit | Return on EquityorOther Financial Measures |
| Primary operational determinant of payout | Business Unit  | * Safety
* Operations
* Culture
 |
| EPS trigger - if EPS is less than 90% of EPS target, then 10 percentage point reduction in total payout of all participants | Southern Company | Basis Earnings Per Share from Continuing Operations |
| A reduction is possible if individual goals are not met | Individual | Individual performance expectations |
| Southern Excellence Award - spot awards determined by Business Unit | Individual/Team | Individual and/or team performance |

No payout is made under PPP, however, if Southern Company’s earnings during a performance year are not enough to fund the dividend on Southern Company’s common stock, as calculated using the actual dividend rate for the year immediately preceding the performance year.

The Committee may approve exceptions to the performance measures shown above. The primary considerations for an exception to a performance measure include adjustments to exclude the up or down impact of items: (1) considered “one time” or outside of “normal operations;” (2) not anticipated in the business plan when the goal was established; and (3) of sufficient magnitude to warrant recognition.

# Maximum Awards

The maximum payout for any PPP participant is 200% of target.

# Vesting

PPP awards vest on December 31 of the performance year. Participants must be employed on that date or have terminated with severance during the performance year in order to receive a payout for the year (except in cases of death, disability or retirement: see below).

Involuntary or voluntary termination for cause[[2]](#footnote-2) creates an exception to the vesting rule. Such a termination results in the forfeiture of any unpaid award, even if it otherwise had vested.

# Example

Following is an example showing how PPP works.

| Item | Performance | Amount | Calculation |
| --- | --- | --- | --- |
| Base salary |  | $50,000 |  |
| Target award |  | 10% |  |
| Target award in dollars |  | $5,000 | 10% x $50,000 = $5,000 |
| Weight for Basic EPS from Continuing Operations |  | 33.3% |  |
| Weight for Business Unit ROE |  | 33.3% |  |
| Weight for Business Unit Operational Goals |  | 33.3% |  |
| EPS Goal Payout | 90% | 30% | 33.3% weighting x 90% payout |
| ROE Goal Payout | 80% | 27% | 33.3% weighting x 80% payout |
| Operational Goal Payout | 120% | 40% | 33.3% weighting x 40% payout |
| **Primary Goal Achievement** |  | 97% | Sum of weighted payouts |
|  |  |  |  |
| **EPS Threshold Goal Trigger** |  |  |  |
| EPS is at least 90% of target | Yes |  | 10% reduction for all Cos. if not met |
|  |  |  |  |
| **Total Goal Achievement** |  | 97% | 97% - 10% trigger |
|  |  |  |  |
| Payout |  | $4,850 | Salary x PPP Target % x Total Goal Achievement |
| **EPS PPP Opportunity Goal** |  |  |  |
| EPS exceeds the prior year dividend | Yes |  | EPS must exceed the prior year total dividend in order to have any PPP payout opportunity. |

# Impact of Changes in Employment Status

The table below shows the impact of changes in employment status.

| Employment Event | Payout |
| --- | --- |
| Death,[[3]](#footnote-3) or retirement[[4]](#footnote-4) | Payout will be determined after the calendar year has ended using base salary rate on date of termination, then prorated (multiplied by number of weeks worked divided by 52). |
| Terminations with severance(voluntary or involuntary) | Payout will be determined after the calendar year has ended using base salary rate on date of termination, then prorated (multiplied by number of weeks worked divided by 52) |
| Terminations for cause[[5]](#footnote-5) | Forfeiture of all payouts, including vested payouts. |
| Other voluntary or involuntary terminations prior to December 31 | No payout |
| Employees who change their standard hours during the year | Adjust salary for PPP purposes to reflect the weighted average standard hours during the year. |
| Paid Leave of Absence | Same as active employee. |
| Unpaid Leave of Absence or disability[[6]](#footnote-6) | If employed at least one full month of performance year, payout will be determined after the calendar year has ended using base salary on last day before leave or disability began, then prorated (multiplied by number of weeks worked divided by 52). |
| Qualified Military Leave of Absence Under Military Leave Policy | Payout will be determined after the calendar year has ended using base salary on last day before leave began. Payout will be calculated on full year and will not be prorated. Employee on qualified military leave will receive such payout during each year the employee is on qualified military leave but only if the employee would have received such payout if he had been actively employed. The Committee has the discretion to provide a reduced payout to an employee on military leave. Such discretion will be exercised before December 31 of the applicable performance year. |
| Acquisitions and Dispositions | Determined on a case-by-case basis. |
| Transfer or job change from a PPP eligible position to a PPP ineligible **covered** position | There will be no payout for the year of transfer. |
| Transfer or job change from a PPP eligible position to a PPP ineligible **non-covered** position | Payout will be determined after the calendar year has ended using last base salary in the PPP eligible position, then prorated (multiplied by number of weeks worked in the PPP eligible position divided by 52). |
| Transfer or job change from a PPP ineligible position to a PPP eligible position | Payout will be determined after the calendar year has ended using base salary on December 31, then prorated (multiplied by number of weeks worked in a PPP eligible position divided by 52). |
| Transfer or job change from a PPP eligible position to another PPP eligible position | Payouts will be prorated based upon the target awards of each position held by the participant but using base salary on December 31. |
| Promotion | Payouts will be prorated based upon the target awards of each position held by the participant but using base salary on December 31. |
| Demotion | Payouts will be prorated based upon the target awards of each position held by the participant but using base salary on December 31. |

# Impact on Other Plans

Following is how PPP is treated in other Southern Company plans.

|  |  |
| --- | --- |
| Plan | Treatment of PPP |
| Broad-based pension plan | Counts actual PPP payouts as pay for one pension formula only |
| SERP | Counts “actual PPP payouts minus 15% of base salary” as pay |
| Employee Savings Plan | Does not count PPP as pay |
| Life Insurance Plan | Does not count PPP as pay |
| Long-Term Disability | Does not count PPP as pay |
| Supplemental Long-Term Disability  | Counts actual PPP payouts as pay |
| Nonqualified Deferred Compensation Plan | PPP is not counted for purposes of eligibility, but is counted as pay that may be deferred. |

# Form and Timing of Payout

Payments from PPP are made in cash as soon as practicable after year end, but before March 15, and are subject to withholding.

**Errors in Payout**

In the event there is an error in the determination of a payout amount (regardless of why the error occurs) or in the payment of a payout, the company, in its sole discretion, shall determine the method for correcting the error in accordance with the requirements of the Omnibus Plan. If the error results in an overpayment, the company may choose, among other options, to require repayment of the overpayment or to reduce future payouts.

# Deferral Opportunities

Participants eligible for the Southern Company Deferred Compensation Plan may defer their PPP payouts according to the rules of that plan.

# No Right to Assign and No Right to Employment

Payments from PPP are not subject to assignment or transfer for any reason, including a transfer incident to a divorce. Any attempt to assign or transfer the right to payments from PPP shall be void and have no effect. No employment rights are created by PPP or the Omnibus Plan.

# Service of Process

The Vice President of Human Resources will be the agent for service of process for the Omnibus Plan.

Stock Option Program
Design Details

Stock options and the associated Performance Shares (described in the section entitled Performance Share Program) together comprise Southern Company’s long-term incentive program.

Stock options are the right to purchase Southern Company common stock at a fixed price for a specified period of time. Stock options are issued under the Southern Company 2006 Omnibus Incentive Compensation Plan, as amended from time to time (“Omnibus Plan”). The Omnibus Plan is administered by the Compensation and Management Succession Committee of the Board of Directors of Southern Company (“the Committee”). These Design Details generally describe the various components of stock option awards. These Design Details and any other administrative documents may be amended at any time by the Committee. Following are the terms of Southern Company options.

## Type of Option

Southern Company options are nonqualified stock options, not incentive stock options.

## Eligibility

• *In general.* According to the Omnibus Plan, employees and directors of Southern Company, its subsidiaries, or affiliates are eligible to receive stock options. The Committee selects who is to receive stock options. In practice, options are granted only to exempt employees of Southern Company and its subsidiaries in salary grades 7 and above.

• *Specifics.* Options are not currently granted to employees who fall within the following groups (even if the employees’ classification within a group is determined to have been incorrect):

1. Outside directors
2. Non-exempt employees
3. Exempt employees in salary grades 6 or below
4. Bargaining Unit Employees
5. Independent contractors
6. Leased employees
7. Co-ops
8. Interns
9. Temporary employees

## Exercise Price

The Omnibus Plan allows the Committee to set the exercise price, provided that the exercise price of Southern Company options shall be equal to or higher than the common stock price on the date of grant. In practice, the Committee sets the exercise price equal to the common stock price on the date of grant.

Exercise price is the closing price on the date of grant. For annual grants, the date of grant is the date that the Committee approves the stock option award. For interim grants, the date of grant is the interim grant date designated in the Design Details. If the markets are closed on the date of grant, then the most recent trading day prior to the date of grant is deemed to be the date of grant for purposes of determining the exercise price.

## Term

The Omnibus Plan allows the Committee to set the term of options. The Committee has committed to grant Southern Company options with a term of no more than 10 years. In practice, the Committee sets the term at 10 years. This term may be shortened through termination of employment (see that section, below).

## Vesting

The Omnibus Plan allows the Committee to set the vesting schedule. In practice, options are set to vest one third per year. Vesting occurs on the first, second and third anniversaries of the grant date.

## Transferability

Southern Company options are only transferable if the award agreement specifically allows it. In practice, all award agreements allow options to be transferred to revocable trusts subject to the prior approval of the Senior Vice President, Human Resources and Chief Diversity Officer, and, in certain limited circumstances, some award agreements also allow transfers to other persons or entities. A transfer is only allowed if it is not a transfer for value. No subsequent transfers or assignments are allowed and any attempt at a subsequent transfer is void. Transfers incident to a divorce are not allowed.

## Award Sizes

The long term incentive target award value (“LTI Target Award”) is based on a percentage of base salary. Forty percent (40%) of the LTI Target Award is used as part of the calculation to determine the number of stock options to be awarded. The remaining sixty (60%) of the LTI Target Award is awarded under the Performance Share Program (except for mid-year awards which are addressed below).

|  |  |  |
| --- | --- | --- |
| **Salary****Grade** | **Long Term Incentive****Target Award as****% of Base Salary** | **Stock Option****Allocation** |
| 7 | 2.5% | 40% |
| 8 | 10% | 40% |
| 9 | 15% | 40% |
| 10 | 25% | 40% |
| 11 | 40% | 40% |
| 12 | 60% | 40% |
| 13 | 70% | 40% |
| 14 | 95% | 40% |
| 15 | 125% | 40% |
| Executive officers | Committee discretion |  |

To calculate the number of stock options to be granted, the Stock Option Award Value (base salary[[7]](#footnote-7) x LTI Target Award % x Stock Option Allocation %) is divided by the present value of one outstanding Southern Company stock option on the business day one day prior to the date of grant as determined by the Committee.

**Timing of Grants**

* *Regular grants.* Options are granted on a regular basis, typically annually, to eligible employees. This is done in order to remain competitive with market practice. Employee must be in an eligible position on the date of the annual merit pay adjustment and the date of the grant.

• G*rants to new hires and employees promoted from ineligible positions into eligible positions.* Options are granted to new hires and employees promoted from ineligible positions into eligible positions under a formula:

|  |  |  |
| --- | --- | --- |
| Grant Date[[8]](#footnote-8) | **New Hires and Employees Promoted Into****Eligible Position Included** | **Percent of a Guideline****Grant Made** |
| May 1 | From the last date included in the February option grant, through April 30 | 75% |
| August 1 | May 1 through July 31 | 50% |
| November 1 | August 1 through October 31 | 25% |

* Employees eligible for prorated grants will receive full LTI Target Award (base salary x LTI Target Award % x Proration Percentage) in stock options rather than the 40% Stock Option Allocation.

## Impact of Changes in Employment Status

The following table shows the impact of changes in employment status.

|  |  |  |  |
| --- | --- | --- | --- |
| Employment Event | Treatment ofUnvested Options | Exercise Periodfor Vested Options(But In No Event Beyond the Original Option Term)1 | Eligible forAdditional Grantsafter EmploymentEvent |
| Retirement 3 | Vest fully4 | 5 years  | No |
| Death5 | Vest fully | 3 years | No |
| Any other type of termination notfor cause6 | Forfeited | 90 days  | No |
| Any termination for cause 6/7 | Forfeited | Forfeited  | No |
| Paid Leave of absence  | Treated as still employed | No change | Yes |
| Military Leave of Absence | Treated as still employed | No change | No |
| Unpaid Leave of Absence or Disability 2 | Treated as still employed | No change | No |
| Demotion to Ineligible Position | No change | No Change | No |

1 In no event may exercise extend beyond the original term of the option.
2 Per the Omnibus Plan, disability is defined under Southern Company’s governing long-term disability plan or, if no such plan exists, at the discretion of the Committee.
3 Retirement is any allowed retirement under the Southern Company Pension Plan. If the retiree dies within the 5 year period for exercise after date of termination, the executor will have 3 years to exercise from the date of death of the participant (subject to the expiration of the original term of the option).

4 Individual Award Agreements may provide that options are forfeited if the employee goes to work with a peer company.

5 May be exercised by the administrator of the estate, the executor under the will, or the entity or individual to which the options have been transferred by such executor or administrator pursuant to the will or laws of intestate succession.

6 The Committee will determine when a termination is related to “cause.”

7 Any termination for cause includes any type of termination (including, but not limited to, a voluntary or involuntary resignation by a participant, a voluntary or involuntary termination by the company, a termination with severance, a participant’s retirement, or a participant’s termination because of a disability) if such termination is related to cause.

**Forfeiture of Options Because of Competition**

Effective with grants made in 2009, stock options or gains from exercise of stock options are subject to forfeiture if an executive officer becomes employed by a peer company within two years of Retirement.

**Failure to Make Grant of Options or Erroneous Grant of Options**

In the event the company determines that a participant has not been awarded an option otherwise due him (including failure to award the correct number of shares) and such determination is made after the end of the calendar year in which the option should have been granted, it is the company’s policy to only provide such participant with a cash award instead of an award of options. The cash award is determined based upon the economic value of the option and any related PDP award. Currently, the economic value is determined using the Black Scholes method. However, the company may change its method for determining economic value at any time. It is in the company’s sole discretion to determine when a participant should have been awarded an option and when and if to make a cash award. The company may change this policy at any time.

In the event the company determines that a participant has been awarded an option in error (including an option for too many shares), it is the company’s policy to require that the option (or a portion of the option, if appropriate) be forfeited immediately. The company may change this policy at any time.

## Specific Terms and Conditions Applicable to All Optionholders

*The following provisions are incorporated by reference into the terms of each Award Agreement granting Options under the Omnibus Plan.*

# Change in Control

In the event of a change in control, an Optionholder’s rights related to any Options will be governed by the Southern Company Change-in-Control Benefits Protection Plan and any applicable change-in-control severance plans and agreements.

# Taxes and Withholding

The Optionholder will be subject to taxation upon the exercise of any Options. The Optionholder should contact a qualified tax advisor for a further discussion of these tax consequences. The company may withhold any tax due on gains the Optionholder recognizes from any payment of compensation to the Optionholder.

# Requirements of Law

The granting of Options and the issuance of Common Stock under the Plan will be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

# Inability to Obtain Authorization

The inability of the company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the company’s counsel to be necessary to the lawful issuance and sale of any Common Stock hereunder, will relieve the company of any liability in respect of the failure to issue or sell such Common Stock as to which such requisite authority will not have been obtained.

# Applicable Laws

The validity, construction, interpretation, and enforceability of the Plan and Award Agreement will be determined and governed by the laws of the state of Delaware without giving effect to the principles of conflicts of law. For the purpose of litigating any dispute that arises under the Plan or Award Agreement, such litigation shall be conducted in the federal or state courts of the state of Delaware, county of New Castle.

# Not an Employment Agreement

Neither the Award Agreement nor any benefits arising under the Plan constitute part of an employment contract between the Optionholder or Southern Company or the company or any subsidiary or affiliate. Nothing in the Plan or Award Agreement will interfere with or limit in any way the right of the company to terminate an Optionholder’s employment at any time or confer upon the Optionholder any right of continued employment with the company. No employment rights are created by the granting or holding of stock options.

# Service of Process

The Senior Vice President, Human Resources and Chief Diversity Officer, is the agent for service of process for the Omnibus Plan.

Performance Share Program
Design Details

# Program Concept

A target number of share units are granted to a participant and paid out in Southern Company common stock after the end of a three-year performance period. The value of the units is based on the performance of the Southern Company Total Shareholder Return (“TSR”) over a three-year performance period relative to the TSR of its industry peers. These share units are referred to as “Performance Shares.” No actual shares of Southern Company common stock are issued to, or otherwise set aside for, the participant at the time of grant.

The participant can earn from 0% to 200% of the target Performance Shares depending on Southern Company’s three-year TSR relative to its industry peers. Based upon Southern Company’s TSR, a certain number of shares of Southern Company common stock (which may be below or above the original target number of Performance Shares) will be paid out to the participant after the end of the performance period. As a result, the ultimate value of the Performance Shares award rises and falls with Southern Company’s common stock during the performance period and its TSR relative to its peers during that same period.

Although dividends are paid on common stock by Southern Company during the three-year performance period and included in the definition of TSR, there are no dividends or dividend equivalents paid or earned on, or otherwise attributable to, Performance Shares or any ultimate payout in Southern Company common stock.

The Performance Share Program (“PSP”) is governed by the Omnibus Incentive Compensation Plan (“Omnibus Plan”), as amended from time to time. The Omnibus Plan is administered by the Compensation and Management Succession Committee of the Board of Directors of Southern Company (the “Committee”).

These Design Details describe the various components of PSP awards. These Design Details and any other administrative documents may be amended at any time by the Committee.

# Eligibility

Exempt employees who are employed by Southern Company, or a subsidiary of Southern Company, in exempt salary grades 7 through CEO and who are employed on the date of the grant date and date of the annual merit increase adjustment in the year of grant are eligible for PSP.[[9]](#footnote-9)

Performance Shares are not currently granted to employees who fall within the following groups (even if the employees’ classification within a group is determined to have been incorrect):

1. Outside directors
2. Non-exempt employees
3. Exempt employees in salary grades 6 or below
4. Bargaining unit employees
5. Independent contractors
6. Leased employees
7. Co-ops
8. Interns
9. Temporary employees

# How Number of Performance Shares Are Determined

The long term incentive target award value (“LTI Target Award”) is based on a percentage of base salary. Forty percent (40%) of the LTI Target Award is used as part of the calculation to determine the number of stock options to be awarded. The remaining sixty percent (60%) of the LTI Target Award is used as part of the calculation to determine the number of Performance Shares to be awarded.

|  |  |  |
| --- | --- | --- |
| **Salary****Grade** | **Long Term Incentive****Target Award as****% of Base Salary** | **Performance****Share****Allocation** |
| 7 | 2.5% | 60% |
| 8 | 10% | 60% |
| 9 | 15% | 60% |
| 10 | 25% | 60% |
| 11 | 40% | 60% |
| 12 | 60% | 60% |
| 13 | 70% | 60% |
| 14 | 95% | 60% |
| 15 | 125% | 60% |
| Executive officers | Committee discretion | Committee discretion |

To calculate the number of Performance Shares to be granted, the Performance Share Allocation amount (base salary x LTI Target Award % x 60%) is divided by the fair value of one Performance Share on the date of the grant. Fair Value is based on accounting standards and is not the same as market value. Base salary and salary grade level are determined as of the date of the annual merit increase adjustment of the year of grant. The participant will be notified of the number of Performance Shares that have been granted to the participant. Performance Shares are units, not actual shares of Southern Company common stock, and thus the actual number of Southern Company common stock to be paid to the participant will not be determined until the end of the performance period.

# How Performance is Measured

# The performance measure is Southern Company’s TSR relative to the TSR of its industry peers. The TSR calculation reflects changes in stock price, dividends paid, and reinvestment of dividends paid during the performance period.

The share price at the beginning of the performance period will be determined by an average of the closing prices for 20 consecutive trading days, ending on December 31 of the prior year.

The share price at the end of the performance period will be determined by an average of the closing prices for 20 consecutive trading days, ending on December 31 of the performance period.

# Performance Period

A new performance period begins on January 1 of each year, and continues until December 31 three years later.

# Peer Group

Performance is measured against a group of industry peers. This peer group is redefined by the Committee for each new performance measurement period but generally stays constant during that performance measurement period, except for the impact of mergers and acquisitions. In order to be counted in the final calculations, a company must be in the peer group at both the beginning and the end of the performance measurement period.

The Committee in its discretion may add or delete companies from the peer group during the performance measurement period to the extent that it deems it appropriate.

# TSR Performance/Payout Relationship

Once TSR is calculated and compared to the TSR of the industry peers, the scale below determines the percent of target that is paid. Payout for performance between points is interpolated on a straight-line basis. 200% is the maximum payout percentage.

|  |  |
| --- | --- |
| Southern Company’s Percentile Ranking in 3-Year TSR vs. Peers | Percent of Target Earned  |
| 90th or above | 200% |
| 70th | 150% |
| 50th | 100% |
| 30th | 50th |
| 10th or below | 0% |

# Example of How PSP Works

The following example illustrates how PSP works.

* On February 15, 2010, a participant (who was employed on January 1, 2010) is in salary grade level 8 and has a base salary rate of $60,000. The fair value of a Performance Share is $30 based on the expected TSR ranking of one Southern Company common stock on February 15th. The participant remains employed until the date of payout. Payout is made on March 1, 2013.
* In February 2010, a participant is granted a target award of 120 Performance Shares ($60,000 x 10% x 60% divided by $30), i.e., $3,600 of LTI.
* Southern Company’s percentile ranking in TSR for the three-year period ending December 31, 2012 is 54th percentile. This translates to a payout equal to 110% of target.
* A participant will be entitled to the PSP payout on March 1, 2013 as follows: 120 Performance Shares x 110% = 132 shares of Southern Company common stock. If the market value of a share of Southern Company common stock on March 1, 2013 is $45 (the payout date’s closing price), then the value of the Performance Shares on that date will be $5,940 which will be reported as W-2 earnings to the participant and will be subject to withholding taxes prior to the payment of the actual shares of Southern Company common stock to the participant.

# Vesting

Performance Shares do not vest until December 31 of the last year in the performance period. Participants must be employed on the last day of the performance period (except in cases of death or retirement - see below).

Termination for cause[[10]](#footnote-10) creates an exception to the vesting rule. Such a termination results in forfeiture of any unpaid award, even if it is vested.

# Form and Timing of Payout

PSP payouts are made in unrestricted Southern Company common stock on or about March 1following the end of the performance period. In all events, any payouts shall be paid prior to the March 15 immediately following the end of the performance period. The value for purposes of tax calculations will be determined based on the market price at that time. If the payout date is on a day the NYSE is closed, then the market price on the next following business day will be used. The PSP payout is subject to withholding taxes and thus the actual number of Southern Company common stock will be reduced by the number of shares of Southern Company common stock reflecting the amount of withholding taxes.

# Errors in Payout

In the event there is an error in the determination of a payout amount (regardless of why the error occurs) or in the payment of a payout, the company, in its sole discretion, shall determine the method for correcting the error in accordance with the requirements of the Omnibus Plan. If the error results in an overpayment, the company may choose, among other options, to require repayment of the overpayment or to reduce future payouts.

# Impact of Employment Events

The following table shows the impact of various employment events on the date of or prior to the PSP payout.

|  |  |  |  |
| --- | --- | --- | --- |
| **Employment Event** | **Treatment of Performance Shares** | **When Paid** | **Eligible for Additional Grants after Employment Event** |
| Death[[11]](#footnote-11)orRetirement[[12]](#footnote-12) | Pro rata, based on number of months employed during the performance period and actual TSR performance during entire performance period | After end of performance period | No |
| Any termination for cause18 at any time on or before date of PSP payout | No payout | No payout | No |
| Any other type of termination not for cause on or before end of performance period | No payout | No payout | No |
| Any other type of termination other than for cause after the end of the performance period | Will receive vested PSP payout only | After end of performance period | No |
| Paid Leave of Absence | Same as active employee | After end of performance period | No |
| Military Leave of Absence | Same as active employee | After end of performance period | No |
| Unpaid Leave of Absence or disability[[13]](#footnote-13) | Same as active employee | After end of performance period | No |
| New hires, Rehire, Promotion to Eligible Position | No awards for existing performance periods | N/A | Yes |
| Demotion to Ineligible Position | Same as active employee | After end of performance period | No |

# Impact on Other Plans

PSP payouts are not considered pay for purposes of the Southern Company Pension Plan, ESOP, SERP or 401(k) plans.

# Deferral Opportunities

Participants in the Southern Company Deferred Compensation Plan may not defer receipt of PSP payouts.

# No Right to Assign and No Right to Employment

Payments from this program are not subject to assignment or transfer for any reason, including transfers incident to a divorce. Any attempt to assign or transfer the right to payments from this program shall be void and have no effect. No employment rights are created by this program or the Omnibus Plan.

# Service of Process

The Vice President of Human Resources is the agent for service of process for the Omnibus Plan.

Performance Dividend Program
Design Details

# Program Concept

The Performance Dividend Program (“PDP”) is being phased out and replaced with the Performance Share Program. No new PDP performance periods will be established. PDP will phase out over the next three years for existing performance periods. No new PDP eligible options will be granted in 2010 or thereafter.

PDP pays from 0% to 100% of a full year’s dividend for each option (granted prior to 2010) held at the end of the applicable performance measurement period. The amount of the dividend paid depends on Southern Company’s Total Shareholder Return as measured against a peer group over the performance measurement period.

PDP is governed by the Southern Company 2006 Omnibus Incentive Compensation Plan (“Omnibus Plan”), as amended from time to time. The Omnibus Plan is administered by the Compensation and Management Succession Committee of the Board of Directors of Southern Company (“the Committee”).

These Design Details describe the various components of PDP awards. These Design Details and any other administrative documents may be amended at any time by the Committee.

# Eligibility

All Southern Company optionholders who are employees of Southern Company or a subsidiary of Southern Company are eligible for Performance Dividends based on performance periods that began prior to 2010 for options granted prior to 2010 but after 1996.[[14]](#footnote-14) No new performance periods will be established after 2009.

Notwithstanding the above, at the beginning of the last year of each performance measurement period, the Committee will determine whether it will authorize payouts to vested employees as of the end of such performance measurement period (subject to satisfaction of the established performance criteria).

# How Performance Is Measured

Generally, the performance measure is Southern Company’s Total Shareholder Return (TSR) as compared to the Total Shareholder Return of a designated peer group of companies (expressed as a percentile ranking). Total Shareholder Return is calculated as the total value at the end of the performance measurement period (or such other earlier date established by Southern Company’s CEO) assuming investment of $100 at the beginning of each quarter. In making this calculation, quarterly reinvestment of dividends in the same stock are assumed. Beginning with the 2005-2008 performance period, the performance will be determined at the end of each quarter of the final year of the performance period. For each quarter, the relative TSR ranking will determine the corresponding PDP payout percentage, which is multiplied by the dividend paid during that quarter.

# Performance Measurement Period

A performance measurement period begins on January 1 of each year, and continues until December 31 four years later. The outstanding performance periods are 2007-2010, 2008-2011, and 2009-2012.

# Peer Group

Performance is measured against a peer group of companies. The peer group is redefined by the Committee for each new performance measurement period but generally stays constant during that performance measurement period, except for the impact of mergers and acquisitions. In order to be counted in the final calculations, a company must be in the peer group at both the beginning and the end of the performance measurement period.

The Committee in its discretion may add or delete companies from the peer group during the performance measurement period to the extent that it deems appropriate.

# Total Shareholder Return Performance/Payout Relationship

Once Total Shareholder Return for the performance measurement period is calculated, Southern Company’s percentile ranking as compared to the peer group companies can be determined. That ranking is then used to determine the percent of the normal dividends paid in the final year of the performance measurement period that will be paid as Performance Dividend payout to each participant who holds options for Southern Company stock on the last day of such performance measurement period, as set forth in the chart below. Payout for performance between points is interpolated on a straight-line basis.

|  |  |
| --- | --- |
| Southern Company’s Percentile Ranking in 4-Year Total Shareholder Return vs. Peers | Percent of a Full Year’s Dividend Paid on Each Option Held |
| 90th or higher | 100% |
| 70th | 75% |
| 50th | 50% |
| 30th | 25% |
| 10th or lower | 0% |

For performance measurement periods beginning prior to 2005, the authorized payout for all Executive Officers (as defined in the Exchange Act of 1934) is two times the amount calculated above. The Committee then uses negative discretion to determine the actual payout.

Beginning with the 2005-2008 performance measurement period, this calculation will be performed with respect to each calendar quarter in the last year of the performance measurement period based on the number of options held by participants at the end of the performance measurement period. Each quarterly calculation will be weighted 25% and the results will be added together to determine the total payout for the performance measurement period.

# Funding and Limits on Payouts

No payout is made if the earnings of Southern Company are less than the amount necessary to fund dividends on its common stock at the rate such dividends were paid for the immediately preceding year. This is true even if such a payout was otherwise authorized by the Committee.

# Example for 2007-2010 PDP

Assumptions:

• Southern Company’s actual dividend to shareholders during 2010 (example only) (the last year of the 2007-2010 performance measurement period): $1.66 (1st year transition) per share (.40 for the 1st quarter *plus* .42 for the 2nd through 4th quarter).

• Southern Company’s percentile ranking in TSR during the last four quarters of the last year.

• Example for 2007-2010 PDP Performance (1st year of 3 year transition):

|  |  |  |  |
| --- | --- | --- | --- |
| Grant Date | Original Number of Options Granted | PDP Eligible Options | PDP-EligibleOptionsOutstanding 12/31/2010 |
| 2006 | 500 | 500 | 0 |
| 2007 | 600 | 600 | 300 |
| 2008 | 700 | 700 | 700 |
| 2009 | 800 | 800 | 800 |
| 2010 | 400 | 0 | 0 |
|  | 3,000 | 2,600 | 1,800 |
| Quarter | Rank | Percentile | DividendPaid | PDP Payout % | ActualPayout |
| 1st | 10 | 61st | $0.40 | 64% | $0.26 |
| 2nd | 13 | 48th | $0.42 | 48% | $0.20 |
| 3rd | 3 | 91st | $0.42 | 100% | $0.42 |
| 4th | 3 | 91st | $0.42 | 100% | $0.42 |
|  |  |  | $1.66 | 78% | $1.30 |
| Outstanding Options: 1,800 |
| **PDP Actual Payment: $1.30** |
| PDP Awarded $2,340 |

# Vesting

PDP payouts vest on December 31 of the last year in the performance measurement period if the Committee has, at the beginning of that year, authorized such payouts. Participants must be employed on that date in order to receive a Performance Dividend payout (except in cases of death, disability or retirement - see below).

Termination for cause[[15]](#footnote-15) creates an exception to the vesting rule. Such a termination results in forfeiture of any unpaid award, even if it is otherwise vested.

# Form and Timing of Payout

Payouts are made in cash as soon as practicable after the end of the performance measurement period and are subject to withholding. Payouts will be made after the performance measurement period ends but no later than the immediately following March 15th.

# Errors in Payout

In the event there is an error in the determination of a payout amount (regardless of why the error occurs) or in the payment of a payout, the company, in its sole discretion, shall determine the method for correcting the error in accordance with the requirements of the Omnibus Plan. If the error results in an overpayment, the company may choose, among other options, to require repayment of the overpayment or to reduce future payouts.

# Impact of Employment Events

The following table shows the impact of various employment events.

| Employment Event | Payout |
| --- | --- |
| Death[[16]](#footnote-16), unpaid leave of absence or disability[[17]](#footnote-17)  | Estate or participant continues to participate in PDP as long as stock options are outstanding and PDP payouts have been authorized and PDP payouts remain subject to the performance requirements for the applicable performance period. |
| Retirement[[18]](#footnote-18) | Retirees will be paid any vested but not yet paid PDP payouts at the same time as active participants. Retirees will also participate in PDP for three payouts [[19]](#footnote-19) following retirement as long as stock options are outstanding and PDP payouts have been authorized and PDP payouts remain subject to the performance requirements for the applicable performance period. |
| Any other type of termination not for cause | No payout unless vested. |
| Termination for cause17/ [[20]](#footnote-20) | No payout even if vested. |
| New hires | New hires are eligible for the payout that follows their first grant of stock options. |
| Paid Leave of Absence | Continues to participate in PDP as long as stock options outstanding. |
| Military Leave of Absence | Continues to participate in PDP as long as stock options outstanding. |
| Unpaid Leave of Absence | Continues to participate in PDP as long as stock options outstanding. |

# Impact on Other Plans

Performance Dividends are not considered pay for purposes of the Southern Company Pension Plan, SERP or ESP.

# Deferral Opportunities

Participants in the Southern Company Deferred Compensation Plan may defer receipt of a Performance Dividend payout by following the procedures in that plan.

# No Right to Assign and No Right to Employment

Payments from this program are not subject to assignment or transfer for any reason, including transfers incident to a divorce. Any attempt to assign or transfer the right to payments from this program shall be void and have no effect. No employment rights are created by this program or the Omnibus Plan.

# Service of Process

The Vice President of Human Resources is the agent for service of process for the Omnibus Plan.

1. The company may unilaterally change the percentage target award at any time. [↑](#footnote-ref-1)
2. The Committee determines whether “cause” is present. [↑](#footnote-ref-2)
3. Any PPP payout that is payable after death will be paid to the estate. [↑](#footnote-ref-3)
4. Retirement is any allowed retirement under the Southern Company Pension Plan. [↑](#footnote-ref-4)
5. A termination for cause includes any type of termination (including, but not limited to, a voluntary or involuntary resignation by a participant, a voluntary or involuntary termination by the company, a termination with severance, a participant’s retirement, or a participant’s termination because of a disability) if such termination is related to cause. The Committee will determine when a termination is related to “cause”. [↑](#footnote-ref-5)
6. Per the Omnibus Plan, disability is defined under Southern Company’s governing long-term disability plan or, if no such plan exists, at the discretion of the Committee. [↑](#footnote-ref-6)
7. Base salary is typically the annual base salary rate on the date of the annual merit pay adjustment. In all cases, base salary will be fixed and determined prior to the date of grant. [↑](#footnote-ref-7)
8. The Committee may change an interim date of grant at any time and may cancel an interim grant prior to the date of grant. [↑](#footnote-ref-8)
9. Employees hired or promoted into an eligible position after the eligibility date for PSP grants in any year will not receive interim grants under PSP for such year. All interim grants will be made through stock option grants. [↑](#footnote-ref-9)
10. The Committee determines whether “cause” is present. [↑](#footnote-ref-10)
11. The PSP payouts will be paid to the participant’s estate or the entity or individual authorized to receive the payments under the participant’s will or the laws of intestate succession. [↑](#footnote-ref-11)
12. Retirement is any allowed retirement under the Southern Company Pension Plan. [↑](#footnote-ref-12)
13. Per the Omnibus Plan, disability is defined under Southern’s governing long-term disability plan or, if no such plan exists, at the discretion of the Committee. [↑](#footnote-ref-13)
14. If an optionholder (or former optionholder) has transferred all or a portion of his options in compliance with the terms of his option agreement, he or she will still be considered an optionholder and will be eligible for a Performance Dividend payout provided the transferee holds the transferred options on December 31 of the last day of the performance measurement period. The transferee will not be eligible to receive a Performance Dividend payout. [↑](#footnote-ref-14)
15. The Committee determines whether “cause” is present. [↑](#footnote-ref-15)
16. Authorized PDP payouts will be paid (as long as stock options are outstanding) to the participant’s estate or the entity or individual authorized to receive the payouts under the participant’s will or the laws of intestate succession. [↑](#footnote-ref-16)
17. Per the Omnibus Plan, disability is defined under Southern’s governing long-term disability plan or, if no such plan exists, at the discretion of the Committee. [↑](#footnote-ref-17)
18. Retirement is any allowed retirement under the Southern Company Pension Plan. [↑](#footnote-ref-18)
19. In determining the three payouts, the first payout relates to the performance measurement period ending during the year that includes the retiree’s retirement date. The second payout and third payout relate to each performance measurement period thereafter. [↑](#footnote-ref-19)
20. Any termination for cause includes any type of termination (including, but not limited to, a voluntary or involuntary resignation by a participant, a voluntary or involuntary termination by the company, a termination with severance, a participant’s retirement, or a participant’s termination because of a disability) if such termination is related to cause. [↑](#footnote-ref-20)