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EXECUTIVE COMPENSATION

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SHORT TAKES

GLASS LEWIS RELEASES 2015 POLICY GUIDELINES

November 6, 2014

Glass Lewis just released its 2015 Policy Guidelines. While there are no significant compensation updates this year, the firm has provided additional information related to its recommendations on votes on say-on-pay and employee stock purchase plans.

Advisory Vote on Executive Compensation

- Glass Lewis has provided clarification regarding its qualitative and quantitative approach to its say-on-pay analysis
  - The firm has added an area of focus in its discussion on the say-on-pay analysis
    - *The implementation and effectiveness of the company's executive compensation programs including pay mix and use of performance metrics in determining pay levels*
  - Under issues that may cause Glass Lewis to recommend voting against a say-on-pay vote, the firm replaced "*guaranteed bonuses"* with "*problematic contractual payments, such as guaranteed bonuses"*
  - The firm disclosed new qualitative factors that may cause it to recommend in favor of a company's say-on-pay vote even if the company received a failing grade under Glass Lewis' proprietary pay for performance model
    - Effective overall incentive structure
    - Relevance of selected performance metrics
    - Reasonable long-term payout levels
- Glass Lewis has provided new information regarding its review of one-off equity awards
  - The firm does not believe one-off awards are generally in shareholders' best interest
    - Can undermine regular incentive plan's integrity and break link between pay and performance
    - Current plans should be redesigned if there is a problem
  - However, Glass Lewis recognizes there are certain circumstances where additional incentive awards may be appropriate
    - Clear and convincing explanation should be given regarding the necessity of the award
      - Explanation of why existing incentive plans do not provide sufficient motivation should also be disclosed
    - Awards should be tied to future service and performance
  - Companies making one-off awards should describe if and how regular compensation plans will be affected by these supplemental awards

SHORT TAKES

- Glass Lewis will review one-off awards in the context of the company's overall incentive strategy and current operating environment

Employee Stock Purchase Plans (ESPPs)

- Glass Lewis is generally in favor of ESPPs and in most cases will support plans up to a purchase limit of $25,000 per employee per year
- The firm uses a quantitative model to estimate cost of ESPP by reviewing
  - Expected discount
  - Purchase period
  - Expected purchase activity
  - Inclusion of a "lookback" feature
- Note that Glass Lewis will generally recommend against ESPPs that contain "evergreen" provisions

If your company has made one-off awards, it is essential that a clear discussion of how the awards are aligned with shareholders' interests and support the overall goals of the organization is included in the CD&A. Additionally, we recommend any company considering one-off awards to draft sample CD&A language describing the awards and their rationale as part of the consideration process, to ensure that everyone is comfortable with the disclosure prior to approval of the new award.

If you have any questions or concerns regarding Glass Lewis' policies, please get in touch with your regular SH&P contact or Joseph Sorrentino.

Glass Lewis 2015 US Guidelines