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Glass Lewis & Co. Updates Pay-for-Performance Model

On July 12, 2012 Glass Lewis & Co. announced an update to its proprietary pay-for-performance model used when making vote recommendations on say-on-pay proposals. The new model is effective for annual meetings taking place on or after July 1, 2012.

Consistent with its prior approach, Glass Lewis will continue to evaluate a company's pay-for-performance alignment in two steps: a quantitative review followed by a qualitative review. While the qualitative review remains the same, Glass Lewis has made several revisions to its quantitative methodology.

Key revisions to Glass Lewis' quantitative pay-for-performance model include:

- **Peer group:** Selection based on a company's self-disclosed peers and the peer companies of those self-disclosed peers rather than derived primarily from GICS codes
- **Compensation:** Named executive officer compensation evaluated over three years rather than one year
- **Performance:** Reduced number of performance metrics reviewed from seven to five
- **Grades:** Letter grade rankings assigned based on actual degree of pay-for-performance alignment relative to peers rather than a forced bell curve

A detailed comparison of Glass Lewis' prior model versus its new, or "enhanced," model is provided on the following page.

Contact Us

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2012 Updates to the Glass Lewis Pay-for-Performance Model

Element	Prior Model	Enhanced Model
Peer Group Selection Methodology	Company compared to 4 peer groups: ▪ Sector (2-Digit GICS) ▪ Sub-industry (8-Digit GICS) ▪ Size (Enterprise Value) ▪ Geographic (First 2 digits of ZIP code) Aggregate number of peers: ~100 on average	"Market-based" approach developed by Equilar using a company's self-disclosed peers and the peers of peers List of companies is refined based on strength of connections between the company and potential peers to develop final peer group Number of peers: Up to 30[1]
Compensation Analysis	Time period: 1-year total compensation for CEO and other named executive officers (NEOs) Components analyzed: Salary, Bonus, Non-Equity Incentive Plans, Grant Date Fair Market Value of Equity Awards	Time period: 3-year weighted average total compensation for CEO and other NEOs Components analyzed: No change from prior model
Performance Analysis	3-year weighted average of 7 metrics: ▪ Change in Stock Price ▪ Total Shareholder Return ▪ Change in Book Value per Share ▪ Change in Operating Cash Flow ▪ EPS Growth ▪ Return on Equity ▪ Return on Assets	3-year weighted average of 5 metrics: ▪ Total Shareholder Return ▪ Operating Cash Flow Change ▪ EPS Growth ▪ Return on Equity ▪ Return on Assets Eliminated Change in Stock Price and Change in Book Value per Share
Pay-for-Performance (P4P) Evaluation and Grade	Steps in P4P evaluation and grade ranking: ▪ Rank company's compensation and performance versus peers ▪ Apply peer group-specific weightings to determine final weighted average performance and compensation scores[(2)] ▪ Determine pay-for-performance gap based on weighted average scores ▪ Assign grade based on forced bell curve for entire universe of peers: ➢ 10% = A, 20% = B, 40% = C, 20% = D, 10% = F	Steps in P4P evaluation and grade ranking: ▪ Rank company's compensation and performance versus peers ▪ Determine pay-for-performance gap ▪ Assign grade based on subject company's relative positioning versus peers: ➢ Performance (P) > Compensation (C) by 60 to 100% = A ➢ P > C by 30 to 59% = B ➢ P > C or C > P by 0 to 29% = C ➢ C > P by 30 to 59% = D ➢ C > P by 60 to 100% = F

[1] In Glass Lewis' voting recommendation report, Glass Lewis will identify the Equilar-determined peer group and highlight the differences between the Equilar-determined peers and the subject company's self-disclosed peers
[2] Industry and size peer groups weighted more heavily than geographic peer group