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The Glass Lewis Approach to Share Request Proposals

Despite being less transparent than ISS about their evaluation process, Glass Lewis uses similar methodologies in its voting recommendation process for new shares.

The Glass Lewis approach to share request proposals is primarily quantitative, employing more than 20 different tests that rely heavily on comparisons to 4-digit Global Industry Classification Standard (GICS) peers. These tests are looking for outliers: those companies which fall more than one standard deviation award from their GICS peers in a given test. However, thorough disclosure can help mitigate poor quantitative scoring. Glass Lewis analysts can, and do, adjust certain assumptions based on disclosure. For example, Glass Lewis uses a weighted average of the past three years of granting history. This calculation factors into program size and projected costs analyses. If for one year the grants were irregular, a brief mention of this is beneficial. Likewise, if past grants consisted of options and full-value awards, and going forward the committee intends to only grant full-value awards, this is important disclosure that can help counteract poor quantitative results.

Glass Lewis' analysis can be broken down into three major components:

1. Program Size and Granting Pattern
   - Are there sufficient shares currently available?
   - If the share request is approved, how many years of grants would this cover? Much like ISS, Glass Lewis prefers companies to come back to shareholders approximately every three years (or more frequently) for share requests.
   - What percentage of grants goes to the top executives? Glass Lewis is fairly generous here; anything below 70% is generally acceptable, but more than 70% can be a red flag.
   - What is the historical pace of grants (Glass Lewis' preferred measure of dilution)?
     - This is not a burn-rate comparison; it is full-share equivalent dilution, represented by: (Net options granted/FV grant multiplier) + Net FV awards granted
2. Program Costs: This input is in many ways the heart of the quantitative analysis.
   - Projected annual costs and expensed costs as a percent of company size (measured separately by revenue, total book value, and enterprise value)
   - Projected cost on a per employee basis
   - Net annual dilution for the past three years
   - Average gross run rate
   - Net run rate

3. Program Features: Much like ISS, Glass Lewis is looking for the inclusion of features that they believe oppose market best practices and are not in the interest of shareholders, such as:
    - Reprice/buyout/exchange of underwater options
    - Evergreen provisions
    - Reload
    - Loans to exercise
    - Single-trigger change-in-control provisions
    - Inverse multipliers
    - Liberal share recycling features
    - Transferability
    - Gross-ups

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