CLEARthinking
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Managing Compensation in Volatile Times

Strategic Share Pool Management

In an era where stock market volatility is the norm rather than the exception, the strategic management of share pools is crucial for public companies. This quick guide offers strategies (other than requesting additional shares) to navigate the complexities of share pool management in volatile markets. Ultimately, the right approach will depend primarily on each company's specific financial situation and strategic goals.

Equity-Related Strategies

1. **Modify Share Determination Approach**: Change the way shares are calculated. Rather than dividing a target grant value by the stock price on/trading-day average leading up to the date of grant, consider:
   - Setting a minimum stock price (stock price floor) for calculating equity grants
   - Using a long-term (e.g., 12 month) multi-trading day average price for calculating the equity grants
   - Granting a consistent number of shares regardless of price fluctuations (fixed share approach)

   Note: Approaches result in less value delivered to employees at time of grant, while recognizing potential upside with a stock price rebound
2. **Reduce Equity Participation:** Limit equity awards to certain employees, rather than lowering the value of equity grants across the board. Typically, senior executives will maintain participation to drive ownership, shareholder alignment and long-term focus. For other employees, particularly at lower levels where equity can have a lower perceived value, could restrict awards to key talent only, and potentially replace lost value with cash if desired.
3. **Shift to Less Dilutive Vehicle:** Shift equity mix from more dilutive equity vehicles (e.g., options or performance stock units ("PSUs") with upside) to restricted stock units ("RSUs") or all-or-less PSUs.
4. **Grant from Inducement Pool:** For new hires, consider granting equity from an inducement pool rather than from the shareholder-approved equity pool (note: will require additional 8-K disclosure and will be factored into future share requests).

Cash-Related Strategies

1. **Grant Phantom Units / Cash-Settled Equity**: Phantom units are a form of deferred compensation that mirror a company's stock price but pay out in cash, providing employees with a performance-based payout that aligns employees to shareholder interests without actual stock issuance.
   - Can lead to significant cash outlays or unintended cash exposure due to stock price fluctuations, especially if no price cap is applied
   - Results in variable (mark-to-market) accounting treatment, unlike the fixed accounting of equity
2. **Make One-Time Cash Awards:** These are lump-sum payments with a time- or performance-based vesting schedule granted to employees in lieu of their annual equity award. Though lacking direct alignment with shareholders, this strategy is effective in addressing urgent retention challenges, offering immediate and straightforward retentive value to employees.

Hybrid Strategy

1. **Use Combination of Equity and Cash:** Maintain equity for senior executives (and consider one of the equity strategies above), replace equity with cash-based vehicle for all other equity participants.

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