2019

OIL AND GAS OILFIELD SERVICES (OFS) INCENTIVE COMPENSATION REPORT

ANALYSIS OF COMPENSATION ARRANGEMENTS AMONG THE LARGEST U.S. OFS COMPANIES

ALVAREZ & MARSAL

2019 OIL AND GAS OILFIELD SERVICES (OFS) INCENTIVE COMPENSATION REPORT

ANALYSIS OF COMPENSATION ARRANGEMENTS AMONG THE LARGEST U.S. OFS COMPANIES

INTRODUCTION

Incentive compensation is an integral part of the total compensation package for executives at most large, publicly-traded companies. To understand annual and long-term incentive (LTI) compensation pay practices in the energy sector, specifically for oilfield service (OFS) companies, the Compensation and Benefits Practice of Alvarez & Marsal (A&M) examined the 2018 proxy statements of the largest OFS companies in the U.S. This report also reviews the total compensation packages for Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs) in the OFS sector, the benefits to which those executives are entitled upon a change in control, and the CEO pay ratios in the OFS sector.

Where possible, this analysis only includes companies with revenue derived primarily from OFS activities (i.e., not primarily exploration, production, refining, etc.).[1] The report excludes companies that did not disclose sufficient data on their compensation programs, such as companies that recently went through an initial public offering (IPO) and did not disclose the structure of their go-forward compensation, as well as companies that have recently undergone a restructuring or bankruptcy.

The data represents the most up-to-date plan structures disclosed by these companies.

COMPANY STATISTICS

The 44 companies analyzed in this report are diverse in terms of size. For comparison purposes, we grouped the companies in quartiles based on market capitalization as shown below:

QUARTILE	MARKET CAPITALIZATION RANGE*	MEDIAN
Top Quartile	\$2.6B — \$93.4B	\$5.5B
Second Quartile	\$1.7B — \$2.6B	\$2.1B
Third Quartile	\$647M — \$1.5B	\$1.1B
Bottom Quartile	\$93M — \$611M	\$199M

*Market capitalization as of January 2, 2018.

1 For an analysis of the top oil and gas exploration companies, please see our 2019 Oil and Gas Exploration & Production (E&P) Incentive Compensation Report.

KEY TAKEAWAYS

TOTAL COMPENSATION

- Compared to last year, the average total compensation for CEOs and CFOs increased dramatically, primarily due to the value of LTI granted.
- While it remains unclear what constitutes a “good” CEO pay ratio, the data reflects that a ratio of 50x-200x is most prevalent.

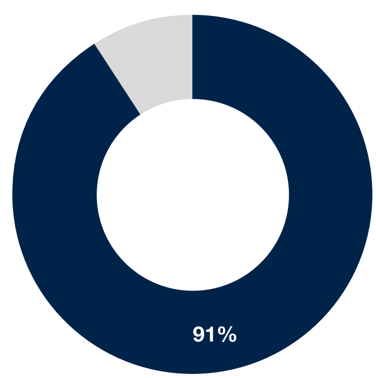
CEO
21%
INCREASE
2018 AVERAGE
$7,095,857

CFO
22%
INCREASE
2018 AVERAGE
$2,861,186

ANNUAL AND LONG-TERM INCENTIVE COMPENSATION

- On average, incentive compensation — including annual and long-term incentives — comprises approximately 86 percent of a CEO’s and 80 percent of a CFO’s total compensation package.
- No companies in the top two quartiles utilize annual incentive plans (AIPs) where the entire payout may be determined on a purely discretionary basis, while approximately 14 percent of companies in the bottom two quartiles would allow complete discretion to increase AIP payouts.
- The types of AIP metrics utilized within the sector are varied and diverse. EBITDA is the most prevalent performance metric (83 percent). The next four most prevalent metrics are health, safety and environmental (64 percent); cash flow (21 percent); and, tied for fourth, return on capital and earnings (10 percent).
- The prevalence of LTI awards varies by company size, but time-vesting restricted stock / restricted stock units and performance-vesting awards are most common, utilized by 91 percent and 84 percent of companies, respectively.
- For performance-based LTI awards, relative total shareholder return is the most common performance metric, used by 78 percent of companies. The most common performance period is three years, used by 92 percent of all companies.

TIME-VESTING RESTRICTED STOCK AND RSU PREVALENCE

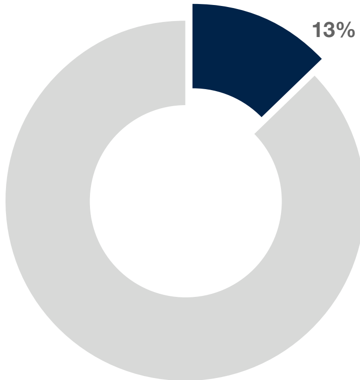


78%

Companies using relative TSR as a performance metric.

CHANGE IN CONTROL BENEFITS

- The most common cash severance multiple is between two and three times compensation (51 percent for CEOs and 57 percent for CFOs).
- The most valuable benefit received in connection with a change in control is accelerated vesting and payout of LTI, making up 64 percent and 61 percent of the total for CEOs and CFOs, respectively.
- Double trigger equity vesting (termination required) is most prevalent (54 percent), although single trigger equity vesting (no termination required) is also common (43 percent).



Only 13% of CEOs and CFOs are entitled to receive excise tax “gross ups”

- Only 13 percent of CEOs and CFOs are entitled to receive excise tax “gross-up” payments — meaning the company pays the executive the amount of any excise tax imposed, thereby making the executive “whole” on an after-tax basis. 67 percent of companies do not address excise tax protection at all.
- Since gross-ups are becoming less common, other excise tax mitigation strategies should be explored. A reasonable compensation analysis is a commonly utilized mitigation strategy, whereby a portion of the total parachute payments is attributed to reasonable compensation for services rendered either before or after the change in control.

BANKRUPTCY COMPENSATION

- More than 100 OFS companies in the U.S. filed for bankruptcy since 2015. In 2018, the oil and gas industry experienced more bankruptcies than any other industry — representing approximately 15 percent of all bankruptcies.
- Incentive programs, when properly structured, can help bridge the compensation gap between the onset of financial hardship and a healthy go-forward restructuring.
- Just as incentive plans may be effective tools prior to and during the bankruptcy process, equity granted by companies upon emergence from bankruptcy is utilized to motivate and retain employees after the company has emerged from bankruptcy protection.

INITIAL PUBLIC OFFERINGS (IPOs) — ITEMS TO CONSIDER

- As commodity prices have improved, the industry has seen increased demand for fracking and various other maintenance services. Accordingly, the OFS sector experienced approximately 15 IPOs over the 2017-2018 period.
- There are many executive compensation considerations to address during an IPO, including:
  - **Plan design —** selecting a peer group, compensation and design benchmarking, and governance policies;
  - **Legal disclosures —** Form S-1 compensation disclosure and Form 8-K compensation related disclosure;
  - **Financial impact —** Tax and accounting impact of equity grants and cost of plan changes;
  - **Plan rules and limits —** Amendments to existing plans, and expected overhang and dilution rates; and
  - **Special arrangements —** Founders awards, director compensation and change in control arrangements.

"Total compensation of CEOs and CFOs increased roughly 20 percent year-over-year."

TOTAL COMPENSATION

We captured the summary compensation table data disclosed in the 2018 proxy statement for each company. The most prevalent forms of compensation include base salary, AIP and LTI awards.

The following tables show the average values for each element of compensation broken out by quartile for CEOs and CFOs:

CHIEF EXECUTIVE OFFICER ANNUAL COMPENSATION					
MARKET CAPITALIZATION RANK	BASE SALARY	ANNUAL INCENTIVES	LONG-TERM INCENTIVES	OTHER COMPENSATION*	TOTAL
Top Quartile Average	$1,071,405	$2,359,345	$7,665,807	$455,856	$11,552,412
Second Quartile Average	$812,218	$1,221,596	$6,045,266	$224,937	$8,304,017
Third Quartile Average	$681,202	$949,506	$2,701,377	$92,358	$4,424,443
Bottom Quartile Average	$612,053	$797,965	$2,640,208	$52,327	$4,102,554
Average	$794,220	$1,332,103	$4,763,165	$206,369	$7,095,857
Year-Over-Year Increase / (Decrease)**					21%

CHIEF FINANCIAL OFFICER ANNUAL COMPENSATION					
MARKET CAPITALIZATION RANK	BASE SALARY	ANNUAL INCENTIVES	LONG-TERM INCENTIVES	OTHER COMPENSATION*	TOTAL
Top Quartile Average	$599,939	$699,445	$2,649,321	$289,292	$4,237,998
Second Quartile Average	$461,601	$600,555	$2,377,674	$83,019	$3,522,849
Third Quartile Average	$410,385	$431,600	$1,045,530	$73,101	$1,960,616
Bottom Quartile Average	$321,122	$240,113	$1,068,247	$11,931	$1,641,413
Average	$449,143	$494,355	$1,802,395	$115,295	$2,861,186
Year-Over-Year Increase / (Decrease)**					22%

*Other Compensation includes: change in pension value, above market earnings, and "all other compensation" as disclosed in each company's proxy statement.
**Only includes executives in both 2018 and 2019 studies.

While the pay between the bottom and third quartiles is not dramatically different, there is a significant increase in compensation when moving from the third to the second quartile (88 percent for CEOs and 80 percent for CFOs), while the increase when moving from the second to the top quartile is somewhat less (40 percent for CEOs and 20 percent for CFOs).

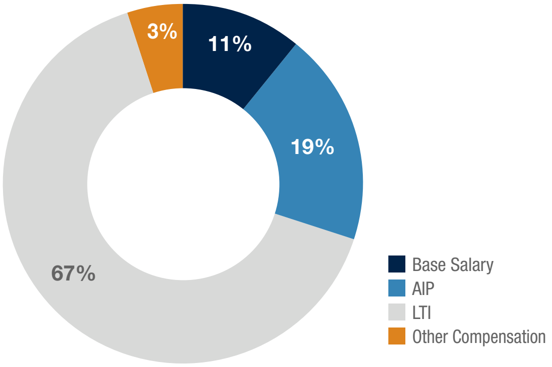
Compared to compensation disclosed in 2017, both CEOs and CFOs experienced an overall increase in total compensation. The increase in total compensation was primarily driven by an increase in the grant date value of LTI awards.

TOTAL COMPENSATION

On average, incentive compensation — including annual and long-term incentives — comprises 83 percent of an executive's total compensation package. The charts at right show the proportion of total direct compensation delivered in base salary, AIP, LTI awards and other compensation for CEOs and CFOs.

Because incentive compensation is such an integral part of the total compensation package for executives at most companies, we examine annual and long-term incentive programs in greater detail later in this report.

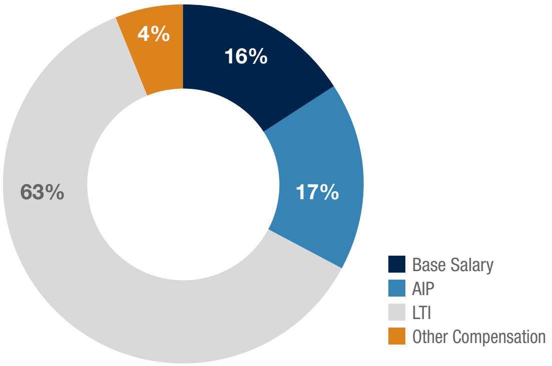
CEO TOTAL COMPENSATION



83%

Average portion of an executive's total compensation package derived from incentive compensation

CFO TOTAL COMPENSATION



"AIP and LTI comprise the bulk of an executive's total compensation, while base salary represents only 14 percent of total compensation on average."

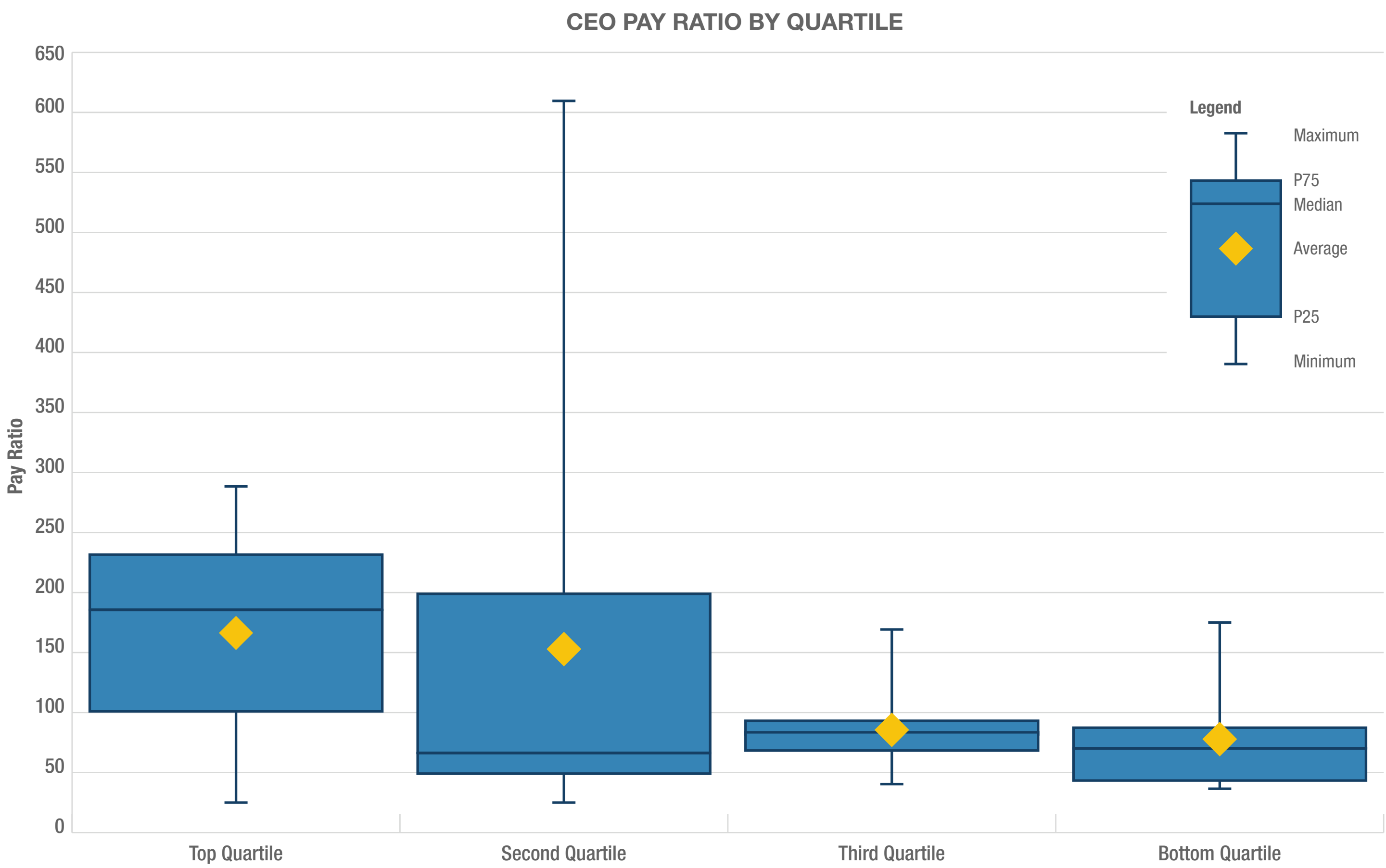
CEO PAY RATIO

The Securities and Exchange Commission's (SEC's) "CEO Pay Ratio" rule recently took effect for companies with full fiscal years beginning on or after January 1, 2017. Accordingly, proxy statements filed in 2018 mark the first time that the CEO pay ratio was required to be disclosed for most companies. The CEO pay ratio is calculated as the total compensation of the CEO divided by the total compensation of the "median" employee of a company.

There are various methodologies permitted to calculate the compensation of the CEO and the median employee. Therefore, companies must evaluate which methodologies make the most sense, and consider administrative burden, corporate structure, etc. in their decision-making.

The chart below shows a summary of CEO pay ratio statistics within each quartile.

While it remains unclear what constitutes a "good" CEO pay ratio, the data reflects that a ratio of 50x-200x is most prevalent.



"Annual incentives drive executive performance in the short term."

ANNUAL INCENTIVE PLANS

As is the case with most industries, companies in the OFS sector generally provide an opportunity for executives to participate in AIPs, also commonly called bonus programs. AIPs utilize performance metrics that are generally measured over a one-year period.

DISCRETIONARY VS. FORMULAIC

For this analysis, we grouped AIPs into the following three categories based on how the AIP payout is determined:

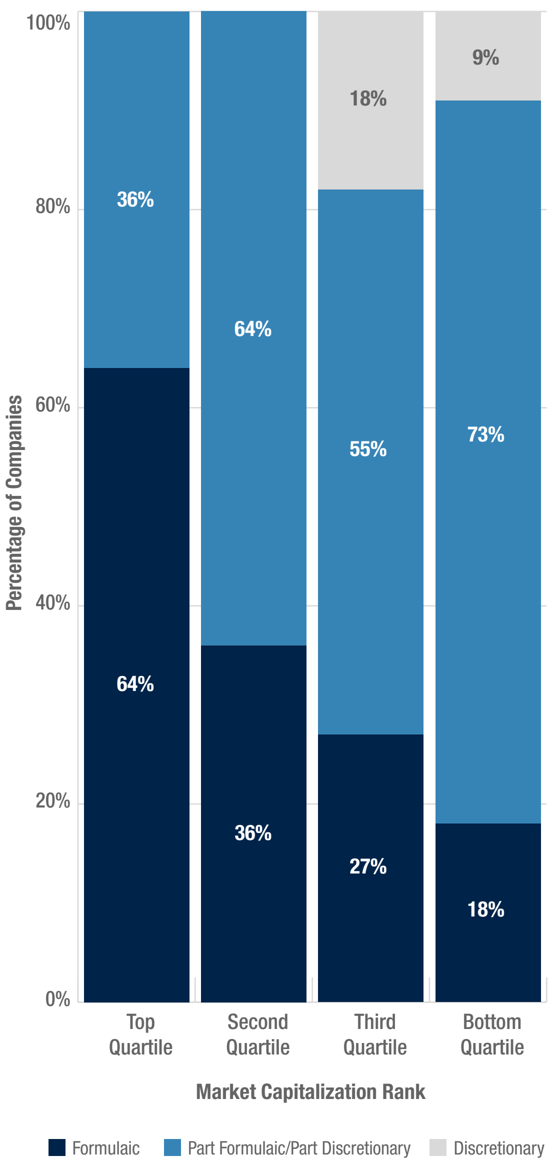
- **Formulaic —** The plan utilizes predetermined performance criteria with established targets that will determine payout, and the compensation committee does not have discretion to adjust payouts (other than negative discretion).
- **Discretionary —** The plan may or may not utilize specific, pre-established performance criteria, but the compensation committee maintains absolute discretion to adjust payout levels upward or downward.
- **Part Formulaic / Part Discretionary —** The plan utilizes certain metrics in which payout is determined formulaically and others in which payout is determined at the discretion of the compensation committee.

As shown in the chart at right, only 36 percent of OFS companies in the top quartile of our study group maintain some form of discretion with respect to their AIP, compared to 82 percent of companies in the bottom quartile. Notably, none of the companies in the top two quartiles used a purely discretionary plan. Similar to last year, 64 percent of companies in the top quartile utilize a purely formulaic plan, with no discretionary element.

Section 162(m) of the Internal Revenue Code previously required that compensation in excess of $1 million be performance-based in order to be tax deductible. As this performance-based exception has been eliminated, we will be watching to see if companies shift toward more discretionary plan designs, since under the new law, all compensation in excess of $1 million is non-deductible regardless of how it is characterized.

Although there is no longer a tax incentive for utilizing performance-based plans, companies should continue to consider input from shareholder advisory firms when structuring AIPs. We will continue to monitor how shareholder advisory firms react to AIP design changes triggered by the Section 162(m) revisions.

DISCRETIONARY VS. FORMULAIC BY MARKET CAPITALIZATION



ANNUAL INCENTIVE PLANS

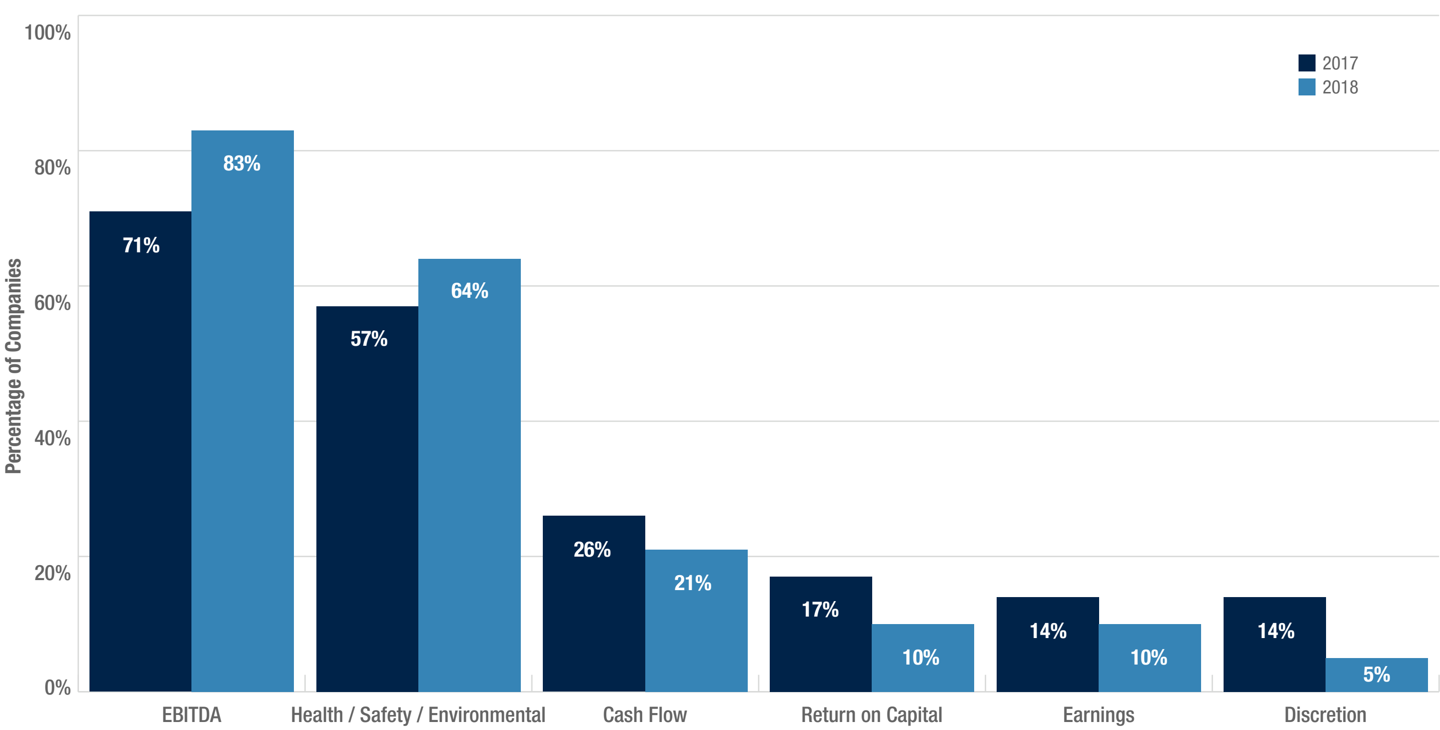
Companies utilize formulaic compensation programs to provide clarity to executives and shareholders on how compensation will be determined. Some companies maintain discretion over the payout of AIPs to allow them to adjust the payouts for events that are unforeseen and/or out of the executives' control. Some companies exercise discretion by implementing an AIP with a formulaic trigger (e.g., achieving a certain level of EBITDA or cash flow, etc.) to fund a bonus pool, which can then be allocated at the discretion of the board.

PERFORMANCE METRICS

Generally, as market capitalization increases, companies have a stronger preference to utilize stated performance metrics. It is important to note that simply because a plan utilizes performance metrics, it may not necessarily be classified as "formulaic." Based on the terms of the plan, it may ultimately be classified as "discretionary" if the Board retains full discretion to adjust payouts (higher or lower) under the plan.

The following chart displays the most prevalent metrics used in AIPs. EBITDA is the most prevalent metric, utilized by 83 percent of companies. Health, safety and environmental is the next most prevalent metric, utilized by 64 percent of OFS companies, followed by cash flow, utilized by 21 percent of OFS companies.

PERFORMANCE METRIC PREVALENCE

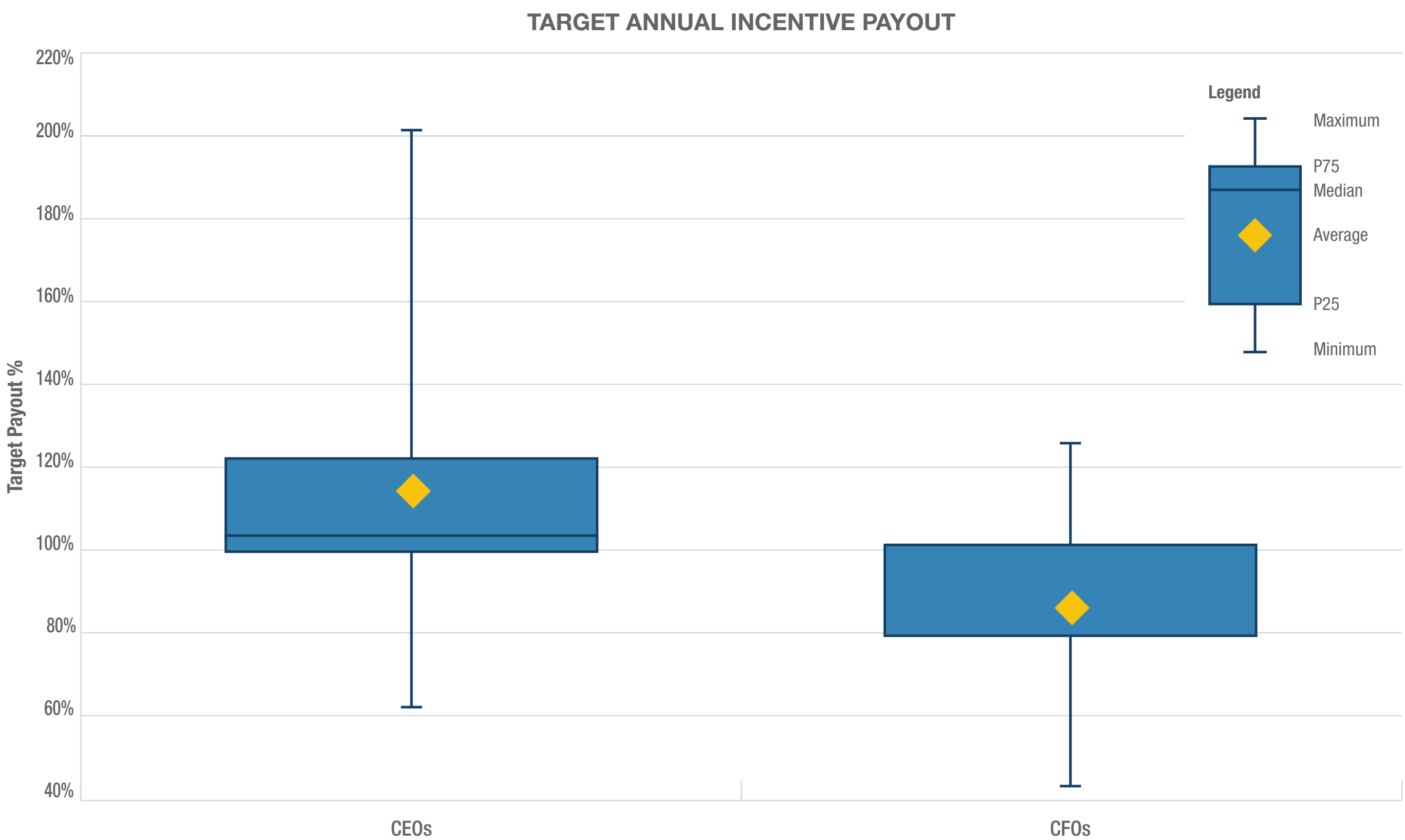


The prevalence of performance metrics generally remained consistent with last year's report.

PAYOUT MULTIPLES

The chart below shows the target level of AIPs as a percentage of base salary for CEOs and CFOs. The median target payout is approximately 100 percent of base salary for CEOs and 75 percent of base salary for CFOs. When disclosed, threshold payout generally ranges from 25 percent to 50 percent of the target, and maximum payout is generally two times the target.

> *"AIP payouts generally range from 50% to 200% of target."*



"Long-term incentives comprise the largest portion of executive compensation packages."

LONG-TERM INCENTIVES

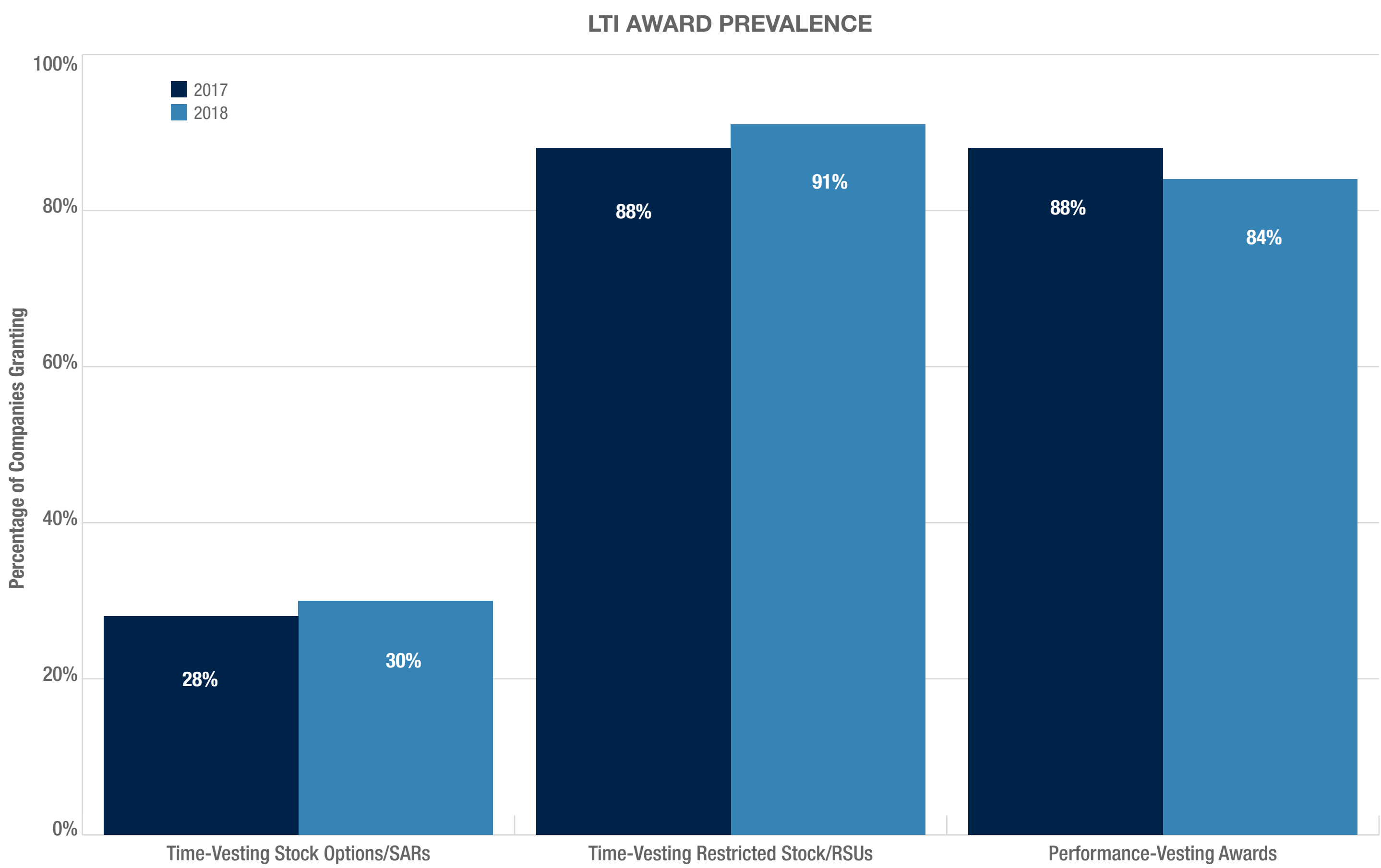
OVERVIEW

Companies grant LTI to motivate and retain executives and to align the interests of executives and shareholders. Nearly all OFS companies analyzed grant some form of LTI award to executives. LTI generally consists of stock options, stock appreciation rights (SARs), time-vesting restricted stock or restricted stock units (RSUs), and performance-vesting awards (i.e., awards that vest upon satisfaction of some performance criteria rather that solely based on the passage of time). For purposes of this analysis, we grouped awards into three categories: (1) time-vesting stock options and SARs; (2) time-vesting restricted stock and RSUs; and (3) performance-vesting awards.

AWARD TYPE PREVALENCE

The chart below shows the prevalence of stock options / SARs, time-vesting restricted stock / RSUs, and performance-vesting awards for all companies:

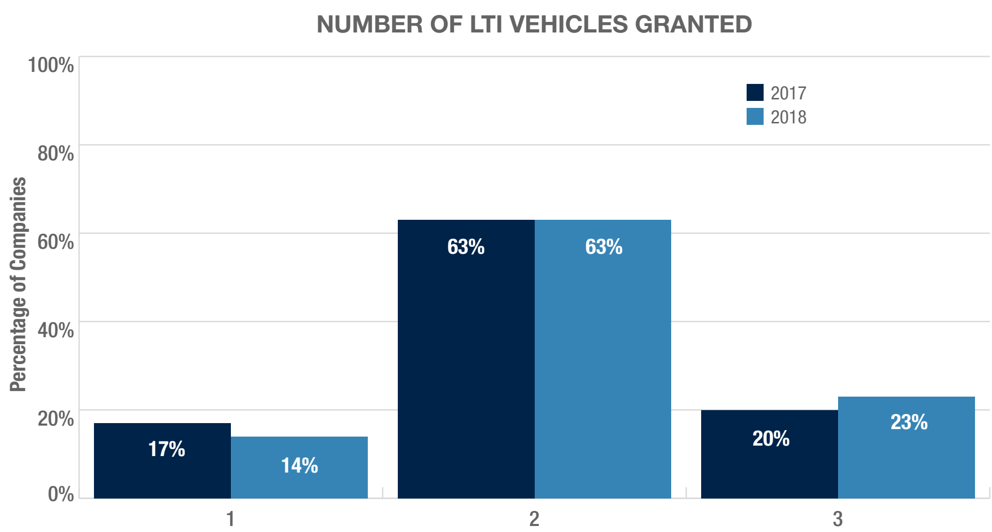
- Time-vesting restricted stock / RSUs and performance-vesting awards remained the most prevalent vehicles year-over-year.
- Stock options / SARs remained the least prevalent LTI vehicle utilized, as they provide little to no value to an executive in a down or flat market, which also reduces (or eliminates) any retentive value from this type of award.



LONG-TERM INCENTIVES

AWARD TYPE PREVALENCE (continued)

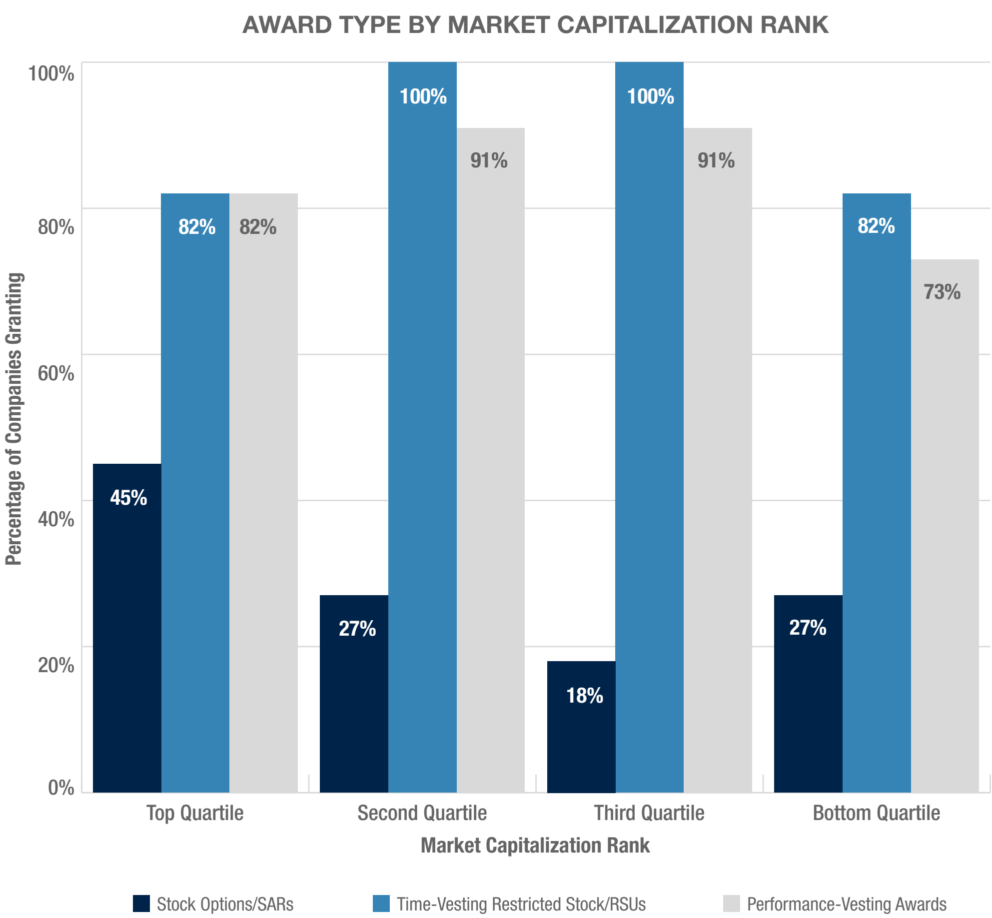
- Most companies that utilize performance-vesting awards or stock options also grant time-vesting restricted stock or RSUs to balance out the retentive goal of their LTI program. The chart at right shows the number of LTI vehicles granted at each company. Consistent with last year's report, the majority of companies analyzed (86 percent) grant two or more types of LTI vehicles.



AWARD PREVALENCE BY MARKET CAPITALIZATION

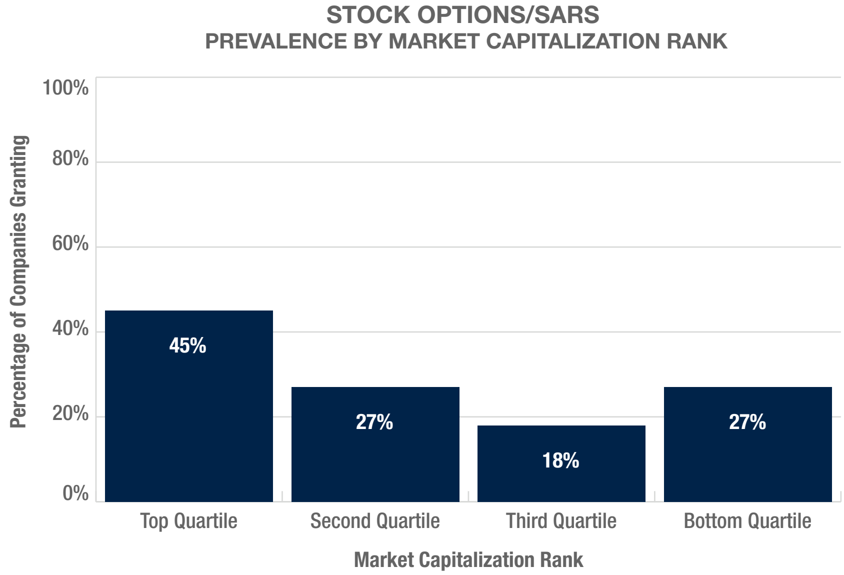
A&M also analyzed whether a company's size (in terms of market capitalization) impacts the prevalence of awards that are provided. As shown in the chart at right:

- Stock options / SARs vary in their usage, but are more prevalent at larger companies.
- Time-vesting restricted stock / RSUs are utilized fairly uniformly across all company sizes.
- Performance-vesting awards are slightly less prevalent at smaller companies.



STOCK OPTIONS / STOCK APPRECIATION RIGHTS

The chart at right shows the percentage of companies that grant stock options / SARs by market capitalization.



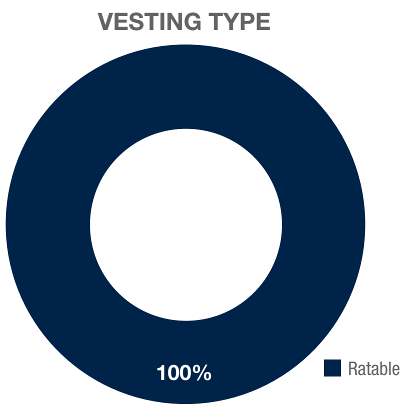
AWARD PROVISIONS

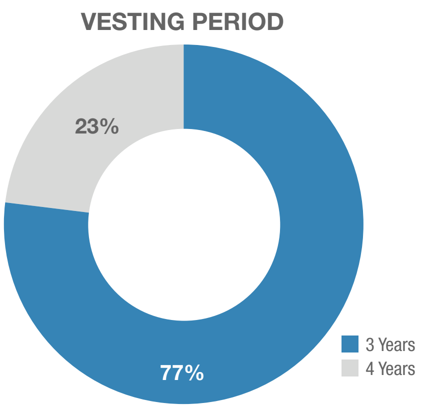
Stock option awards predominantly consisted of nonqualified stock options rather than tax-favored incentive stock options.

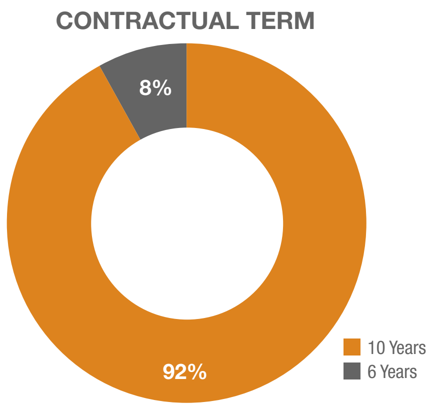
The charts at right illustrate the prevalence of the following items:

- Vesting Type;
  - Ratable vesting — a portion of the award vests each year during the vesting period.
  - Cliff vesting — the entire award vests at the end of the vesting period.
- Vesting Period; and
- Contractual Term.

All of these observations are consistent with our 2018 report.



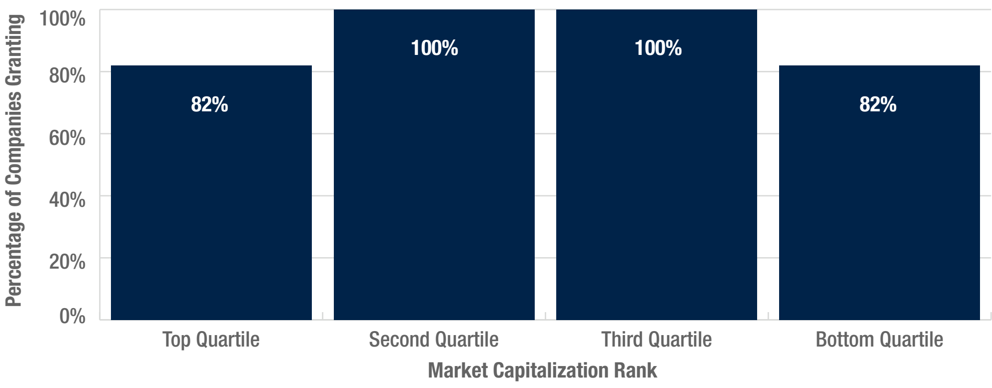




TIME-VESTING RESTRICTED STOCK / RESTRICTED STOCK UNITS

The chart at right shows the percentage of companies that grant time-vesting restricted stock / RSUs by market capitalization. The prevalence is fairly high, exceeding 80 percent for all sizes of companies.

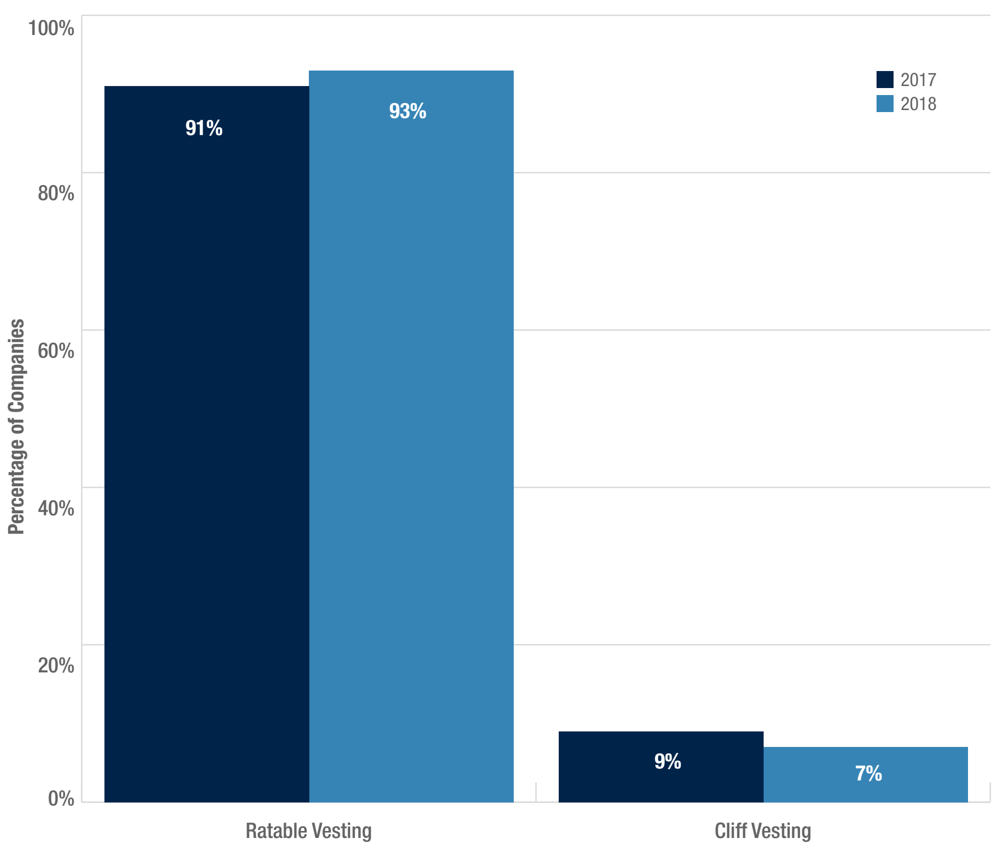
TIME-VESTING RESTRICTED STOCK / RSUs
PREVALENCE BY MARKET CAPITALIZATION RANK



AWARD PROVISIONS

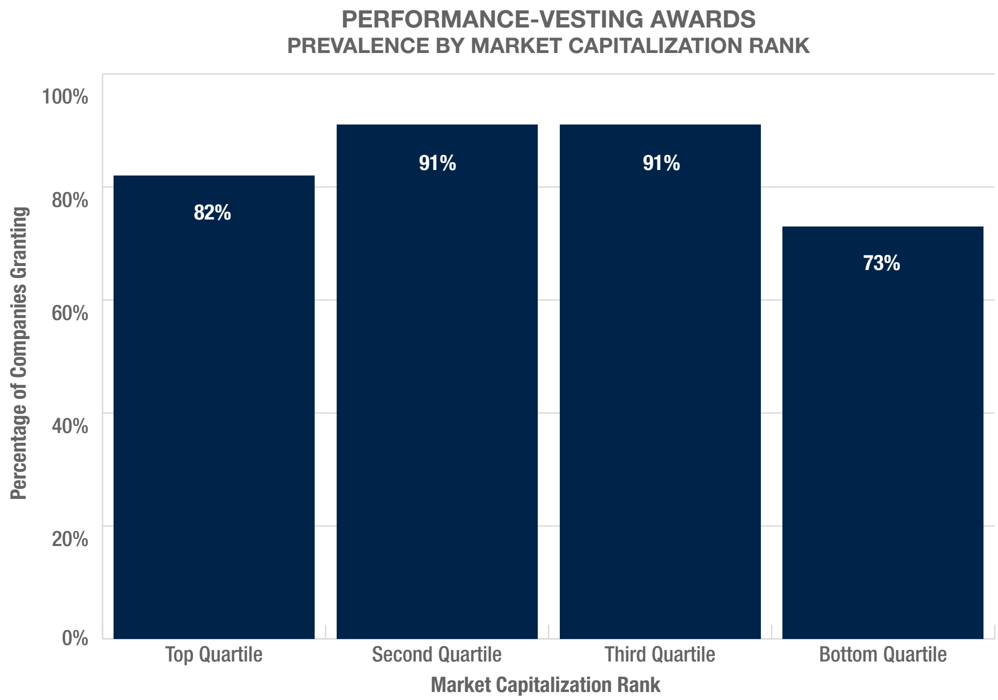
- Of companies that grant time-vesting restricted stock / RSUs, it is more common for companies to grant RSUs than restricted stock. One of the reasons is that RSUs can give executives the ability to defer payout beyond vesting.
- A three-year vesting period is the most common vesting period (utilized by 90 percent of companies).
- As shown in the chart at right, the vast majority of companies continue to utilize awards that vest ratably rather than cliff vest.

TIME-VESTING RESTRICTED STOCK / RSUs
RATABLE VESTING VS. CLIFF VESTING



PERFORMANCE-VESTING AWARDS

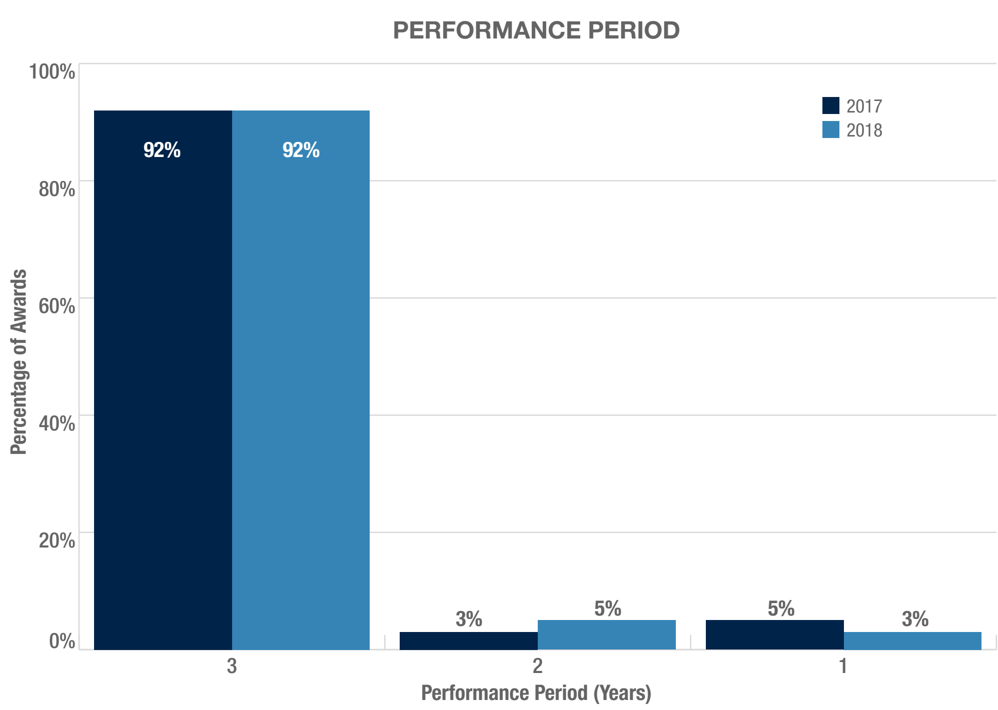
The chart at right shows the percentage of companies that grant performance-vesting awards by market capitalization. Performance-vesting awards are utilized with regularity across companies of all sizes, with a slightly lower prevalence in smaller companies.



PERFORMANCE PERIOD

The performance period is the duration over which the applicable performance metrics are measured. As shown in the chart at right, the most prevalent performance period for performance-vesting awards, by a wide margin, remained three years (92 percent of awards) followed by two years (only five percent of awards).

Most companies use three-year performance periods to promote long-term sustainable growth, rather than shorter periods, which tend to focus executives only on short-term performance.



LONG-TERM INCENTIVES

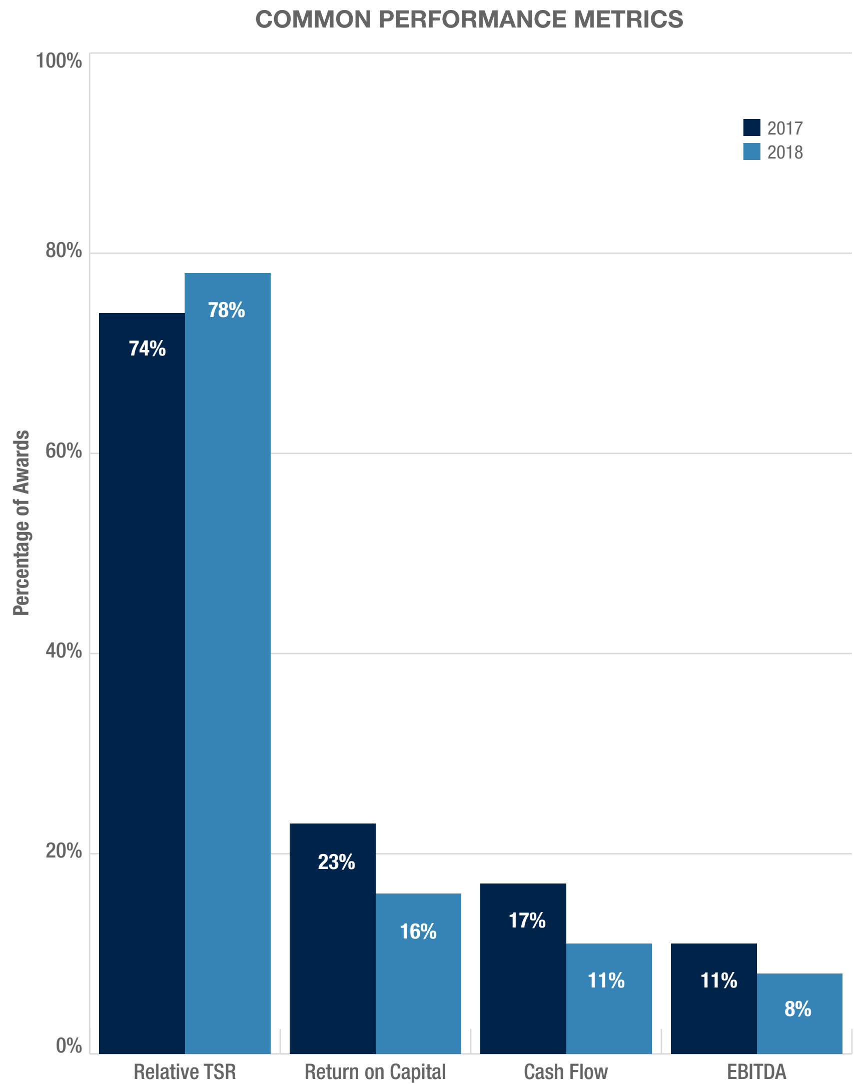
PERFORMANCE METRICS

The most prevalent metric is total shareholder return (TSR) relative to a peer group, which is used in 78 percent of performance-vesting awards. The next-most prevalent performance metric, return on capital, is utilized by only 16 percent of companies. The data suggests that the performance metrics used by OFS companies vary widely.

46 percent of performance-based awards utilize more than one performance metric.

The chart at right shows the prevalence of the most common metrics used for performance-vesting awards, which remained consistent with our 2018 report.

Although the pay-for-performance link for relative TSR awards is fairly straightforward, the valuation of these awards can be somewhat complex. The vesting of relative TSR awards is dependent on future market conditions for both the company and its peer group. Therefore, the valuation of these awards requires sophisticated modeling techniques, such as a Monte Carlo valuation.



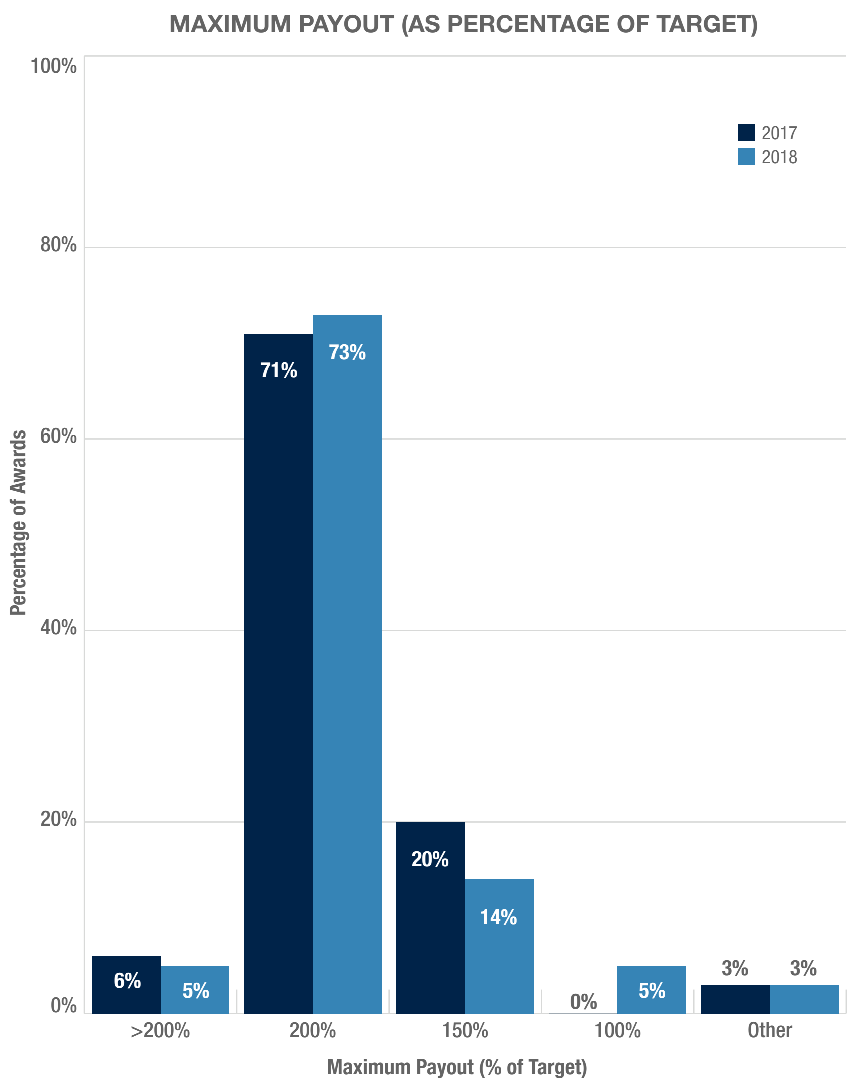
> *Relative TSR is the most prevalent performance metric.”*

MAXIMUM PAYOUT

Performance-vesting awards often provide for a range of payouts. For example, if the threshold level of performance is achieved, 50 percent of the award will be earned; if the target level of performance is achieved, 100 percent of the award will be earned; and if the maximum level of performance is achieved, 200 percent of the award will be earned.

As shown in the chart at right, a majority of performance-vesting awards granted by OFS companies provide for a maximum payout equal to 200 percent of the target. This observation is consistent with our 2018 report.

Although 200 percent of target payout is the most prevalent maximum payout percentage, each company should examine its own circumstances and determine what payout scale is most effective for the company's unique circumstances. For example, an established company that does not expect a sharp growth curve may consider granting more awards with a lower maximum payout. This will allow the company to grant additional awards with lower compensation expense, while retaining value for the executives.



> *"In uncertain market conditions, change in control arrangements help to keep executive talent retained and focused."*

CHANGE IN CONTROL BENEFITS

OVERVIEW

In recent years, external forces have continued to advocate for more transparency and change with respect to executive compensation. The one area of executive compensation that is often embattled with criticism is change in control provisions. As a result of the SEC's Say-on-Pay advisory vote, shareholders now have a louder voice with which to communicate their satisfaction or displeasure with the company's compensation programs.

Typical change in control benefits include severance payments, accelerated vesting of equity awards, enhanced retirement benefits and excise tax protection. The charts below show the average value of change in control benefits for CEOs and CFOs:

CHANGE IN CONTROL BENEFIT VALUES FOR CEOs

MARKET CAPITALIZATION RANK	SEVERANCE	ANNUAL BONUS	ACCELERATED LTI	RETIREMENT BENEFITS	EXCISE TAX GROSS-UP	OTHER*	AVERAGE TOTAL BENEFIT
Top Quartile Average	$3,442,637	$803,576	$13,302,968	$646,686	$831,558	$185,298	$18,870,899
Second Quartile Average	$4,539,278	$642,400	$9,343,939	$19,251	—	$93,009	$13,315,616
Third Quartile Average	$4,497,574	$113,333	$6,042,080	$5,581	—	$59,337	$10,700,638
Bottom Quartile Average	$4,613,538	$516,664	$4,222,617	—	$434,887	$49,977	$8,947,892
2018 Average	$4,252,998	$529,395	$8,351,683	$155,603	$303,408	$98,694	$13,011,276
Year-Over-Year Increase / (Decrease)**							-10%

CHANGE IN CONTROL BENEFIT VALUES FOR CFOs

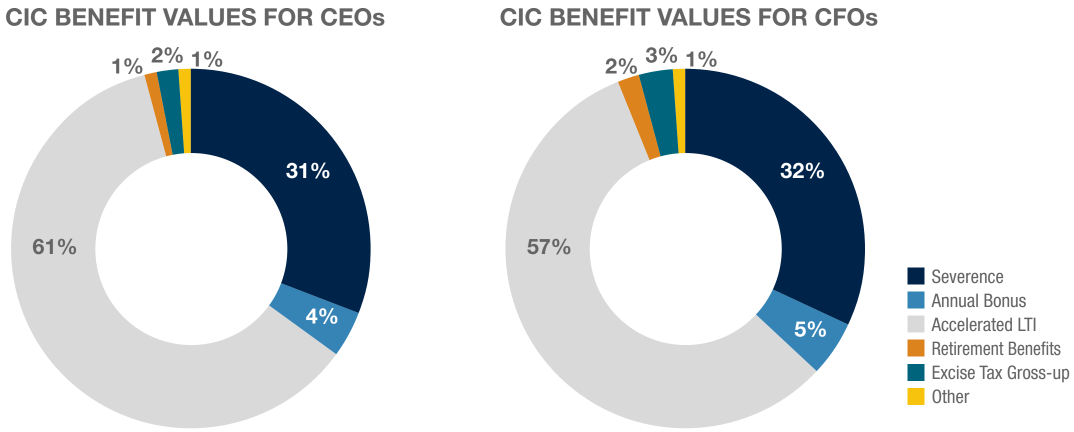
MARKET CAPITALIZATION RANK	SEVERANCE	ANNUAL BONUS	ACCELERATED LTI	RETIREMENT BENEFITS	EXCISE TAX GROSS-UP	OTHER*	AVERAGE TOTAL BENEFIT
Top Quartile Average	$1,453,521	$334,562	$4,543,312	$363,579	$353,850	$135,640	$7,023,608
Second Quartile Average	$1,856,326	$363,463	$3,272,879	—	—	$41,249	$4,984,651
Third Quartile Average	$1,659,254	$40,860	$2,137,059	$6,201	—	$50,224	$3,888,019
Bottom Quartile Average	$1,638,341	$208,137	$1,222,617	—	$198,720	$34,189	$2,707,856
2018 Average	$1,641,422	$239,399	$2,886,038	$92,445	$138,142	$67,060	$4,680,116
Year-Over-Year Increase / (Decrease)**							-6%

*Other includes health & welfare benefit continuation, outplacement services, and other benefits received in connection with a change in control.
**Only includes executives in both 2018 and 2019 studies.

As with compensation in general, the amount of change in control benefits payable to CEOs and CFOs varies dramatically based on company size. Although the table above shows a slight decrease in year-over-year change in control benefits payable to CEOs and CFOs, this is the result of outlier instances where mega-grants of equity captured in the 2018 study had subsequently vested in the ordinary course prior to the 2019 study. Disregarding these "outliers," change in control benefits payable to CEOs and CFOs remained relatively flat year-over-year.

CHANGE IN CONTROL BENEFITS

The charts below illustrate the average value for each type of change in control benefit for CEOs and CFOs. Severance and accelerated LTI comprise approximately 90 percent of the total value of change in control benefits for both CEOs and CFOs.



"Severance and accelerated LTI comprise the most substantial portion of change in control benefits provided to executives."

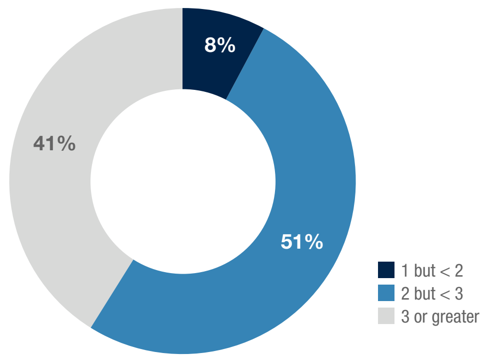
CASH SEVERANCE PAYMENTS

- Most agreements or policies with change in control protection provide for a cash severance payment.
- Severance is usually expressed as a multiple of compensation, which varies at different levels within an organization.
- The definition of compensation used to determine the severance amount varies between companies. The two most prevalent definitions of compensation for this purpose are base salary plus annual bonus and base salary only.

CEOs

- 86 percent of CEOs are entitled to receive a cash severance payment upon termination in connection with a change in control.
- The chart at right identifies the most common severance multiples provided to CEOs upon a termination in connection with a change in control.

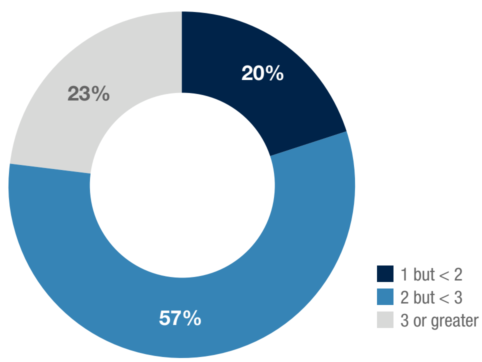
SEVERANCE MULTIPLE PREVALENCE – CEO



CFOs

- 81 percent of CFOs are entitled to receive a cash severance payment upon termination in connection with a change in control.
- The chart at right identifies the most common severance multiples provided to CFOs upon a termination in connection with a change in control.

SEVERANCE MULTIPLE PREVALENCE – CFO



CHANGE IN CONTROL BENEFITS

ACCELERATED VESTING OF LONG-TERM INCENTIVES

There are generally three types of change in control payout triggers for equity awards:

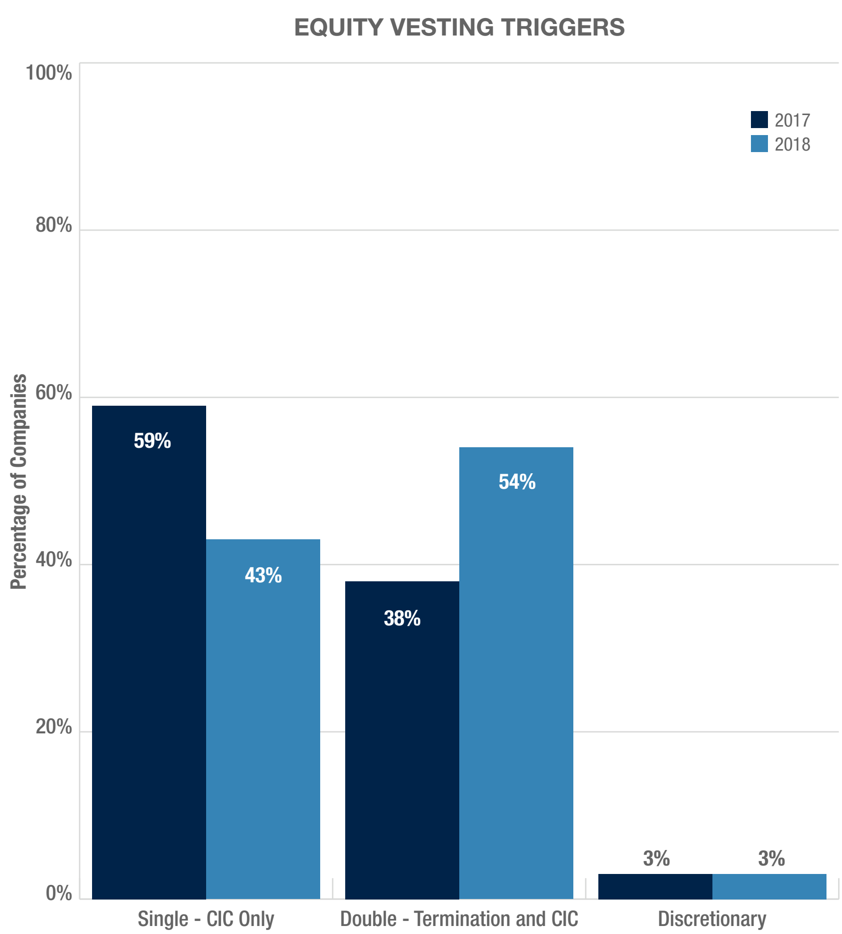
Trigger	Description
Single	Only a change in control must occur for vesting to be accelerated.
Double*	A change in control plus termination without cause or resignation for “good reason” must occur within a certain period after the change in control.
Discretionary	The Board has the discretion to trigger the vesting of an award after a change in control.

* Sometimes companies allow for single trigger vesting if the acquiring company does not assume the equity awards, but require double trigger vesting if the awards are assumed by the acquirer. For the purposes of this study, this treatment was included in the double trigger vesting category.

The most common trigger found in equity plans is double trigger (54 percent). However, 43 percent of companies have at least some equity awards outstanding with a single trigger. Only three percent of companies provide the Board with discretion to accelerate the vesting of outstanding equity awards.

The chart at right shows the prevalence of change in control triggers for outstanding equity awards of CEOs and CFOs for 2018 and 2017.

Double-trigger vesting has now become more prevalent than single-trigger vesting. We attribute the shift toward double trigger vesting to pressure from shareholders and shareholder advisory services. Accordingly, we expect the trend toward double trigger vesting to continue into the future.



EXCISE TAX PROTECTION

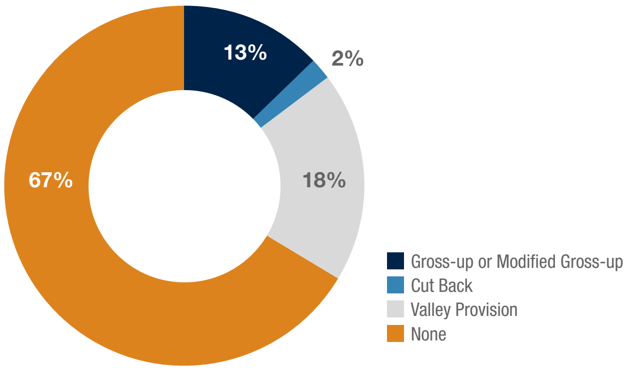
The “Golden Parachute” rules impose a 20 percent excise tax on an executive if the executive receives a parachute payment greater than the “safe harbor” limit. Companies may address this excise tax issue in one of the following ways:

Provision	Description
Gross-up	The company pays the executive the full amount of any excise tax imposed. The gross-up payment thereby makes the executive “whole” on an after-tax basis. The gross-up includes applicable federal, state and local taxes resulting from the payment of the excise tax.
Modified Gross-up	The company will gross-up the executive if the payments exceed the “safe harbor” limit by a certain amount (e.g., $50,000) or percentage (e.g., 10%). Otherwise, payments are cut back to the “safe harbor” limit to avoid any excise tax.
Cut Back	The company cuts back parachute payments to the “safe harbor” limit to avoid any excise tax.
Valley Provision	The company cuts back parachute payments to the “safe harbor” limit, if it is more financially advantageous to the executive. Otherwise, the company does not adjust the payments and the executive is responsible for paying the excise tax.
None	Some companies do not address the excise tax; therefore, executives are solely responsible for the excise tax.

13 percent of companies provide a gross-up to their CEOs and CFOs (down from 16 percent in 2017). A majority of companies (67 percent) do not provide any form of excise tax protection.

The prevalence of these provisions for CEOs and CFOs is illustrated in the chart at right.

EXCISE TAX PROTECTION AMONG CEOs AND CFOs



EXCISE TAX MITIGATION STRATEGIES

Since excise tax gross-ups are becoming less common, other excise tax mitigation strategies should be explored. A reasonable compensation analysis is a commonly utilized mitigation strategy, whereby a portion of the total parachute payments is attributed to reasonable compensation for services rendered either before or after the CIC. Alternatively, rather than focusing on the value of parachute payments, base amount planning can help increase an executive's safe harbor limit.

- Pre-Change in Control Reasonable Compensation — Section 280G provides that an excess parachute payment is reduced by the portion of the payment established by clear and convincing evidence to be reasonable compensation for personal services rendered before the date of the change in control.
- Post-Change in Control Reasonable Compensation — Section 280G provides that the amount treated as a parachute payment does not include the portion of a payment established by clear and convincing evidence to be reasonable compensation for personal services to be rendered on or after the date of the change in control.
  - A common payment that can be treated as post-change in control reasonable compensation is a payment for a covenant not to compete that is intended to keep an individual from competing with his employer after the change in control. An expert valuation of the covenant not to compete should be performed.
- Base Amount Planning — If it is known far enough in advance that a change in control will occur in a future calendar year, there may be an opportunity for base amount planning. It would be advantageous to include as many payments as possible to a disqualified individual in the calendar year prior to the change in control. This will increase the base amount and Section 280G threshold of the disqualified individual; which can lower or completely eliminate any excess parachute payments. Section 409A should be considered when accelerating any payments.

"An effective mitigation strategy may reduce or eliminate the risk of excise taxes and lost tax deductions."

BANKRUPTCY COMPENSATION

If a balance sheet restructuring or bankruptcy filing is on the horizon, there are certain immediate changes to the compensation plans that should be considered to motivate and retain key talent. The company's equity will generally become worthless in the event of a bankruptcy filing. Thus, a common defensive approach is to collapse the AIP and LTI programs into a single cash-based incentive program that pays out over shorter measurement periods based on hitting established performance metrics.

For "non-insiders," companies often utilize Key Employee Retention Plans (KERPs) — which pay out retention bonuses based on the employee's remaining employed through a certain date. The Bankruptcy Code greatly restricts a debtor's ability to include "insiders" in a KERP. Therefore, many companies implement key employee incentive plans (KEIPs) for insiders — performance-based plans that are essentially designed to fall outside of the Bankruptcy Code's restrictions on the use of KERPs.

PERFORMANCE METRICS

The AIP/KEIP performance metrics must be carefully chosen and structured to be sufficiently challenging. The metrics should also coincide with the company's business plan or objectives. The amount of potential payout is also a consideration, as it should be sufficiently motivating, but should be reasonable when compared to other similar payments made in bankruptcy.

Below are the suggested steps for installing incentive, retention and severance arrangements for a distressed company evaluating strategic alternatives.

1	Development of KEIP/KERP/severance programs (determine population, cost, performance measures, benchmark to peers, etc.)
2	Discussions with senior/key creditors regarding programs
3	Board or Compensation Committee review and approval (as applicable) of KEIP/KERP/severance programs
4	File motion to request court approval of programs
5	Work to resolve objections by Stakeholders, Creditors Committee, equity representatives and/or U.S. Trustee (both before and after filing motion)
6	Hearing (including expert witness testimony, if necessary) to approve plans
7	Program implementation

POST-EMERGENCE INCENTIVE AND RETENTION

When emerging from bankruptcy, most pre-bankruptcy company stock, along with unvested equity awards held by employees, have lost their value. Lack of meaningful equity ownership in the go-forward entity, coupled with an uncertain company future, leads to difficulties retaining and motivating key executives post-emergence. Consequently, emergence equity grants are a way to ensure that companies retain motivated personnel who are vital to a successful post-emergence entity.

> *“Effective executive compensation programs are critical to drive performance and motivate change in the restructuring context.”*

IPO CONSIDERATIONS

INITIAL PUBLIC OFFERINGS (IPOs) — ITEMS TO CONSIDER

As commodity prices have improved, the industry has seen increased demand for fracking and various other maintenance services. Accordingly, the OFS sector experienced approximately 15 IPOs over the period from 2017-2018.

Preparing for an IPO involves many different facets of an organization's business including legal, regulatory, financial, and operational considerations. Public companies face additional regulations and greater disclosure requirements than private companies, particularly regarding the transparency of a company's executive compensation programs. Because of the additional requirements, executive compensation has become a relatively complex aspect of preparing for an IPO.

By forming an IPO roadmap, however, a company can ensure that its executive compensation programs and policies are:

- Competitive with the market;
- Within industry norms;
- Compliant with various governance requirements; and
- Aligned with executive and shareholder interests.

There are many executive compensation considerations to address during an IPO, including the items summarized below:

PLAN DESIGN	LEGAL DISCLOSURES	FINANCIAL IMPACT	PLAN RULES AND LIMITS	SPECIAL ARRANGEMENTS
▪ Compensation philosophy, market positioning, data, and peer groups ▪ Executive benchmarking and post-IPO target pay determination ▪ Salary structures ▪ Incentive compensation plan design, stock purchase plan ▪ New compensation governance policies (stock ownership, clawback, anti-hedging, etc.) ▪ Executive benefits and perquisites policies	▪ Form S-1 compensation disclosure ▪ New incentive compensation plans ▪ Forms 3, 4, and 5 for executive officers and non-employee director stock holdings ▪ Form 8-K for post-IPO compensation related topics	▪ Future compensation plans and financial modeling ▪ Tax and accounting impact of pre-IPO and post-IPO equity grants ▪ Cost of plan changes and any one-time IPO-related compensation ▪ Planning for compensation-related issues from investors	▪ Amendments to existing plans ▪ Post-IPO restrictions on stock sales / option exercises ▪ Post-IPO share overhang and expected annual dilution rates ▪ 162(m) considerations of tax-deductibility for incentive compensation ▪ Expectations of new investors and shareholder advisory firms (ISS, Glass Lewis, etc.)	▪ Founders' stock awards ▪ Board of Director compensation ▪ Change in control and severance arrangements

REQUIRES COORDINATION AMONG LEGAL, FINANCE, AND HR FUNCTIONS

COMPANIES ANALYZED

Actuant Corporation
Baker Hughes, a GE company*
Basic Energy Services, Inc.*
C&J Energy Services, Inc.*
Core Laboratories N.V.
Diamond Offshore Drilling, Inc.
Dril-Quip, Inc.
Ensco plc
Exterran Corporation
Forum Energy Technologies, Inc.
Frank's International N.V.
Halliburton Company
Helix Energy Solutions Group, Inc.
Helmerich & Payne, Inc.
Independence Contract Drilling, Inc.
Keane Group, Inc.*
Key Energy Services, Inc.*
Mammoth Energy Services, Inc.
McDermott International, Inc.
Nabors Industries Ltd.
National Oilwell Varco, Inc.
Natural Gas Services Group, Inc.
NCS Multistage Holdings, Inc.*
Newpark Resources, Inc.
Noble Corporation plc*
North American Energy Partners Inc.
Oceaneering International, Inc.
Oil States International, Inc.
Parker Drilling Company
Patterson-UTI Energy, Inc.
Pioneer Energy Services Corp.
Profire Energy, Inc.
ProPetro Holding Corp.*
Rowan Companies plc
RPC, Inc.
Schlumberger Limited
SemGroup Corporation*
Superior Energy Services, Inc.
TETRA Technologies, Inc.
Transocean Ltd.
Unit Corporation
USA Compression Partners, LP
Weatherford International plc
Xtreme Drilling Corp.*

*Companies added to 2019 OFS survey.

ALVAREZ & MARSAL'S COMPENSATION AND BENEFITS PRACTICE

The Compensation and Benefits Practice of Alvarez & Marsal assists companies in designing compensation and benefits plans, evaluating and enhancing existing plans, benchmarking compensation and reviewing programs for compliance with changing laws and regulations. We do so in a manner that manages risks associated with tax, financial and regulatory burdens related to such plans. Through our services, we help companies lower costs, improve performance, boost the bottom line and attract and retain key performers.

ALVAREZ & MARSAL'S COMPENSATION SERVICE OFFERINGS

- Executive Compensation Advisory Consulting
- Pre- & Post-Merger and Acquisition Advisory
- Bankruptcy Compensation Design
- Incentive & Deferred Compensation Design
- Risk Management Consulting
- Global Incentive Compensation Services

EXECUTIVE COMPENSATION

- Executive compensation consulting, including the design of tax-efficient compensation packages and competitive benchmarking;
- Preparation of executive compensation disclosures for publicly-held entities; and
- Annual/long-term incentive and deferred compensation design.

MERGERS AND ACQUISITIONS

- Pre- and post-merger integration services, including:
  - Executive compensation design;
  - Golden parachute analysis (Section 280G);
  - Due diligence of welfare / pension considerations; and
  - Severance / retention planning.

BANKRUPTCY

- Bankruptcy-related compensation, including:
  - Design of key employee incentive plans, retention plans and severance plans;
  - Expert witness testimony; and
  - Post-emergence management incentive plans.

BRIAN L. CUMBERLAND
NATIONAL MANAGING DIRECTOR, COMPENSATION & BENEFITS
+1 214 438 1013
bcumberland@alvarezandmarsal.com

J.D. IVY
MANAGING DIRECTOR
+1 214 438 1028
jivy@alvarezandmarsal.com

ACKNOWLEDGMENTS

Editor: James Deets

Research Assistance and Data Compilation:
Ryan Wells, Matt Porter, Vance Yudell, Daniel Muñoz, and Nicholas Cumberland

ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to make change and achieve results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services.

With over 3000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

Follow us on:

To learn more, visit **alvarezandmarsal.com**

ALVAREZ & MARSAL