VOTE OF THE WEEK: ENERGY XXI

Energy XXI (EXXI), a company with triennial Say on Pay votes, received 26% vote support in 2014 after receiving 90% support in 2011. The decreased support is likely due to:

- Increasing CEO pay opportunity and Committee determination of above-target annual incentive payouts during a period of mixed financial and market results
- Above-median benchmarking practices
- Long-term incentive and retention awards that are not rigorously performance-based

	FY2014	FY2013	FY2012	FY2011
OUTCOME	26%	--	--	90%
CEO PAY [1]	$14.5MM	$9.4MM	$8.6MM	$6.6MM
1-YR TSR [2]	+9%	-28%	-6%	+111%
3-YR TSR [2]	-10%	+13%	+130%	-1%
REVENUE [2]	$1.23B	$1.18B	$1.28B	$0.88B
MARKET VALUE [2]	$2.22B	$1.70B	$2.47B	$2.53B

COMPANY INFORMATION AND PERFORMANCE

- Energy XXI acquires, explores, develops and operates oil and natural gas properties
- One-, three-, and five-year TSR as of fiscal year end 2014 were 9%, -10%, and 57%, respectively
- FY 2014 revenue increased 4%; net income decreased 64% from $162MM to $59MM

HISTORICAL CONTEXT

- Shareholders last voted on the Company's executive pay programs in 2011, approving with 90% vote support following a year of substantial shareholder returns (greater than +100%)
- Between 2011 and 2014, pay programs remained largely unchanged, with no shareholder outreach efforts disclosed in the Company's 2012, 2013, or 2014 proxy statements

PAY PROGRAM

- *2014 Annual Incentives:* Committee uses a "Performance Scorecard" to assess achievement against predefined quantitative and strategic goals with no particular weighting. Quantitative measures include production volumes, proved reserves, net debt/proved reserves, EBITDA, and ratio of gross margin per barrel to three-year finding and development costs
- *2014 Long-Term Incentives*: Executives receive long-term equity in the form of "performance units", with value tied to the Company's stock price and divided between units that have time-based (75%) and performance-based (25%) vesting conditions:
    - Both time-based and performance-based units vest in three annual installments
    - Each unit has a minimum vesting value of $5.00 and an upside opportunity of $5.00 times the positive percentage change in stock price over the relevant vesting period (one year for the first tranche, two years for the second, etc.)
    - Tranches of performance-contingent units vest at a multiple of 0x to 2x target based on absolute TSR, with a "make-up" provision allowing for recoupment of unearned units if the annualized TSR over the third period is greater than that over the prior two periods
    - For fiscal 2015, the portion of units that are performance-contingent will vest based on relative TSR
- *Retention Grants:* In fiscal 2014, the executives received additional retention grants equal to 25% of target LTI
- *Single Trigger Vesting of Equity*: In the event of a change in control, unvested performance units accelerate with performance deemed to have been achieved at the maximum level
- *Targeted Pay Positioning:* Company references the 75th percentile when setting total target compensation for executives

ISS PROPOSAL EXCERPT

- "The CEO's pay has steadily increased despite relatively weak financial and operating performance, due to the payment of above-target bonuses determined using compensation committee discretion, additional equity retention awards, and above median benchmarking. Although the company's pay program contains some positive features, pay and performance are not aligned for fiscal 2014."

Source: Semler Brossy data and analysis; Fund Votes LLC; ISS Voting Analytics; FactSet; Energy XXI DEF14A.

[1] As disclosed in the Summary Compensation Table.
[2] Financials as of the four most recently disclosed fiscal year ends (i.e., FYE2014, FYE2013, FYE2012 and FYE2011).