

MERCURY GENERAL CORP
Form DEF 14A
April 02, 2015

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
(Amendment No.)

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Check the appropriate box:

- Preliminary Proxy Statement
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Mercury General Corporation
(Name of Registrant As Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement if Other Than the Registrant)

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- (3) Filing Party:
- (4) Date Filed:

4484 Wilshire Boulevard
Los Angeles, California 90010

NOTICE OF ANNUAL MEETING OF
SHAREHOLDERS AND PROXY STATEMENT

To The Shareholders of
Mercury General Corporation

Notice is hereby given that the Annual Meeting of Shareholders of MERCURY GENERAL CORPORATION (the “Company”) will be held at The Wilshire Country Club, 301 North Rossmore Avenue, Los Angeles, California on May 13, 2015 at 10:00 a.m., for the following purposes:

1. To elect ten directors for the ensuing year to serve until the next Annual Meeting of Shareholders and until their successors are elected and have qualified;
2. To approve the Mercury General Corporation 2015 Incentive Award Plan;
3. To consider a shareholder proposal regarding simple majority voting; and
4. To transact such other business as may properly come before the meeting.

The Board of Directors has fixed the close of business on March 17, 2015 as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

Accompanying this Notice of Annual Meeting is a proxy. **WHETHER OR NOT YOU EXPECT TO BE AT THE MEETING, PLEASE COMPLETE, SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT PROMPTLY.**
BY ORDER OF THE BOARD OF DIRECTORS,

Judy A. Walters, Secretary

Los Angeles, California
April 1, 2015

MERCURY GENERAL CORPORATION

4484 Wilshire Boulevard

Los Angeles, California 90010

PROXY STATEMENT

The Board of Directors of the Company is soliciting the enclosed proxy for use at the Annual Meeting of Shareholders of the Company to be held at 10:00 a.m. May 13, 2015, at The Wilshire Country Club, 301 Rossmore Avenue, Los Angeles, California. This Proxy Statement was first furnished to shareholders on or about April 2, 2015.

All shareholders who find it convenient to do so are cordially invited to attend the meeting in person. In any event, please complete, sign, date and return the proxy in the enclosed envelope.

A proxy may be revoked by written notice to the Secretary of the Company at any time prior to the voting of the proxy, or by executing a later proxy or by attending the meeting and voting in person. Unrevoked proxies will be voted in accordance with the instructions indicated in the proxies, or if there are no such instructions, such proxies will be voted FOR the election of the Board of Directors' nominees for director, FOR the approval of the Mercury General Corporation 2015 Incentive Award Plan (the "2015 Incentive Award Plan"), and AGAINST a shareholder proposal regarding simple majority voting. Shares represented by proxies that reflect abstentions or include "broker non-votes" will be treated as present and entitled to vote for purposes of determining the presence of a quorum.

Shareholders of record at the close of business on March 17, 2015 will be entitled to vote at the meeting. As of that date, 55,147,462 shares of common stock, without par value ("Common Stock"), of the Company were outstanding. Each share of Common Stock is entitled to one vote. A majority of the outstanding shares of the Company, represented in person or by proxy at the meeting, constitutes a quorum. The costs of preparing, assembling and mailing the Notice of Annual Meeting, Proxy Statement and proxy will be borne by the Company.

VOTING

In voting for the election of directors of the Company under the California General Corporation Law, if, prior to the commencement of voting, any shareholder has given notice of an intention to cumulate votes at the meeting, then all shareholders may cumulate their votes in the election of directors for any nominee if the nominee's name was placed in nomination prior to the voting. Under cumulative voting, each shareholder is entitled in the election of directors to one vote for each share held by the shareholder multiplied by the number of directors to be elected, and the shareholder may cast all such votes for a single nominee for director or may distribute them among any two or more nominees as the shareholder sees fit. If no such notice is given, there will be no cumulative voting. In the absence of cumulative voting, each shareholder may cast one vote for each share held multiplied by the number of directors to be elected, but may not cast more votes than the number of shares owned for any candidate and therefore a simple majority of the shares voting will elect all of the directors. Under either form of voting, the candidates receiving the highest number of votes, up to the number of directors to be elected, will be elected. Abstentions and broker non-votes will have no effect on the outcome of the election of directors.

In the event of cumulative voting, the proxy solicited by the Board of Directors confers discretionary authority on the proxies to cumulate votes so as to elect the maximum number of the Board of Directors' nominees. The proxy may not be voted for more than ten persons.

The affirmative vote of the majority of the shares present in person or represented by proxy and entitled to vote at the meeting is required to approve the 2015 Incentive Award Plan. Abstentions will be considered shares entitled to vote in the tabulation of votes cast on this proposal, and will have the same effect as negative votes. Broker non-votes are not counted for the purpose of determining whether this matter is approved, and therefore will not have the effect of a negative vote with respect to the approval of the 2015 Incentive Award Plan.

The affirmative vote of the majority of the shares present in person or represented by proxy and entitled to vote at the meeting is required to approve the shareholder proposal regarding simple majority voting. Abstentions will be considered shares entitled to vote in the tabulation of votes cast on this proposal, and will have the same effect as

negative votes. Broker non-votes are not counted for the purpose of determining whether this matter is approved, and therefore will not have the effect of a negative vote with respect to the approval of the shareholder proposal regarding simple majority voting.

Pursuant to applicable New York Stock Exchange (“NYSE”) rules, your broker will not have discretion to vote absent direction from you on the matters to be presented at the Annual Meeting because such matters are considered “non-routine” within the meaning of such rules.

The Board of Directors recommends that shareholders vote FOR election of the ten directors named in this Proxy Statement to serve until the next Annual Meeting of Shareholders and until their successors are elected and have qualified (see page 3), FOR the approval of the 2015 Incentive Award Plan (see page 19), and AGAINST a shareholder proposal regarding simple majority voting (see page 30).

SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of the Company’s Common Stock as of April 1, 2015 by (i) each shareholder known by the Company to be a beneficial owner of more than 5% of any class of the Company’s voting securities, (ii) each director and nominee for director of the Company, (iii) each executive officer named in the Summary Compensation Table below, and (iv) the executive officers and directors of the Company as a group. The Company believes that, except as otherwise noted, each individual has sole investment and voting power with respect to the shares of Common Stock indicated as beneficially owned by such individual.

Unless otherwise indicated in the table or footnotes below, the address for each beneficial owner is c/o Mercury General Corporation, 4484 Wilshire Boulevard, Los Angeles, California 90010.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Outstanding Shares
George Joseph	18,802,519	(1) 34.1%
Gloria Joseph	9,161,600	(1) 16.6%
BlackRock, Inc.	5,424,477	(2) 9.8%
Capital Income Builder	2,809,700	(3) 5.1%
Gabriel Tirador	47,054	(4) *
Theodore Stalick	3,367	*
Robert Houlihan	14,569	(4) *
Allan Lubitz	10,219	*
Bruce A. Bunner	500	*
Michael D. Curtius	20,848	*
James G. Ellis	—	*
Christopher Graves	18,350	(4) *
Richard E. Grayson	—	*
Martha E. Marcon	—	*
Donald P. Newell	12,700	*
Donald R. Spuehler	3,200	*
All Executive Officers and Directors	18,959,797	(4) 34.4%

*Less than 1.0% of the outstanding Common Stock.

As of October 7, 1985, George Joseph, Gloria Joseph and the Company entered into an agreement with respect to the ownership by George and Gloria Joseph of the Company’s Common Stock. The agreement provides, among (1) other things, that the shares of Common Stock held jointly were halved and transferred into the separate names of George Joseph and Gloria Joseph under their individual and independent control. In addition, Gloria Joseph has certain rights to have her shares registered for sale pursuant to the Securities Act of 1933, as amended. The

registration rights provided to Gloria Joseph will terminate at such time as she ceases to hold at least 5% of the then outstanding shares of the Company's Common Stock.

Based on a Schedule 13G/A filed with the Securities and Exchange Commission by BlackRock, Inc. ("BlackRock") on January 15, 2015, indicating beneficial ownership as of December 31, 2014 of 5,424,477 shares of the Company's common stock with the sole power to vote or direct the vote of 5,342,172 shares and the sole power to dispose or to direct the disposition of 5,424,477. The Amendment to Schedule 13G filed by BlackRock amends the most recent Schedule 13G filing made by BlackRock. The address of BlackRock is 55 East 52nd Street, New York, New York 10022.

Based on a Schedule 13G filed with the Securities and Exchange Commission by Capital Income Builder on February 13, 2015, indicating beneficial ownership as of December 31, 2014 of 2,809,700 shares of the Company's common stock with the sole power to vote or direct the vote of 2,809,700 shares and the sole power to dispose or to direct the disposition of 0 shares of the Company's common stock. The address of Capital Income Builder is 333 South Hope Street, Los Angeles, California 90071.

The table includes the following shares issuable upon exercise of options that are exercisable within 60 days from April 1, 2015: Gabriel Tirador, 12,500; Christopher Graves, 12,000; Robert Houlihan, 12,500; all executive officers and directors as a group, 37,000. The table also includes shares owned by the ESOP feature of the Company's profit sharing plan and allocated to the executive officers of the Company.

PROPOSAL 1:

ELECTION OF DIRECTORS

The Board of Directors of the Company has nominated and recommends for election as directors the following ten persons to serve until the next Annual Meeting of Shareholders and until their respective successors shall have been duly elected and shall qualify. All of the nominees are presently directors of the Company. In February 2014, the Board increased the size of the Board from nine to ten directors and appointed Mr. James G. Ellis to fill the vacancy. The enclosed proxy will be voted in favor of the persons nominated unless otherwise indicated. If any of the nominees should be unable to serve or should decline to do so, the discretionary authority provided in the proxy will be exercised by the present Board of Directors to vote for a substitute or substitutes to be designated by the Board of Directors. The Board of Directors has no reason to believe that any substitute nominee or nominees will be required. The table below indicates the position with the Company, tenure as director and age of each nominee as of April 1, 2015.

Name	Position with the Company	Age	Director Since	
George Joseph	Chairman of the Board	93	1961	(1)
Gabriel Tirador	President, Chief Executive Officer and Director	50	2003	
Christopher Graves	Director and Chief Investment Officer	49	2012	
Bruce A. Bunner	Director	81	1991	
Michael D. Curtius	Director	64	1996	
James G. Ellis	Director	68	2014	
Richard E. Grayson	Director	85	1985	
Martha E. Marcon	Director	66	2008	
Donald P. Newell	Director	77	1979	(1)
Donald R. Spuehler	Director	80	1985	

(1) Date shown is the date elected a director of Mercury Casualty Company, a predecessor of the Company. Each of these individuals was elected a director of the Company in 1985.

Directors are elected at each annual meeting of the shareholders for one year and hold office until their successors are elected and qualified. Executive officers serve at the pleasure of the Board of Directors. Other than Mr. Joseph

being an uncle to Charles Toney, the Company's Vice President and Chief Actuary, there are no family relationships among any of the Company's directors, executive officers or nominees for director or executive officer.

Each member of the Board of Directors has extensive management and leadership experience gained through executive and professional service in insurance and other industries. In these roles, the directors have developed attributes and skills in management of capital, risk and operations. In addition, nearly all of the directors have longstanding relationships with the Company, with 8 of the 10 directors serving on the Board of Directors or in executive positions with the Company for at least 15 years and average Board tenure of more than 20 years. This experience with the Company provides the members of the Board of Directors a thorough understanding of the Company's policies and processes, rules and regulations, risks and mitigating solutions and controls environment. The Nominating/Corporate Governance Committee's process for identifying, evaluating and recommending qualified candidates for nomination to the Board of Directors is described starting on page 8 under "Director Nomination Process."

Set forth below are the names of the nominees for election to the Board of Directors, along with their present positions, principal occupations and public company directorships held in the past five years and the specific individual qualifications and skills of such directors that contribute to the overall effectiveness of the Board of Directors and its committees.

George Joseph, Chairman of the Board of Directors, has served as Chairman since 1961. He held the position of Chief Executive Officer of the Company for 45 years between 1961 and December 2006. He has more than 50 years' experience in all phases of the property and casualty insurance business. The Company believes that Mr. Joseph's expertise and experience in the insurance industry and in underwriting, claims management and rate making in particular, as well as his role as founder of the Company and his longstanding service as Chairman and Chief Executive Officer, qualify him for service on the Board of Directors.

Gabriel Tirador, President and Chief Executive Officer of the Company, has served as Chief Executive Officer since January 1, 2007 and as President since October 2001. He was the Company's Vice President and Chief Financial Officer from February 1998 until October 2001. From January 1997 to February 1998, he served as Vice President and Controller of the Automobile Club of Southern California. Prior to that, he served as the Company's assistant controller from March 1994 to December 1996. Mr. Tirador has over 20 years' experience in the property and casualty insurance industry and is an inactive certified public accountant. The Company believes that Mr. Tirador's executive management and related experience in the property and casualty insurance industry as well as his accounting and financial reporting expertise, including experience as an auditor with KPMG LLP and in senior financial management positions, qualify him for service on the Board of Directors.

Christopher Graves, Vice President and Chief Investment Officer of the Company, has been employed by the Company in the investment department since 1986. Mr. Graves was appointed Chief Investment Officer in 1998, and named Vice President in April 2001. The Company believes that Mr. Graves' over 25 year history with the Company, as well as his extensive experience in the financial and investment industry, particularly with respect to property and casualty insurers, qualify him for service on the Board of Directors.

Bruce A. Bunner has been retired since February 2002. From January 1996 to February 2002, Mr. Bunner was President of Financial Structures, Limited, a Bermuda based insurance company and a subsidiary of Royal & SunAlliance Group plc. From April 1994 to April 1995, Mr. Bunner served as Director of External Affairs of Zurich Centre Advisors, Inc., a consulting company specializing in insurance and reinsurance risk arrangements. From January 1991 to April 1994, he served as Chairman of the Board of Centre Reinsurance Company of New York, a reinsurance company. Mr. Bunner was a partner in the firm of KPMG LLP from 1974 to 1990, except during the period from 1983 to 1986 when he served as Insurance Commissioner of the State of California. The Company believes that Mr. Bunner's expertise in accounting and regulatory matters, his executive management experience, his service as the Insurance Commissioner of the State of California, and his 20 years' experience as a certified public accountant with KPMG LLP qualify him for service on the Board of Directors.

Michael D. Curtius has been retired since August 2012. From October 2000 to August 2012, Mr. Curtius was a consultant to the Company. He served as President and Chief Operating Officer of the Company from May 1995 until October 2000, and as Vice President and Chief Claims Officer of the Company from October 1987 until May 1995.

The Company believes that Mr. Curtius' operational and claims management expertise and his longstanding experience in executive management positions with the Company qualify him for service on the Board of Directors.

James G. Ellis currently serves as the Dean of the Marshall School of Business at the University of Southern California and holder of the Robert R. Dockson Dean's Chair in Business Administration. Prior to his appointment as Dean in April 2007, Mr. Ellis was the Vice Provost, Globalization, for USC and prior to that he was Vice Dean, External Relations. Mr. Ellis has been a professor in the Marketing Department of the Marshall School of Business since 1997. From 1990 to 1997, he served as Chairman and Chief Executive Officer of Port O'Call Pasadena, an upscale home accessory retailer and was President and CEO of American Porsche Design from 1985 to 1990. Mr. Ellis also serves on the board of directors of Fixed Income Funds and Investment Company of America, both investment funds of The Capital Group, a private company. The Company believes that Mr. Ellis' extensive experience in executive management and senior academic positions qualify him for service on the Board of Directors.

Richard E. Grayson has been retired since January 1995. Prior to January 1995, Mr. Grayson was Senior Vice President of Union Bank of Los Angeles, California and President and Director of Current Income Shares, Inc., a publicly held closed-end investment company. The Company believes that Mr. Grayson's financial market and banking experience and expertise in developing and managing investment portfolios as well as his senior management experience in large organizations qualify him for service on the Board of Directors.

Martha E. Marcon has been retired since January 2006. For more than 20 years prior to January 2006, Ms. Marcon was a partner of KPMG LLP in Los Angeles, California. During 2008, Ms. Marcon provided consulting services to KPMG LLP. The Company believes that Ms. Marcon's accounting and financial reporting expertise, particularly related to insurance organizations, and her experience as a certified public accountant for 28 years and an auditor with KPMG LLP for more than 30 years qualify her for service on the Board of Directors.

Donald P. Newell has been retired since May 2007. Between January 2001 and May 2007, Mr. Newell was Senior Vice President and General Counsel of SCPIE Holdings Inc., an insurance holding company. Mr. Newell also served as a director of SCPIE Holdings Inc. prior to January 15, 2007. For more than 25 years prior to January 2001, Mr. Newell was a partner of the law firm of Latham & Watkins LLP in Los Angeles and San Diego, California. The Company believes that Mr. Newell's legal, regulatory and corporate governance expertise, along with his experience as partner and in senior management positions with Latham & Watkins LLP and SCPIE Holdings Inc., qualify him for service on the Board of Directors.

Donald R. Spuehler has been retired since February 1995. From February 1992 through January 1995, Mr. Spuehler was of counsel to the law firm of O'Melveny & Myers in Los Angeles, California. For more than 20 years prior to February 1992, Mr. Spuehler was a partner of O'Melveny & Myers LLP. The Company believes that Mr. Spuehler's extensive legal and taxation expertise, as well as his experience as a partner with O'Melveny & Myers LLP and his experience related to executive compensation matters qualify him for service on the Board of Directors.

Recommendation of the Board of Directors

The Board of Directors unanimously recommends that shareholders vote FOR the slate of nominees set forth above. Proxies solicited by the Board of Directors will be so voted unless shareholders specify otherwise on their proxy cards.

CORPORATE GOVERNANCE

Corporate Governance Documents

The Company has adopted Corporate Governance Guidelines that outline the Company's corporate governance policies and principles. The Company's Corporate Governance Guidelines and its other corporate governance documents, including its Code of Business Conduct and Ethics, Audit Committee Charter, Compensation Committee Charter, Nominating/Corporate Governance Committee Charter and Investment Committee Charter, are available, free of charge, on the Company's website at www.mercuryinsurance.com under the "Corporate Governance" link. The Company will also provide copies of these documents, free of charge, to any shareholder upon written request to the Company's Chief Financial Officer, Mercury General Corporation, 4484 Wilshire Boulevard, Los Angeles, California

90010. The information contained on the website is not incorporated by reference in, or considered part of, this Proxy Statement.

Director Independence

New York Stock Exchange (“NYSE”) rules and regulations require listed companies to have a board of directors with a majority of independent directors. The Company’s Board of Directors currently consists of ten directors. The Board has determined that each of Bruce A. Bunner, James G. Ellis, Richard E. Grayson, Martha E. Marcon, Donald P. Newell and Donald R. Spuehler has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) and is “independent” under NYSE listing standards. Of the remaining directors, Messrs. Joseph, Tirador and Graves currently serve as executive officers of the Company, and Mr. Curtius was provided health benefits through the Company until August 2014.

To assist the Board in making its determination regarding director independence, the Board has adopted independence standards that conform to, or are more rigorous than, the independence requirements of the NYSE. In addition to evaluating each director against the Company’s Director Independence Standards, which are included in the Company’s Corporate Governance Guidelines available on the Company’s website noted above, the Board considers all relevant facts and circumstances in making its independence determination.

Board Leadership Structure

Leadership of the Company is currently shared between Mr. Joseph, Chairman of the Board of Directors, and Mr. Tirador, President and Chief Executive Officer. Mr. Joseph held the offices of Chairman and Chief Executive Officer from the founding of the Company until 2007. Mr. Tirador was appointed President in 2001 and Chief Executive Officer in 2007. The Company does not have a formal policy with respect to separation of the offices of Chairman of the Board and Chief Executive Officer, and the Board of Directors believes that flexibility in appointing the Chairman of the Board and Chief Executive Officer allows the Board of Directors to make a determination as to such positions from time to time and in a manner that it believes is in the best interest of the Company and its shareholders.

Separating these positions currently allows the Chief Executive Officer to focus on the Company’s day-to-day business, while allowing the Chairman of the Board to lead the Board of Directors in its primary role of review and oversight of management. The Board of Directors also believes that appointing the Chief Executive Officer separately from the Chairman of the Board is an important element of the Company’s succession planning process. Because the positions of Chairman of the Board and Chief Executive Officer are executive officer positions in the Company, and given the current and active participation of each leader in significant matters affecting the Company, Mr. Newell has been appointed to act as the lead independent director. The lead independent director coordinates the activities of the non-management directors, including sessions of the non-management directors, and facilitates communications between the non-management directors and the other members of the Board and the management of the Company.

Board of Directors and Committees

The Board of Directors held four meetings during the last fiscal year and is scheduled to meet quarterly during the current fiscal year. In 2014 each director attended at least 75% of the aggregate of all meetings held by the Board of Directors and all meetings held by all committees of the Board on which such director served, except that Mr. Ellis was unable to attend some meetings after his appointment to the Board due to prior commitments. Directors are encouraged to attend in person each Annual Meeting of Shareholders. Three directors attended the Annual Meeting of Shareholders in 2014.

The Company has an Audit Committee established in accordance with the requirements of Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Audit Committee acts pursuant to a written charter adopted by the Board of Directors. The responsibilities of the Audit Committee include, among other things, selecting and engaging the Company’s independent auditors, reviewing the scope of audit engagements, reviewing comment letters of such auditors and management’s response thereto, approving professional services provided by such auditors, reviewing the independence of such auditors, reviewing any major accounting changes made or contemplated, considering the range of audit and non-audit fees, reviewing the adequacy of the Company’s internal accounting controls and overseeing the statutory audit committees of the Company’s insurance subsidiaries. The Audit Committee currently consists of Martha E. Marcon, Donald P. Newell and Donald R. Spuehler, with Martha

Marcon acting as Chairman of this Committee. The Board of Directors has determined that each member of the Audit Committee is “independent” and meets the financial literacy requirements of the listing standards under the NYSE, that each member of the Audit Committee meets the enhanced independence standards established by the Securities and Exchange Commission (the “SEC”) and that Ms. Marcon qualifies as an “audit committee financial expert” as that term is defined in the rules and regulations established by the SEC. The Audit Committee held six meetings in 2014.

The Company has a Compensation Committee currently consisting of Donald R. Spuehler, Bruce A. Bunner and Richard E. Grayson, with Donald R. Spuehler acting as Chairman of this Committee. The Compensation Committee operates pursuant to a written charter adopted by the Board of Directors. The Compensation Committee held two meetings in 2014. The responsibilities of the Compensation Committee include, among other things, discharging the Board of Directors’ responsibilities relating to compensation of the Company’s executive officers, by designing in consultation with management and evaluating the compensation plans, policies and programs of the Company with respect to such executive officers, considering the most recent shareholder advisory vote on executive compensation in connection with determining executive compensation policies and decisions and administering the Company’s Amended and Restated 2005 Equity Incentive Award Plan, Senior Executive Incentive Bonus Plan and Annual Incentive Plan. The Compensation Committee is also responsible for reviewing and approving the Compensation Discussion and Analysis for inclusion on the Company’s Proxy Statement. The Board of Directors has determined that each member of the Compensation Committee is “independent” under the NYSE listing standards. Additional information regarding the Compensation Committee’s process and procedures for consideration of executive compensation is provided below in “Executive Compensation” as part of the Compensation Discussion and Analysis and under the Summary Director Compensation Table.

The Company has a Nominating/Corporate Governance Committee currently consisting of Donald P. Newell, Martha E. Marcon and Donald R. Spuehler, with Donald P. Newell acting as Chairman of this Committee. The Nominating/Corporate Governance Committee operates pursuant to a written charter adopted by the Board of Directors. The Nominating/Corporate Governance Committee held two meetings in 2014. The responsibilities of the Nominating/Corporate Governance Committee include, among other things, identifying and recommending to the Board of Directors qualified candidates for nomination as directors of the Company, developing and recommending to the Board of Directors corporate governance principles applicable to the Company, developing and overseeing the Company’s policy for review and approval of related party transactions and overseeing the evaluation of the Board of Directors and management of the Company. The Board of Directors has determined that each member of the Nominating/Corporate Governance Committee is “independent” under the NYSE listing standards.

The Company has an Investment Committee currently consisting of George Joseph, Gabriel Tirador, Richard E. Grayson, James Ellis and Christopher Graves, with Richard E. Grayson acting as Chairman of this Committee. The Investment Committee operates pursuant to a written charter adopted by the Board of Directors. The Investment Committee held four meetings in 2014. The responsibilities of the Investment Committee include, without limitation, developing, reviewing and recommending to the Board of Directors and monitoring management’s compliance with investment strategies and guidelines, selecting and monitoring the competence and performance of investment managers, monitoring compliance of the Company’s investment policies and practices with applicable legal and regulatory requirements, reviewing and approving investment transactions, reporting to the Board of Directors at least quarterly regarding the investment transactions made by the Company and the Company’s investment strategies and guidelines, and performing all other duties of the Board of Directors with respect to investment transactions made by the Company.

The Board of Directors’ Role in Risk Oversight

The Company’s management is primarily responsible to manage risk and inform the Board of Directors regarding the most material risks confronting the Company. The Board of Directors has oversight responsibility of the processes established to monitor and manage such risks. The Board of Directors believes that such oversight function is the responsibility of the entire Board of Directors through frequent reports and discussions at regularly scheduled Board meetings. In addition, the Board has delegated specific risk management oversight responsibility to the Board Committees. In particular, the Audit Committee oversees management of risks related to accounting, auditing and financial reporting and maintaining effective internal controls for financial reporting and also meets regularly with and receives reports from the Company’s internal auditors. The Investment Committee oversees management of risks

related to the Company's investment guidelines and the investment portfolio. The Nominating/Corporate Governance

7

Committee oversees risk management related to the Company's corporate governance guidelines and code of conduct, including compliance with listing standards for independent directors, committee assignments and conflicts of interest. The Compensation Committee oversees risk management related to the Company's executive compensation plans and arrangements. These specific risk categories and the Company's risk management practices are regularly reviewed by the Company's Board Committees and discussed with the entire Board of Directors in the ordinary course of each Committee's report at regular Board meetings.

Executive Sessions of Non-Management Directors

The Board of Directors holds regularly scheduled executive sessions of its non-management directors, and at least annually schedules a meeting with only independent directors. In accordance with the Company's corporate governance guidelines, Donald P. Newell, Chairman of the Nominating/Corporate Governance Committee, presides at these meetings. During 2014, the Board held four executive sessions of its non-management directors, including at least one such session with only independent directors.

Director Nomination Process

Director Qualifications. The Nominating/Corporate Governance Committee has established certain criteria as guidelines in considering nominations to the Company's Board of Directors. The criteria include: (a) personal characteristics, including such matters as integrity, age, education, diversity of background and experience, absence of potential conflicts of interest with the Company or its operations, and the availability and willingness to devote sufficient time to the duties of a director of the Company; (b) experience in corporate management, such as serving as an officer or former officer of a publicly held company; (c) experience in the Company's industry and with relevant social policy concerns; (d) experience as a board member of another publicly held company; (e) academic expertise in an area of the Company's operations; and (f) practical and mature business judgment. The criteria are not exhaustive and the Nominating/Corporate Governance Committee and the Board of Directors may consider other qualifications and attributes that they believe are appropriate in evaluating the ability of an individual to serve as a member of the Board of Directors. The Nominating/Corporate Governance Committee does not have a formal policy regarding diversity, but as described above considers a broad range of attributes and characteristics in identifying and evaluating nominees for election to the Board of Directors. The Nominating/Corporate Governance Committee views diversity broadly to include diversity of experience, skills and viewpoint in addition to more traditional diversity concepts. The Nominating/Corporate Governance Committee's goal is to assemble a Board of Directors that brings to the Company a variety of perspectives and skills derived from high quality business and professional experience. In doing so, the Nominating/Corporate Governance Committee also considers candidates with appropriate non-business backgrounds.

Identification and Evaluation of Nominees for Directors. The Board of Directors believes that, based on the Nominating/Corporate Governance Committee's knowledge of the Company's corporate governance principles and the needs and qualifications of the Board at any given time, the Nominating/Corporate Governance Committee is best equipped to select nominees that will result in a well-qualified and well-rounded board of directors. Accordingly, it is the policy of the Nominating/Corporate Governance Committee not to accept unsolicited nominations from shareholders. In making its nominations, the Nominating/Corporate Governance Committee identifies nominees by first evaluating the current members of the Board willing to continue their service. Current members with qualifications and skills that are consistent with the Nominating/Corporate Governance Committee's criteria for Board service are re-nominated. As to new candidates, the Nominating/Corporate Governance Committee will generally poll the Board members and members of management for recommendations. The Nominating/Corporate Governance Committee may also review the composition and qualification of the boards of directors of the Company's competitors, and may seek input from industry experts or analysts. The Nominating/Corporate Governance Committee reviews the qualifications, experience and background of the candidates. Final candidates are interviewed by the independent directors and executive management. In making its determinations, the Nominating/Corporate Governance Committee evaluates each individual in the context of the Board as a whole, with the objective of assembling a group that can best represent shareholder interests through the exercise of sound judgment. After review and deliberation of all feedback and data, the Nominating/Corporate Governance Committee makes its recommendation to the Board of Directors. Historically, the Board of Directors has not relied on third-party search firms to identify director nominees. The Nominating/Corporate Governance Committee may in the future choose to engage third-party search firms in situations where particular qualifications are required or where existing contacts are not sufficient to identify an

appropriate candidate.

8

Each of the nominees for election as director at the 2015 Annual Meeting of Shareholders was elected at the Annual Meeting of Shareholders held in 2014. Each of the nominees for election is recommended by the Nominating/Corporate Governance Committee to stand for reelection.

Communication with Directors

Shareholders and other interested parties may, at any time, communicate in writing with any particular director, or the non-management directors as a group, by sending such written communication to Mercury General Corporation – Non-Management Directors, P.O. Box 36662, Los Angeles, California 90036. Copies of written communications received at such address will be directed to the relevant director or the non-management directors as a group.

Code of Business Conduct and Ethics

The Company has established a Code of Business Conduct and Ethics that applies to its officers, directors and employees. The Code of Business Conduct and Ethics contains general guidelines for conducting the business of the Company consistent with the highest standards of business ethics, and is intended to qualify as a “code of ethics” within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder and as a “code of business conduct and ethics” within the meaning of the NYSE listing standards. In the event the Company makes any amendments to, or grants any waivers of, a provision of its Code of Business Conduct and Ethics that applies to the principal executive officer, principal financial officer or principal accounting officer that requires disclosure under applicable SEC rules, the Company intends to disclose such amendment or waiver and the reasons therefor on a Form 8-K or on its next periodic report.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Objectives and Overview

The Company’s executive compensation program is designed to be simple and clear and understandable to employees and investors. The Company seeks to attract, motivate and build the long-term commitment of talented executives and to reward and encourage activities that promote the achievement of premium growth while managing costs and losses to maximize underwriting income and ultimately increase shareholder value. The Company’s executive compensation program is administered, in the judgment of management and under the direction of the Compensation Committee, to tie total compensation to the Company’s business and financial performance, and to align executive officer incentives with creation of the shareholder value the Company seeks to achieve.

Pursuant to a standing resolution of the Board of Directors adopted on January 11, 1986, Mr. Joseph, then President and Chief Executive Officer of the Company, was given authority for hiring, promoting and establishing compensation for all executive officers other than himself, with the Compensation Committee being responsible for establishing compensation for Mr. Joseph. Since Mr. Tirador’s appointment as Chief Executive Officer of the Company in January 2007, the Compensation Committee has also had responsibility for establishing the compensation for Mr. Tirador. Messrs. Joseph and Tirador retain the authority to establish compensation for all other executive officers and annually review compensation and responsibilities of all other executive officers.

The Company’s compensation program is designed to provide executive officers with total compensation commensurate with responsibilities and competitive with compensation provided to executives in like positions, as determined by the Compensation Committee with respect to Messrs. Joseph and Tirador and as determined by Messrs. Joseph and/or Tirador with respect to the other executive officers, based on their experience in the insurance industry and the Company’s continuing surveillance of industry and general business practice.

The Company’s executive compensation program and the total compensation provided to executive officers are reviewed by the Compensation Committee annually to ensure that the program is designed and operated to achieve those goals.

Components of Executive Compensation

The Company's executive compensation program consists of base salary, annual cash bonuses, long-term incentives and other benefits.

Base Salary. The Company provides base salary to provide a stable annual salary at a level consistent with individual contributions. Base salary for executive officers is initially determined on the date of hire and evaluated annually thereafter or on any material change of duties or position. The base salary of Mr. Joseph, Chairman of the Board, and Mr. Tirador, Chief Executive Officer, is determined on an annual basis by the Compensation Committee. In addition to cash compensation, both Mr. Joseph and Mr. Tirador receive director fees for their participation on the Board of Directors. Effective March 2, 2014, the Compensation Committee of the Board established base salaries for Messrs. Joseph and Tirador equal to \$960,000 and \$890,000, respectively. Effective March 1, 2015, the Compensation Committee of the Board established base salaries for Messrs. Joseph and Tirador equal to \$990,000 and \$920,000, respectively.

Pursuant to the standing resolution described above, Mr. Joseph, with the assistance of Mr. Tirador, establishes the base salary of other executive officers. Salary increases generally take into account the performance of the Company and the respective executive officer based on the subjective assessment of Messrs. Joseph and Tirador. Effective March 2, 2014, Messrs. Joseph and Tirador established base salaries for Messrs. Stalick, Lubitz and Houlihan equal to \$553,746, \$420,208 and \$378,715, respectively. Effective March 1, 2015, Messrs. Joseph and Tirador established base salaries for Messrs. Theodore Stalick, Senior Vice President and Chief Financial Officer, Allan Lubitz, Senior Vice President and Chief Information Officer, and Robert Houlihan, Vice President and Chief Product Officer, equal to \$570,359, \$434,916 and \$393,005, respectively.

Annual Cash Bonuses. In addition to base salary, the Company seeks to provide a substantial portion of total compensation for executive officers through annual cash bonuses based on performance criteria.

Messrs. Joseph and Tirador are eligible to earn annual cash bonuses under the Company's Senior Executive Incentive Bonus Plan (the "Senior Plan"), while other executive officers and designated employees of the Company and its subsidiaries are eligible to earn annual cash bonuses under the Company's Annual Incentive Plan (the "AIP"). Under the Senior Plan, the Company awards cash bonuses to participants based upon Company performance goals established by the Compensation Committee. Under the AIP, the Company awards cash bonuses to participants based upon Company performance goals established by the Compensation Committee and individual performance of the participant during the applicable performance period. The Senior Plan and the AIP are administered by the Compensation Committee, with day-to-day administration of the AIP delegated to the Company's Chief Executive Officer and his designees.

Only Messrs. Joseph and Tirador participate in the Senior Plan. All employees of the Company and its subsidiaries are eligible to participate in the AIP, except those who participate in other incentive programs, such as employees of the Company's AIS and Workmen's Auto subsidiaries and certain employees and executive officers within the Company's investment and legal departments. Employees and executive officers within the Company's AIS and Workmen's Auto subsidiaries are compensated under policies of those companies, and employees and executive officers within the Company's investment department are awarded annual cash bonuses based on the financial performance of the Company's investment portfolio, and certain employees within the Company's legal department are awarded annual cash bonuses based on their management of assigned cases.

The Compensation Committee establishes the target incentive percentages and Company performance goals for the Chairman of the Board and Chief Executive Officer under the Senior Plan. Under the terms of the AIP, the Company's Chief Executive Officer or his designee recommends for Compensation Committee approval for each plan year the employees and job classifications for participation in the AIP as well as the target incentive percentages and Company performance goals applicable to participants under the AIP, in each case, other than the Chairman of the Board and the Chief Executive Officer. Company performance goals under the Senior Plan and the AIP may be based on one or more financial or operational criteria established by the Compensation Committee for each plan year including, without limitation: underwriting income, underwriting results, premium growth, customer satisfaction, revenue, sales, financial ratios and other performance metrics as the Compensation Committee deems appropriate under the circumstances. Company performance goals under the Senior Plan and the AIP are evaluated against the

Company's performance on a consolidated basis. The target incentive percentages and performance goals under the Senior Plan and the AIP will vary among participants and may change from plan year to plan year. Non-employee directors of the Company are not eligible to participate in the Senior Plan or the AIP.

For the 2014 plan year, the Compensation Committee established bonus targets under the Senior Plan for each of Mr. Joseph and Mr. Tirador equal to 120% of base salary and maximum bonuses equal to 187.5% of target bonus, based on the Company's performance against the performance goals approved under the Senior Plan. For 2014, the Chief Executive Officer recommended and the Compensation Committee approved bonus targets under the AIP for Messrs. Stalick, Lubitz and Houlihan equal to 60%, 75% and 80%, respectively, of base salary, and maximum bonuses equal to 187.5% of target bonus, based on the Company's performance against the performance goals approved under the AIP. In addition, for 2014 the AIP permitted each participant's supervisor to determine on a discretionary basis the participant's individual contribution to the Company during 2014 relative to others in the participant's department and in similar positions in the Company, and to apply a multiplier of between 0.75 and 1.25 to the participant's bonus after application of the corporate achievement multiplier based on the supervisor's discretionary determination. The Senior Plan and the AIP also permitted for 2014 the Compensation Committee discretion to reduce each participant's bonus to zero in the event the participant's individual performance warrant such reduction.

For the 2014 plan year, the Company performance goals for annual incentive awards under the Senior Plan and AIP were based on the Company's Earned Premium Growth and Combined Ratio during 2014, each determined in accordance with United States generally accepted accounting principles ("GAAP"), excluding from Combined Ratio the impact of catastrophic losses, net of any reinsurance recoveries, and excluding the cost of any reinsurance purchased specifically to cover catastrophic losses. The Compensation Committee established (a) minimum performance thresholds for GAAP Earned Premium Growth of negative 8% and GAAP Combined Ratio of 99.5% necessary to receive any bonus under the Senior Plan or the AIP, (b) GAAP Earned Premium Growth of between 2% and 3% and GAAP Combined Ratio of between 98.2% and 98.4% necessary to receive the target bonus under the Senior Plan or the AIP and (c) GAAP Earned Premium Growth of 8% and GAAP Combined Ratio of 95.0% necessary to receive the maximum bonus under the Senior Plan or the AIP. The Compensation Committee also approved an objective formula for determining bonus amounts between the threshold and maximum levels which does not weigh either GAAP Earned Premium Growth or GAAP Combined Ratio more heavily than the other.

During 2014, the Company achieved 3.72% GAAP Earned Premium Growth and a 98.2% GAAP Combined Ratio after excluding the impact of catastrophic losses, net of any reinsurance recoveries, and excluding the cost of any reinsurance purchased specifically to cover catastrophic losses, which represented 103.6% and 100.0% of the target GAAP Earned Premium Growth goal and GAAP Combined Ratio goal, respectively, as established by the Compensation Committee. To determine the participant's specific bonus based on Company performance, the Company performance percentages are multiplied together and the product thereof is multiplied by the respective named executive officer's target bonus percentage. No discretionary adjustments were made to bonus determinations for any named executive officer participating in the AIP for 2014 based on individual performance. Based on the Company's financial performance during 2014, the bonuses earned by Messrs. Joseph, Tirador, Stalick, Lubitz and Houlihan were as follows:

Name	Target Bonus Percentage	Combined Performance Percentage	Personal Goal Percentage	Final Bonus Percentage	Base Salary	2014 Performance Bonus
George Joseph	120%	103.6%	100.0%	124.3%	\$954,583	\$1,182,738
Gabriel Tirador	120%	103.6%	100.0%	124.3%		