

Table of Contents

1. History of Executive Compensation Disclosure Rules
2. Disclosure Controls & Procedures
3. Determination of “Named Executive Officers”
4. Compensation Discussion & Analysis
5. Compensation Committee Report
6. Summary Compensation Table
7. Perks & Other Personal Benefits
8. Equity Tables
9. Post-Employment: Pension Benefits & Non-Qualified Deferred Compensation Tables
10. Post-Employment: Change-in-Control & Severance Disclosures
11. Director Compensation
12. Related-Party Transactions: Interplay of Items 402 & 404
13. Compensation Committee Disclosure
14. Equity Compensation Plan Information
15. Plan Disclosure When Seeking Shareholder Action
16. Stock Performance Graph
17. Form 8-K
18. Compensation-Related Risk Disclosure
19. Say-on-Pay Solicitation Strategies
20. Say-on-Pay Disclosure Issues
21. Executive Summary for the CD&A
22. Proxy Statement Summary
23. 10-K & 10-Q Exhibits
24. Pay Ratios
25. Hedging Disclosure

Appendix A—Regulation Text for Executive Compensation Disclosures

Other exhibits are posted on CompensationStandards.com as part of the online version of this Treatise.

Detailed Table of Contents

Chapter 1 History of Executive Compensation Disclosure Rules

I.	Rule Changes During the 1930s	1-2
II.	Rule Changes During the 1940s	1-3
III.	Rule Changes During the 1950s	1-4
IV.	Rule Changes During the 1960s	1-4
V.	Rule Changes During the 1970s	1-5
VI.	Rule Changes During the 1980s	1-7
VII.	Rule Changes During the 1990s	1-8
	a. 1992 Revisions	1-8
	b. 1993 Interpretive Release	1-10
	c. 1995 Proposals	1-11
VIII.	Rule Changes During the 2000s	1-11
	a. Executive Compensation in the News	1-11
	b. 2006 Proposals	1-12
	c. Mid-2006 Rule Changes	1-14
	d. 2006 Re-Proposal	1-15
	e. Late 2006 Rule Changes	1-16
	f. Fall 2007 SEC Staff Targeted Review and Comment Letters	1-17
	g. October 2007 SEC Staff Report	1-18
	h. Reacting to the 2008 Global Economic Crisis	1-19
	i. 2009 Rule Changes	1-22
IX.	Rule Changes During the 2010s	1-23
	a. Dodd-Frank Wall Street Reform and Consumer Protection Act	1-23
	b. 2010 Concept Release on U.S. Proxy System	1-31
	c. Jumpstart Our Business Startups Act	1-32
	d. Nasdaq’s Golden Leash Disclosure Standard	1-33
	e. Elimination of “Performance-Based” Tax Deduction	1-33
X.	Rule Changes During the 2020s	1-34
	a. IRS Regulations Clarifying Section 162(m)	1-34
	b. Proxy Solicitation Rules Governing Proxy Voting Advice	1-35

Chapter 2 Disclosure Controls & Procedures

I. History	2-3
II. SEC Rules and Regulations	2-4
III. SEC Staff Guidance	2-8
a. Compliance and Disclosure Interpretations	2-8
1. Controls and Procedures for Interactive Data	2-9
2. Voluntary Filer’s Obligation to Disclose Effectiveness of Controls	2-9
3. Exclusion of Acquired Company from Disclosure Controls Evaluation	2-9
4. No Limitation on Scope of Disclosure Controls Conclusion	2-10
5. Disclosure Controls for Classified Boards	2-10
6. Disclosure Controls for Form 8-K Triggering Events	2-11
b. Comment Letters	2-11
1. Reasonable, Not Absolute, Assurance	2-11
2. “Adequate” Rather Than “Effective” Controls	2-12
3. Prior Period Restatements	2-12
4. Lacking the “Full Story”	2-12
5. Defining Disclosure Controls and Procedures	2-12
IV. How the Rule Works	2-13
a. Disclosure Controls and Procedures Generally	2-13
– “Proper” Controls	2-13
– Disclosure Controls vs. Internal Controls	2-13
– Disclosure Controls Need Not Be in Writing	2-13
– PEO & PFO Must Sign-Off on Controls and Procedures	2-14
– Need to State More Than Merely “Effective”	2-14
– Describing Disclosure Controls	2-14
– Relationship of Certifications to Disclosure Controls	2-15
– Sub-Certifications Supporting Disclosure Controls	2-15
– Role of Disclosure Committee	2-16
– Composition of Disclosure Committee	2-16
– Disclosure Committee Meetings	2-16
b. Disclosure Controls and Procedures Relating to Executive Compensation	
Disclosures	2-16
– Practices Vary Among Companies	2-16
– Early Steps In Preparing Executive Compensation Disclosures	2-17
– Process for Determining NEO Status	2-17
– Next Steps In Preparing Executive Compensation Disclosures	2-18
– Final Steps In Preparing Executive Compensation Disclosures	2-18
– Compensation Committee Oversight	2-19
– Role of Audit Committee/Independent Auditor in Compensation Disclosures	2-20
– Disclosing Material Weaknesses	2-20
– Control Issues Raised by Untimely Form 8-K Compensation Disclosures	2-20
– Control Issues Raised by Restatements in Prior Periods	2-21

– Potential Liability for Deficient Controls	2-21
– Know Litigation Risks When Documenting	2-21
c. Disclosure Controls & Procedures for Other Compensation Disclosures	2-21
– Compensatory Arrangements as Related Party Transactions.	2-21
V. Common Questions and Our Analysis	2-22
a. Disclosure Committees	2-22
1. Need for Disclosure Committees	2-22
2. Disclosure Committee Chairs	2-22
3. Disclosure Committee Charter	2-23
4. Minutes for Disclosure Committee Meetings	2-23
b. Coverage of Disclosure Controls	2-23
1. Controls for Newly Acquired Company	2-23
c. Disclosure Control Weaknesses	2-24
1. Late Filings as Defective Disclosure Control	2-24
2. Back-Up Certifications: Who Signs	2-24
3. Back-Up Certifications: Who Reviews	2-25
4. Disclosing Inherent Limitations in Controls	2-25
d. Board’s Role in Process	2-26
1. Timing of Compensation Committee’s Disclosure Approval	2-26
2. Audit Committee Approval of Disclosure Controls.	2-27
VI. Practice Pointers	2-27
a. The Lawyer’s Role: Collaborating the Disclosure Process	2-27
1. Lawyers in the Eye of the Process	2-27
2. Talk First	2-27
3. How to Start Drafting.	2-27
4. Ensure Compensation Committee Does Its Part	2-27
5. The Road Test	2-27
6. Bring Experience to Bear.	2-28
7. Get Tech Folks to Fact Check, But Not “Tech Speak”	2-28
b. Putting It All Together	2-28
1. Use Your Existing Structure.	2-28
2. Start with Last Year’s Procedures	2-28
3. Review SEC Comments from Last Year’s Disclosures	2-28
4. Make Sure You Collect the “Whys”	2-28
5. Follow the Spirit—Not Just the Letter—of Disclosure Rules	2-29
6. Have Project Timeline for Collecting Necessary Disclosure Information.	2-29
7. Make Sure Your Disclosure Committee/Task Force Has Adequate Representation.	2-29
8. Communicate with Your Compensation Committee	2-29
9. Pay Particular Attention to the CD&A.	2-29
10. Your Disclosures Reflect What You Put Into Them.	2-30

Chapter 3 Determination of “Named Executive Officers”

I. History	3-4
II. SEC Rules and Regulations	3-6
III. SEC Staff Guidance	3-7
a. Compliance and Disclosure Interpretations.....	3-7
1. No Exclusion of Recovered Compensation.....	3-7
2. Forfeited Equity Award Values & Calculating NEO Status.....	3-7
3. Item 402 Disclosure After Fiscal Year End & Before Proxy Statement.....	3-7
4. CFO as One of Three Most Highly Compensated Executive Officers.....	3-8
5. Limited Disclosure for First-Time NEO.....	3-8
6. NEO in Years 1 & 3 but Not Year 2.....	3-9
7. Exclusion of a Discretionary Bonus that is Refused Before Grant.....	3-9
8. Earned Less Than \$100,000 Due to Fiscal Year Change.....	3-9
9. NEO Becomes Non-Executive Officer.....	3-10
10. Life Insurance Proceeds for Deceased Executive Officers.....	3-10
b. Comment Letters.....	3-10
IV. How the Rule Works	3-11
– Early Step When Preparing Executive Compensation Disclosures.....	3-11
– Sometimes More Than Five NEOs.....	3-11
– Process to Determine NEO Status.....	3-12
– Formula to Determine NEO Status.....	3-12
– Excluding Pension & Nonqualified Deferred Amounts from NEO Formula.....	3-12
– Officers With “Policy-Making Function” Are Executives.....	3-12
– Title Not Dispositive.....	3-13
– Different From Section 16 “Officers”.....	3-13
– CFO as One of Three Most Highly Compensated Executive Officers.....	3-14
– Include Forfeited Awards in NEO Calculation.....	3-14
– Include All Compensation Once Determined NEO.....	3-15
– Include All Recovered Compensation.....	3-15
– Inclusion of Directors’ Compensation in Total.....	3-15
– Executive Officer of Subsidiary Could Be NEO.....	3-15
– Limited Exclusion for Overseas Executive Officers.....	3-15
– Limited Disclosure for First-Time NEO.....	3-16
– Shifting NEO Status From Year to Year.....	3-16
– Only Three NEOs for Smaller Reporting Companies and EGCs.....	3-16
– Downsides of Expansive “NEO” Approach.....	3-17
V. Common Questions and Our Analysis	3-17
a. Fewer than Five NEOs.....	3-17
b. Same Individual is PEO & PFO.....	3-17

c.	Order of NEOs Presented	3-18
d.	Tie for Third Highest Paid NEO	3-18
e.	Voluntary Additional NEOs	3-19
f.	“Officer” with Higher Compensation than NEOs	3-19
g.	“Executive Chair” May Be NEO	3-20
h.	Retiring PFO or PEO	3-20
i.	Other Departing NEOs	3-20
j.	NEO Departs After End of Fiscal Year	3-21
k.	Highly Paid “Officer” Becomes “Executive” After Fiscal Year-End	3-21
l.	NEO Death	3-22
m.	Serving As of End of Fiscal Year	3-22
n.	Former CEO Departed for More Than One Year	3-23
o.	No Longer PEO, But Still Executive Officer	3-23
p.	PEOs Who Become Non-Executive Officers	3-23
q.	NEOs Who Become Non-Executive Officers	3-24
r.	Former PEO Still an NEO?	3-24
s.	Consultant as NEO	3-24
t.	Consultant Reimbursements Included in Named Executive Officer Calculation	3-25
u.	Interim PFOs	3-25
	1. Interim PFO is NEO	3-25
	2. Interim PFO Doesn’t Count as “Supplemental” NEO	3-26
v.	“Supplemental” NEOs	3-26
	1. Include Officers Who Earned More Than Lowest Paid Current NEO	3-26
	2. Highly Paid Executive Who Resigns Before Midnight of Year-End is “Supplemental” NEO	3-27
w.	Subsidiary Officers as NEOs	3-27
x.	Joint Venture Pay	3-28
y.	Working Outside of the U.S.	3-29
	1. Scope of “Cash Compensation” Exclusion	3-29
	2. Executive Officer Who Works Part-Time Overseas	3-29
	3. Full-time Executive of Foreign Subsidiary	3-30
	4. Can Exclude Foreign National’s Pay During US Assignment	3-30
z.	NEO in Years 1 & 3, But Not 2	3-30
aa.	NEO in Years 2 & 3, But Not Year 1	3-31
bb.	Disclosure of Prior Executive Compensation for New NEO	3-31
cc.	Include Severance Payments in NEO Determination	3-32
	1. Severance Paid at Termination	3-32
	2. Reporting Severance Tied to Future Performance	3-32
dd.	Include Director Compensation in NEO Determination	3-33
ee.	NEO Group Changes After Determination of Actual Compensation	3-33

ff. Determining NEO Status Following Acquisition	3-34
1. Compensation Paid by Acquiror to Officer of Acquired Company	3-34
2. Reverse Merger with Shell Company	3-35
3. Determination of NEO Status Related to CIC Payments & Termination Date	3-36
4. Post-Merger NEOs Include Current & Former “Highest Paid” Executives	3-37
gg. Determining NEOs for Purpose of Filing Employment Agreement	3-37
hh. Beneficial Ownership Disclosure for NEO Who No Longer Is an Employee	3-39

Chapter 4 Compensation Discussion & Analysis

I. History	4-8
II. SEC Rules and Regulations	4-9
III. SEC Staff Guidance	4-13
a. Compliance and Disclosure Interpretations	4-13
1. Backdating Guidance Also Applies to Restricted Stock, Etc.	4-13
2. Covering Arrangements Outside Tables	4-13
3. Transition for Years Immediately After 2006 Rules Adopted	4-13
4. Omitting Performance Target Levels	4-14
5. Meaning of “Benchmarking”	4-15
6. Role of Compensation Consultants	4-15
7. Disclosure of Compensation in Current & Future Years	4-16
8. Disclosure of Non-GAAP Financial Measures	4-16
b. Comment Letters	4-17
1. Analysis in the CD&A	4-19
– Prominence of CD&A	4-19
– General Requests for Analysis	4-19
– Compensation for Individual NEOs & Internal Pay Equity	4-20
– Use of Discretion	4-21
– Role of Executive Officers, Compensation Committee & Board of Directors	4-21
– Severance & Change in Control Arrangements	4-21
– Wealth Accumulation	4-22
– Option Grant Practices	4-22
2. Performance-Based Compensation Disclosure	4-22
– Performance Target Levels for Last Completed Fiscal Year	4-23
– Presentation of Performance Target Levels	4-24
– Performance Target Levels for Current Fiscal Year & Future Periods	4-24

– Withholding of Performance Target Levels	4-25
– Staff May Request Information About Non-GAAP Performance Targets	4-26
– “Degree of Difficulty” Disclosure	4-26
– Use of Discretion	4-26
– Enhanced Disclosure Regarding Performance Plans	4-27
3. Benchmarking	4-27
– Identification of Peer Group	4-27
– Targeted Percentiles	4-28
4. Individual Performance Disclosure	4-28
c. October 2007 Staff Report	4-29
1. Manner of Presentation	4-29
– Emphasis	4-29
– Format	4-29
– Alternative Summary Compensation Tables	4-29
– Clarity	4-30
– Adding Analysis	4-30
– Avoiding Boilerplate	4-30
2. CD&A-Specific Issues	4-31
– Compensation Philosophies & Decision Mechanics	4-31
– Differences in Compensation Policies & Decisions	4-31
– Performance Target Levels	4-31
– Benchmarking	4-32
– Severance & Change in Control Arrangements	4-32
d. John White’s October 2008 Speech	4-33
– Analysis	4-33
– Performance Measure Target Levels	4-35
– Benchmarking	4-36
e. Shelley Parratt’s November 2009 Speech	4-36
– No More Free Passes	4-36
– What Staff Comments to Expect	4-37
– Specific Examples	4-37
– Meaningful & Understandable Disclosure	4-38
f. SEC Staff View on the Relationship of Compensation & Risk	4-38
IV. How the Rule Works	4-39
a. Overall Approach	4-39
– “Holistic” Approach to Analyzing Compensation Arrangements	4-39
– SEC Staff’s Continued Focus	4-39
– Principles-Based Disclosure	4-39
– Focus on Plain English	4-40

- Smaller Reporting Companies & EGCs 4-41
- Newly Eligible SRCs May Need to Keep CD&A to Appease Proxy Advisors . . . 4-41
- b. Scope of CD&A 4-42
 - Includes Entirety of Executive Compensation Arrangements 4-42
 - Individuals Covered 4-42
 - Length of CD&A 4-42
 - Whose “Voice” When Drafting CD&A 4-43
 - Time Frame Covered Longer than Last Fiscal Year 4-43
 - Alternative Formats 4-45
 - CD&A Staffing 4-45
 - Role of Board & Compensation Committee 4-45
 - Role of Compensation Consultants 4-45
 - CEO/CFO Certifications 4-46
 - Liability for CD&A 4-46
- c. Disclosure Requirements 4-46
 - Seven Line Item Requirements 4-46
 - Fifteen Examples to Consider 4-47
 - “Materiality” 4-48
 - The “Analysis” 4-49
 - Provide the Context 4-49
 - An “Analysis” Caption 4-50
 - The “How” of Analysis 4-50
 - Disclosure about Compensation-Setting Process 4-50
 - The “Why” of Analysis 4-50
- d. Executive Summaries 4-53
 - Is a Summary of the Summary Really Necessary? 4-54
- e. Benchmarking 4-55
 - Identifying Component Companies 4-55
 - SEC Staff Concerns 4-55
 - Definition of Benchmarking 4-56
 - Problems with Peer Group Benchmarking 4-56
 - Internal Pay Equity 4-57
 - The Challenges of “Why” 4-57
 - Discretion to Deviate 4-57
- f. Performance Target Levels 4-57
 - Disclosure of Target Levels: Basic Requirement 4-58
 - Disclosure of Target Levels: Framework for Analysis 4-58
 - Materiality Prong: Target Levels for Completed Periods 4-58
 - Materiality Prong: Target Levels for Current & Future Periods 4-58
 - Anticipate Shareholder Concerns 4-59
 - Describe Program Changes in CD&A 4-60
 - Competitive Harm Disclosure Exclusion 4-60

– Presentation	4-61
– Use of Discretion	4-61
– “Degree of Difficulty” Disclosure	4-61
– Non-GAAP Rules Don’t Apply	4-62
– Adjustments Common	4-63
g. Post-Employment: Severance & Change in Control Arrangements	4-64
h. Equity Award Grant Practices	4-64
i. Disclosing the Impact of the Prior Year’s Say-on-Pay Vote	4-66
– Disclosure Requirement	4-66
– Response to Significant Opposition	4-66
j. Risk Disclosures	4-67
k. Disclosure of Hedging Policy	4-68
V. Common Questions and Our Analysis	4-69
a. Compensation Committees	4-69
1. Compensation Committee Charters & CD&A	4-69
2. Compensation Committee’s Role for CD&A	4-69
3. Compensation Committee Deliberations of CD&A	4-70
4. Full Board CD&A Approval Unnecessary	4-70
b. Drafting Considerations	4-70
1. Drafting Timeline	4-70
2. “Voice” Used in Drafting	4-71
3. Cross-References To/From CD&A	4-71
4. CEO/CFO Certifications	4-72
5. Including Required Tables in CD&A	4-72
6. Plain English	4-73
7. Q&A Format	4-73
8. Negative Disclosure in CD&A	4-73
9. Deficient CD&A	4-74
10. CD&A Omitted from Preliminary Proxy Statement	4-75
11. Inclusion of Non-Required Disclosure	4-75
12. Synchronize Risk Factors with CD&A	4-75
13. Can Use Subheadings as Part of CD&A	4-76
c. Compensation Consultants	4-76
1. CD&A Drafted by Independent Consultant	4-76
2. Prior Compensation Consultant Consent Before Filing CD&A	4-77
3. Duplicate Compensation Committee Procedure Disclosure	4-77
d. Scope	4-78
1. Persons Covered by CD&A	4-78
2. Number of Years Covered	4-78
3. “Fairness” in CD&A	4-79

4.	Events after End of Fiscal Year	4-79
5.	Examples in CD&A	4-80
6.	Unusual or Nonrecurring Items	4-80
7.	Analysis of Old Employment Agreements	4-81
8.	New Executive Officer.	4-81
9.	Discuss All NEOs Base Salary Actions Even When Some Didn’t Receive Increase	4-82
e.	Benchmarking	4-83
1.	Benchmarking Data Used by CEO	4-83
2.	Appendix for Survey Components.	4-84
3.	Third Party Surveys	4-84
f.	Performance Target Levels & Bonuses	4-85
1.	Disclosure of Performance Target Levels	4-85
2.	Performance Target Levels in Exhibits	4-87
3.	Disclose All Material Target Levels.	4-87
4.	LTIP Goal Disclosure.	4-87
5.	Detail Required Regarding Individual Performance Target Levels.	4-87
6.	Materiality of Large Number of Goals	4-88
7.	Financial Measures & Confidentiality	4-89
8.	Disclosure of EPS Targets	4-90
9.	Disclosure of Performance Targets for Future Equity Grants	4-90
10.	Bonus Terminology	4-91
11.	“Umbrella” Plans: Disclose Award Allocations & Negative Discretion	4-91
12.	Performance Bonus Paid Two Years Later.	4-92
13.	Disclosure Required When Bonuses are Not Paid.	4-92
14.	Multi-Part Retention Bonus	4-93
15.	Capital Deployment Strategy As a Target	4-93
16.	Disclose Mid-Year Changes to Performance Goals.	4-94
g.	Perquisites	4-94
1.	Level of Disclosure	4-94
h.	Equity Awards & Modifications.	4-96
1.	Stock Option Repricing & Extension of Option Terms	4-96
2.	Spring-Loading Restricted Stock.	4-97
3.	Awards Made in Anticipation of Pending Merger	4-97
4.	CEO Option Grant Made in Advance of IPO	4-97
i.	Clawback & Forfeiture Disclosures.	4-98
1.	Disclose Factors in Compensation Committee Decision to Decrease Pay	4-98
2.	Disclosing Clawback Recoveries.	4-98
j.	Risk Disclosures.	4-99
k.	Filing Two CD&As in One Year	4-101

1. Offerings	4-101
1. CD&A in Registration Statements	4-101
2. CD&A in Form S-4 for a Merger with Private Company	4-101
m. Types of Companies	4-102
1. Smaller Reporting Companies & CD&A	4-102
2. Emerging Growth Companies & CD&A	4-103
3. Foreign Private Issuers & CD&A	4-104
4. Public Debt Issuers & CD&A	4-104
5. Controlled Companies & CD&A	4-104
VI. Sample Disclosures	4-105
1. Executive Summary	4-105
2. Describe Tally Sheets If Material	4-106
3. Compensation for Individual NEOs & Internal Pay Equity	4-107
4. Disclosing Clawback Provisions	4-110
– Trend of Broader Clawback Policies	4-110
– Shareholder Proposals to Adopt Clawback Policies	4-113
– How to Describe Clawback Policies	4-113
5. Disclosing Clawback Recoveries	4-114
6. Benchmarking & Peer Group Disclosure	4-116
7. Performance-Based Compensation	4-118
8. Presenting Pay-for-Performance with Graphs	4-118
a. Harris Corp’s “Pay Mix” Charts	4-118
b. CVS Health’s “Realized Pay vs. TSR” Graphs	4-119
c. Macerich’s “Realizable Pay” Chart	4-121
9. Describing Individual Performance Goals	4-122
a. Staff Wants Specific Description of Individual Objectives	4-122
b. Haemonetics’ Description of How Measures Are Chosen & Calculated	4-123
c. Pitney Bowes’ “Annual Incentive” Summary	4-125
10. “Degree of Difficulty” Statements	4-126
a. FMC Corporation	4-126
b. Altera	4-126
11. Describing Bonus In Lieu Of Missed Performance Goals	4-127
a. Triumph Group	4-127
b. Staples	4-128
12. Risk Disclosure: A Model	4-129
13. Risk Assessment Disclosure	4-134
14. Use of Discretion for the Annual Incentive Plan	4-136
15. Termination & Change in Control Arrangements: Importance of a Wealth Accumulation Analysis & Walk-Away Numbers	4-137

16. Evaluating the Need for Pensions & SERPs	4-140
17. Revisiting Perquisites	4-141
18. Accounting & Tax Implications	4-143
19. Stock Ownership Guidelines or Requirements	4-145
20. Hedging Disclosures	4-146
a. Sysco Corporation “Employee, Officer and Director Hedging”	4-147
b. The Clorox Company Hedging Disclosure	4-147
20. Impact of Prior Year’s Say-on-Pay Vote	4-148
a. Cheniere Energy’s “Shareholder Engagement” Disclosure	4-148
b. Commercial Metals’ “Severance” Response	4-149
c. Kate Spade’s “Pay Transparency” Disclosure	4-151
d. McKesson’s Compensation Committee Letter	4-152
VII. Analysis in the CD&A	4-154
1. Saying “To Be Competitive” is Not Analysis	4-154
– A Red Flag	4-155
– Critical Analysis	4-155
– An Example	4-155
– Our Concerns	4-156
2. Getting Back to Basics: A Focus on the “A” in CD&A	4-157
VIII. Practice Pointers	4-158

Chapter 5 Compensation Committee Report

I. History	5-3
II. SEC Rules and Regulations	5-6
III. SEC Staff Guidance	5-7
a. Compliance and Disclosure Interpretations	5-7
1. Names of Directors Required	5-7
2. Separate Caption Required for Report	5-8
b. Comment Letters	5-8
IV. How the Rule Works	5-9
– Purpose of Compensation Committee Report	5-9
– Similar to Audit Committee Report	5-9
– Required Form of Report	5-9

– Responsibility for Report	5-9
– Report’s Relationship to CD&A	5-9
– Placement of Report	5-10
– Limited Liability for “Furnished” Report	5-10
– Incorporation by Reference	5-10
– Frequency of Disclosure	5-10
– Role of Compensation Committee	5-10
– Reliance by CEO & CFO	5-11
– No Report for Smaller Reporting Companies & EGCs	5-11
V. Common Questions and Our Analysis	5-11
a. Text of Compensation Committee Report	5-11
b. Placement of Report	5-12
c. Disclaimers Regarding “Furnished” Status	5-12
d. Change in Committee Member Composition	5-12
e. Naming Former Members	5-13
f. Dissenting Committee Member	5-14
g. No Need for Manual Signatures	5-15
h. Placement of Committee Member Names	5-15
i. Timing of Report	5-15
j. Timing of Committee’s Disclosure Approval	5-16
k. Scope of Review & Discussion	5-16
l. Voluntary Debt Filers Need to Provide Report	5-17
m. Parent & Subsidiary with Overlapping NEOs	5-17
n. Absence of Compensation Committee	5-17
o. Report Required in Form 10-K	5-17
VI. Sample Compensation Committee Reports	5-18
a. Typical Short-Form Report	5-18
b. Sample Long-Form Reports	5-18
1. Post Properties	5-18
2. Becton, Dickinson and Company	5-19
3. Office Max	5-21

Chapter 6 Summary Compensation Table

I. History	6-9
II. SEC Rules and Regulations	6-12

III. SEC Staff Guidance	6-24
a. Compliance and Disclosure Interpretations	6-24
1. Disability Plans That Do Not Discriminate	6-24
2. Adding New NEO	6-25
3. Discretionary Cash Bonuses vs. Non-Equity Incentive Plan Bonuses	6-25
4. Salary/Bonus Foregone at NEO’s Election	6-26
5. Negative Changes to Actuarial Present Value	6-26
6. Reimbursement of Perquisites	6-27
7. Section 423 Plan Purchases	6-27
8. Dividends on Equity Awards	6-28
9. Deferred Compensation Payouts & 401(k) Plan Distributions/Earnings	6-28
10. Accrued Termination Payments	6-28
11. Footnote Disclosure for Years Prior to Last Fiscal Year	6-29
12. Valuation Assumptions in Grants of Plan-Based Awards Table	6-29
13. Cash Retention Bonuses	6-29
14. NEO In Years 1 & 3 but not Year 2	6-30
15. Timing of Gross-Up Reporting	6-30
16. Grant Date Fair Value Excludes Estimated Forfeitures for Time-Based Vesting	6-30
17. Reporting Equity Awards Modified in Year of Grant	6-31
18. Incentive Plan Awards; Officer Elects to Receive in Stock	6-31
19. Reporting a Section 162(m) “Plan Within a Plan”	6-32
20. Non-Equity Incentive Plan Awards Forgone at NEO’s Election	6-33
21. Refusal of Bonus Prior to Grant by an NEO	6-34
22. Treatment of Assumed Options For Acquired Company Executives	6-34
23. Reporting Performance-Based Stock & Option Awards	6-35
24. Spin-Off Compensation	6-35
25. Compensation Reporting Following Merger	6-35
26. Compensation for Subsidiary IPO	6-36
27. Transition Period Compensation	6-36
28. Reporting “Stub Period” Compensation for Transition Year	6-36
29. No Annualized Compensation	6-37
30. All Compensation Covered for NEO Becoming Non-Executive Employee	6-37
31. Parent/Subsidiary Compensation Arrangement	6-37
32. Allocation Between Parent & Subsidiary	6-38
33. Reimbursement of Legal Expenses Not Compensation	6-38
34. Compensation for Last Fiscal Year Required in Beginning of Next Fiscal Year	6-38
35. Shell Company Disclosure	6-39
36. Options for Securities of Parent or Subsidiary	6-39
37. Life Insurance Proceeds Not Reported in Summary Compensation Table	6-39
38. Above-Market or Preferential Earnings	6-40
39. Dividends on Restricted Stock Reported in Year Paid	6-40

40. Change in Pension Value in Year of Change in Pension Measurement Date	6-41
41. In-Service Distributions Reported as Change in Pension Value	6-41
b. Comment Letters	6-41
IV. How the Rule Works	6-43
a. General	6-43
– Tabular Format	6-43
– All Compensation Covered	6-44
– Numerical Reporting	6-44
– Foreign Currency	6-44
– Footnote Disclosure in the Summary Compensation Table	6-45
– Periods Covered By Footnotes	6-45
– Title & Lead-In For Table	6-45
– Don’t Change Column Titles	6-45
– Smaller Reporting Companies & EGCs	6-46
b. “Name and Principal Position” Column	6-46
– Name and Principal Position	6-46
– Order of the NEOs	6-46
– Former Officers Who Are NEOs	6-46
– Smaller Reporting Companies	6-46
c. “Year” Column	6-47
– Years Covered	6-47
– New NEOs	6-47
– Returning NEOs	6-47
– Newly Reporting Companies	6-47
– Spin-Offs	6-47
– Mergers	6-48
– Treatment of Assumed Options for Acquired Company Executives	6-48
– Subsidiaries Going Public	6-49
– Stub Periods	6-49
– No Annualized Compensation	6-49
d. “Salary” & “Bonus” Columns	6-49
– Salary	6-49
– Bonus	6-50
– Bonus vs. Non-Equity Incentive Plan Compensation	6-50
• “Bonus” Column	6-50
– Discretionary Bonus	6-50
– Guaranteed Bonus	6-50
– Retention Bonus	6-51
• “Non-Equity Incentive Plan Compensation” Column	6-51
– Short-Term & Long-Term Incentive Awards	6-51
– Use of Discretion	6-52

• Explaining Bonus & Non-Equity Incentive Compensation Disclosure	6-52
– When Salary or Bonus Not Calculable	6-52
– Forgoing Salary/Bonus for Non-Cash Compensation	6-53
• Amount of Salary/Bonus Forgone is Less Than Equity Received.	6-53
• Salary/Bonus Forgone Under Option Within Scope of ASC 718	6-53
– Allocating Salary/Bonus Among Parent & Subsidiary	6-53
• Allocation Based on Services Rendered	6-53
• Allocation to Consolidated Subsidiaries Permissible	6-54
e. “Stock Awards” & “Option Awards” Columns	6-54
– Equity Awards	6-54
– Stock Awards	6-55
– Option Awards	6-55
– Amounts Reported	6-55
– Application of ASC 718.	6-55
• Process for Determining ASC 718 Amounts	6-56
• Treatment of Specific Types of Awards under ASC 718	6-56
– Service-Based Awards	6-56
– Awards with Performance Conditions	6-56
– Awards with Market Conditions	6-57
– Awards Classified as Liabilities	6-57
– Forfeitures	6-58
• Different Approach If ASC 718 Produces Awkward Results.	6-58
– Grant Date Fair Value Considerations	6-62
– Awards Granted After the End of Fiscal Year	6-62
– Long-Term Performance Based Awards	6-63
– Awards Granted With Possibility of Negative Discretion	6-63
– Performance-Based Award with Cash Election Feature	6-64
– Modified Equity Awards	6-64
– Reload Options.	6-65
– Dividends & Other Earnings	6-65
– Valuation Assumptions.	6-65
f. “Non-Equity Incentive Plan Compensation” Column	6-66
– Non-Equity Incentive Plans	6-66
– Short-Term & Long-Term Plans Covered	6-66
– Amounts Reported When Earned	6-66
– Earnings on Non-Equity Incentive Plan Compensation Also Reported	6-66
– Electing to Receive Awards in Cash or Company Stock	6-67
• Awards that Permit NEOs to Elect Form of Payment	6-67
• Awards that Do Not Permit NEOs to Elect the Form of Payment.	6-67
– Forgoing a Bonus.	6-67
• Before the Award is Granted	6-67

• After the Award is Granted	6-68
– Relationship to “Bonus” Column	6-68
– Use of Discretion with Incentive Plans	6-68
– Reporting More Than One Non-Equity Incentive Plan	6-69
g. “Change in Pension Value and Nonqualified Deferred Compensation” Column	6-69
1. Change in Pension Value	6-69
– Change in Pension Value	6-69
– Relationship to Pension Benefits Table	6-69
– Factors Affecting Change in Pension Value Number	6-70
– In-Service Distributions	6-70
– Negative Values	6-70
– Pension Plan Measurement Date	6-70
– Identification & Quantification By Footnote	6-70
– No Disclosure Required for Smaller Reporting Companies	6-71
2. Nonqualified Deferred Compensation	6-71
– Nonqualified Deferred Compensation	6-71
– Above-Market Interest	6-71
– Resetting Interest Rates	6-71
– Contingent Interest Rates	6-71
– Preferential Dividends	6-71
– Relationship to Nonqualified Deferred Compensation Table	6-71
– Excess Benefit Plans	6-72
– Unfunded Plans are Covered	6-72
– Identification & Quantification by Footnote	6-72
h. “All Other Compensation” Column	6-72
– “All Other Compensation” Column	6-72
– Footnotes Required	6-72
– Supplemental Table for Footnote Disclosure	6-72
– Elements of All Other Compensation	6-72
– Perquisites	6-73
– Tax Payments	6-73
– Discounted Security Purchases	6-73
– Severance or Change in Control Payments	6-74
• Payments Included	6-74
• Payments Accrued	6-74
• Accelerated Defined Benefit or Actuarial Plans	6-74
• Narrative to Summary Compensation Table	6-74
– Defined Contribution Plan Contributions	6-75
– Dividends & Earnings on Equity Awards	6-75
– Information Not Required in “All Other Compensation” Column	6-75
• 401(k) Plan Distributions & Earnings	6-75

• Nonqualified Deferred Compensation Payouts	6-75
• Group Insurance & Welfare Plans	6-75
i. “Total” Column	6-76
– “Total” Column	6-76
j. Narrative Disclosure for Summary Compensation Table	6-76
– Narrative Disclosure of Material Factors	6-76
– Narrative Disclosure vs. CD&A	6-76
– Disclosure Examples	6-76
– Determining Materiality	6-76
– Employment Agreements	6-77
– Written & Unwritten Employment Agreements Covered	6-77
– Post-Termination Provisions	6-77
– Repricing/Modifying Equity-Based Awards	6-77
– Exclusion from Repricing/Modifying Disclosure	6-77
– Mix of Compensation Elements	6-77
– Narrative Disclosure for Smaller Reporting Companies	6-78
k. Alternative Summary Compensation Table	6-78
V. Common Questions and Our Analysis	6-79
a. General	6-79
1. Mistake in Summary Compensation Table	6-79
2. Correction in Previous Year’s Summary Compensation Table	6-80
3. Prior Compensation of New NEO	6-80
4. NEO in Years 1 & 3, But Not in Year 2	6-80
5. Death of NEO	6-81
6. Years Covered After End of Fiscal Year	6-81
7. Item 402(j)’s “Effective Date”	6-82
8. Footnotes for Multiple Years	6-82
9. Assign Values to Column with “Best Fit”	6-83
10. Alternative Summary Compensation Table	6-83
11. Alternative “Total” Column	6-84
12. Value of Accelerated Vesting in SCT	6-84
13. “Grant Date Fair Value” Reflects Acceleration Provision	6-86
14. Alternative “Value Realized” Table	6-87
15. Private Parent with a Public Subsidiary	6-87
16. Compensation Information of Spin Off	6-88
17. Reporting Options Replaced in Merger with Restricted Stock & Cash	6-88
18. Subsidiary IPO & Compensation Paid by Parent	6-88
b. “Name and Principal Position” Column	6-89
1. Order of NEOs	6-89
2. Ordering of Two PEOs in Summary Compensation Table	6-89
3. CFO Becomes CEO	6-89

4.	Determining Compensation of Departing Executive Officers	6-90
5.	Determining Which Departing Executives are NEOs	6-90
6.	Executive Officer Employed by Parent & Subsidiary at Different Times of Year	6-91
c.	"Salary" Column	6-91
1.	Annual Salary vs. Cash Basis	6-91
2.	Consulting Firm Fees for Interim CFO	6-92
3.	Consulting Fees Are "Salary" If Analogous to Base Pay	6-92
4.	Report Consulting Fees For Consultant Who Becomes NEO	6-92
5.	Deferred vs. Forgone Salary	6-93
6.	Reporting Forgone Salary or Bonus.	6-93
7.	Salary Continuation Plan	6-94
8.	Cost-of-Living Adjustment Can Be "Salary" or "All Other Compensation"	6-94
9.	Conversion from Foreign Currency	6-94
10.	Cash Paid in Lieu of Vacation	6-95
11.	Directors Fees Received by NEO	6-95
d.	"Bonus" Column	6-95
1.	Contingent Bonus.	6-95
2.	Guaranteed Bonus	6-96
e.	"Stock Awards" Column	6-97
1.	When is "Grant Date" of Equity Awards?	6-97
2.	ESPP Purchases	6-98
3.	Long-Term Incentive Plans	6-98
4.	Report Modified RSU Terms If There's An Accounting Charge	6-99
5.	Report Incremental Value of Accelerated Awards	6-100
6.	Accounting Treatment Determines Reporting Obligation	6-100
7.	Forfeiting Equity Incentive Award in Year Granted	6-100
8.	Rescinding Equity Awards After FYE	6-101
9.	Disclosure of Assumptions for Stock & Option Awards	6-101
10.	Assumptions Underlying Particular Grants	6-102
11.	Assumptions Underlying Immaterial Awards	6-102
12.	Valuing Restricted Stock Awards	6-103
13.	Share & Restricted Stock Grants as Sign-On Compensation	6-103
14.	Unrestricted Stock Award	6-103
15.	Overlapping Long Term Equity Incentive Plans	6-104
16.	Report TSR-Based Cash Award as Equity Award	6-105
f.	"Option Awards" Column	6-105
1.	Early Exercise of Options	6-105
2.	Extending or Repricing Term of Stock Options.	6-106
3.	Escrow for Option Buyback.	6-106
4.	Delayed Cliff Vesting Options	6-107

g.	“Non-Equity Incentive Plan Compensation” Column	6-107
	1. “Bonus” vs. “Non-Equity Incentive Plan Compensation” Columns: Subjective Goals	6-107
	2. “Bonus” vs. “Non-Equity Incentive Plan Compensation” Columns	6-107
	3. Annual Cash Bonuses Not Pursuant to Plan	6-108
	4. Portion of Annual Bonus Paid in Shares	6-108
	5. Portion of Annual Bonus Paid in RSUs with One-Year Holding Period	6-109
	6. Cash Bonus Converted Into Stock	6-109
	7. Bonus Amounts Still Subject to Adjustment	6-110
	8. Deferred Bonus Awards Subject Only to Continued Service	6-110
	9. Report Forgone Incentive.	6-111
	10. Non-Equity Incentive Plan Grants in Two Different Fiscal Years	6-113
	11. One-Year Performance Period Bonus Paid Two Years Later.	6-114
	12. Disclosing Accrued LTIP Awards	6-114
	13. Sales Commissions	6-115
	14. Classification of “Pre-NEO” Bonus.	6-115
	15. Reporting Long-Term Plans for New NEOs	6-116
h.	“Change in Pension Value and Nonqualified Deferred Compensation Earnings” Column	6-116
	1. Pension Value for Newly Hired NEO with Vested Pension Benefit	6-116
	2. Determination of Above-Market Earnings.	6-117
i.	“All Other Compensation” Column.	6-117
	1. Definition of “Whose Value Exceeds \$10,000”	6-117
	2. Timing of Perquisite Payment	6-117
	3. Separately Quantifying Tax Reimbursements	6-118
	4. Cash Payments for Overseas Assignments	6-118
	5. Securities Purchased at Discount.	6-119
	6. 401(k) Distributions.	6-119
	7. Combining Disclosure of 401(k) Match & SERP Contributions.	6-119
	8. Matching Contributions: Report in Year in Which Condition Satisfied	6-119
	9. Section 423 Stock Purchases	6-120
	10. Section 423 Plan: Paying Interest on Payroll Deductions	6-120
	11. Dividend Disclosure in “All Other Compensation” Column.	6-121
	12. Amount Accrued in Pension Value	6-121
	13. “Resets” of Above-Market Interest Rate	6-121
	14. Resetting Interest Rate of Deferred Compensation Plan	6-122
	15. Deferred Compensation: Amounts Reported in Nonqualified Deferred Compensation Table vs. Summary Compensation Table	6-122
	16. Deferred Cash Award Grant with Cliff Vesting	6-123
	17. Qualified Profit-Sharing Plan Rolled into 401(k) Plan.	6-123
	18. Non-Discriminatory Life Insurance Plan: Size of Payments to Executives.	6-124

19. Discriminatory Life Insurance Policy—Multiple Tiers	6-124
20. Life Insurance to Hedge SERP	6-124
21. Self-Insurance Health Plan	6-125
22. Self-Funded Long-Term Disability Benefit	6-125
23. Health Savings Accounts	6-125
24. Reimbursement of Health Expenses & HIPPA	6-126
25. Insurance Premiums Paid for Foreign NEO	6-126
26. Company-Funded Death Benefit	6-127
27. New Annuity for Deceased NEO	6-129
28. Consulting Fee	6-129
29. Annual Holiday Bonus	6-129
30. Directors' Fees	6-129
31. Compensation From TV Show Appearance	6-132
32. Non-Discriminatory Separation Benefit	6-132
33. Value of Accelerated Vesting	6-133
34. Reporting Change in Control Payments (Cash & Accelerated Vesting)	6-134
35. Payout Upon Termination of Non-Qualified Retirement Plan	6-135
36. Report All Perks—Unless Aggregate Value Below \$10,000	6-136
37. Gift Cards	6-136
j. Narrative Disclosure	6-137
1. Narrative Disclosure of Former NEO's Employment Agreement	6-137
2. Whether Narrative Disclosure Always Required	6-137
3. Interplay of CD&A & SCT Narrative Description	6-137
4. Smaller Reporting Company Disclosures	6-138
VI. Practice Pointers	6-138
VII. Sample Disclosure	6-141
a. Summary Compensation Tables	6-141
1. Summary Compensation Table Example—Intel	6-141
2. Bifurcating Columns in Summary Compensation Table—IBM	6-146
3. Reporting Bonuses When Not Readily Calculable— Central Garden & Pet	6-148
4. Narrative Discussion of Summary Compensation Table—Del Monte	6-149
b. Alternative Summary Compensation Tables	6-154
1. Chiquita Brands	6-154
2. Anadarko Petroleum Corporation	6-156

Chapter 7 Perks & Other Personal Benefits

I.	History	7-5
II.	SEC Rules and Regulations	7-6
III.	SEC Staff Guidance	7-8
	a. SEC Interpretations from 2006 Adopting Release	7-8
	b. Compliance and Disclosure Interpretations	7-11
	1. Fully Reimbursed Items & Perks with No Aggregate Incremental Cost	7-11
	2. Timing of Gross-Up Reporting	7-11
	c. Comment Letters	7-12
IV.	How the Rule Works	7-12
	– “Hot Button” Topic with Investors	7-12
	– Trend Towards Eliminating Most Egregious Perks	7-13
	– Definition of “Perk”	7-13
	– “Perks” Terminology	7-13
	– Valuing Perks	7-14
	– Perks Included When Determining NEO Status	7-14
	– Location of Perks Disclosure	7-14
	– Perk Justifications in CD&A	7-15
	– Personal Use of Corporate Aircraft	7-15
	– Personal Security Arrangements	7-17
	– Overseas Assignment	7-18
	– Trends in Director Perks	7-18
	Roadmap for Identifying & Valuing Perks	7-18
	a. Identifying Perks	7-18
	1. The Approach	7-19
	2. Applying the Analysis	7-20
	b. Valuing Perks	7-21
	1. “Costless” Perks	7-22
	2. Difficult to Determine Value	7-22
	3. Reimbursement of Full Cost	7-22
	4. Personal Use of Corporate Aircraft	7-23
V.	Perquisites Policy	7-24
	– “Perks” Policy Considerations	7-25
	– Compensation Committee Role Overseeing “Perks”	7-25
	– Rolling Out the Perquisites Policy	7-26
VI.	SEC Enforcement	7-26

VII. Common Questions and Our Analysis	7-28
a. Perks Policies	7-28
1. Perk Policies & Form 8-K Disclosure	7-28
2. Perk Policy Limiting Payments on Insurance Premiums	7-28
3. Policy Not to Provide Perks	7-29
4. Use of Perks “Allowances” for General Use	7-29
5. Perks “Allowances” for Specified Use	7-29
b. Basic Disclosure Issues	7-30
1. Reporting Date for Perks	7-30
2. Reporting Cash In Lieu of Accrued Vacation	7-30
3. Detailed Description of Identified Perks	7-30
4. Perks & CD&A	7-30
5. Omitting Perks from the CD&A	7-31
6. Perk “Generally Available . . . to All Employees?”	7-32
7. May Be Better to Characterize Travel by Spouse as “Perk” Vs. “Related Person Transaction”	7-33
c. Amount & Cost Issues	7-34
1. Increased Salary to Replace Perks	7-34
2. Definition of “Value Exceeds \$10,000”	7-34
3. Report All Perks (Unless Aggregate Value Below \$10,000)	7-35
4. NEO Cancels Vacation: Company Reimburses Pre-Paid Expenses	7-35
5. Perquisite Allowance Amounts	7-36
6. Fully Reimbursed Items	7-36
7. Establishing Reimbursement Amounts; Country Club Fees	7-36
8. Club Membership Fees as “Costless” Perks	7-37
d. Incremental Cost Formulas	7-38
1. Company-Owned Car & Incremental Cost	7-38
2. Chauffeur Services & Incremental Cost	7-38
3. Use “Time Spent” to Determine Incremental Cost for Personal Services	7-38
4. Administrative Support for Directors	7-39
5. Disclosure If No Incremental Cost	7-39
6. Calculate & Disclose Cost of Lifetime Benefits	7-40
e. Types of Perks	7-42
1. Potential Perks	7-42
2. Corporate Apartments	7-43
3. Club Memberships: “Exclusive Use” Test	7-44
4. Charitable Contributions/Award Programs/Matching Gifts	7-45
5. Legal Costs Reimbursement	7-47
6. Legal Fee Payments	7-47
7. Legal Expenses Reimbursement in Renegotiating Compensation Arrangement	7-48

8.	Disclose Reimbursement of HSR Fees	7-49
9.	Tax Reimbursements/Gross-Ups	7-49
10.	Gross-Up Disclosure Timing	7-50
11.	Medical Insurance Payments	7-50
12.	Reimbursement of Medical Expenses	7-50
13.	Life Insurance Plans	7-51
14.	Discounted Insurance	7-53
15.	Security Arrangements	7-53
16.	Sporting & Entertainment Event Tickets	7-54
17.	Weekend Getaway/Training	7-54
18.	Vendor Gifts/Company Property Distributions	7-55
19.	Relocation Services	7-55
20.	Cash Allowance vs. Company-Owned Car	7-58
21.	Cell Phones & Cell Phone Allowances	7-58
22.	Business Travel Expense vs. Commuting Cost	7-58
23.	Shuttle Service	7-61
24.	Company Car Policy as Material Contract	7-61
25.	Overseas Assignment	7-62
26.	Company Products Use	7-63
27.	Company Products Testing	7-63
28.	Company Products Discounts	7-64
29.	Personal Residence Use	7-64
30.	Spouse Attending Business Dinner	7-64
31.	Financial Planning Services	7-65
32.	Foreign Tax Preparation Help	7-65
33.	401(k) Match	7-65
34.	Gift Cards	7-66
35.	Company Sponsored Event Reward Points	7-66
f.	Airplane Use	7-66
1.	Airplane Use Policy	7-66
2.	Methods to Calculate Airplane Incremental Costs	7-67
3.	Inclusion of Deadhead Flights in Incremental Cost	7-68
4.	Definition of “Deadhead Flight”	7-68
5.	First-Class Airfare as Perk	7-69
6.	CEO Arranging Airplane Use for Other NEOs	7-69
7.	Board Forces Officer to Use Airplane for Personal Use	7-70
8.	Use of Standard Industry Fare Level (SIFL)	7-70
9.	Disclosure of Reimbursement for Airplane Cost	7-70
10.	Food & Magazines	7-71
11.	Plane Maintenance	7-71
12.	Allocation of Airplane Depreciation	7-71
13.	Use of Airplane for Another Company’s Board Meetings	7-71
14.	One Director Flying on Another Director’s Airplane	7-72
15.	Lost Tax Deduction for Airplane Personal Use	7-72

16.	Reimbursement Amount for Personal Use	7-73
17.	Reimbursement of Spousal Airplane Use	7-74
18.	Reimbursing Director the Use of His Personal Plane	7-74
19.	Use of Company Airplane to Travel to Company Retreat	7-74
20.	Restricting Number of Executives on Same Plane	7-75
g.	Definition of “Non-Discriminatory Basis”	7-75
1.	Discriminatory Salary vs. Hourly Worker Perks	7-75
h.	Director Perks	7-76
1.	Distinction Between CEO & Director Commuting	7-76
2.	Food Served During Director Meetings	7-76
3.	Personal Benefits to Directors	7-76
4.	iPad/Laptop	7-77
5.	Non-employee Director Use of Corporate Aircraft	7-77
6.	Director Health Insurance	7-78
7.	Professional Association Memberships	7-79
8.	Attendance or Sponsorship at Association Events	7-79
VIII.	Comprehensive Guidance on Disclosure of Airplane Use	7-80
IX.	Practice Pointers—Perks	7-87
X.	Sample Disclosures	7-90
a.	Best Practices Disclosures	7-90
b.	Perk Policies Disclosure	7-93
1.	Equifax	7-94
2.	Coca-Cola Company	7-94
3.	Harman International	7-96
c.	Detailed Automobile Perquisite Disclosure	7-96
d.	Travel Policy Disclosure	7-97
e.	Aircraft Disclosures	7-98
f.	Security Arrangements Disclosure	7-99
g.	Disclosure of All Available Perks	7-100
XI.	Perk Tester Flow Chart	7-102

Chapter 8 Equity Tables

I.	History	8-6
II.	SEC Rules and Regulations	8-8
a.	Grants of Plan-Based Awards Table	8-8
b.	Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table	8-11

c. Outstanding Equity Awards at Fiscal Year-End Table	8-12
d. Option Exercises and Stock Vested Table	8-14
e. Smaller Reporting Companies	8-16
III. SEC Staff Guidance	8-18
a. Compliance and Disclosure Interpretations	8-18
1. Grants of Plan-Based Awards Table	8-18
i. Valuation Assumptions in Grants of Plan-Based Awards Table	8-18
ii. Incentive Plan Awards—Officer Elects to Receive in Stock	8-19
iii. Reporting Section 162(m) “Plan Within a Plan”	8-20
iv. Non-Equity Incentive Plan Awards Forgone at NEO’s Election	8-20
v. Treatment of Assumed Options For Acquired Company Executives	8-21
vi. Awards Denominated in Dollars, Payable in Stock	8-22
vii. Changing Column Heading Where Annual Awards Already Earned	8-22
viii. Determining the Reportable Fair Value of Multi-Year Performance Award	8-22
ix. Reporting the Incremental Fair Value of Modified Equity Award	8-23
x. Reporting Additional Options Upon “Reload” Exercise	8-23
xi. Disclosing Plan That Has No Thresholds or Maximums	8-23
2. Outstanding Equity Awards at Fiscal Year-End Table	8-24
i. Disclosing Three-Year Incentive Plan	8-24
ii. Disclosing Vesting Dates with Column	8-24
iii. Determining the Reportable Number of Shares for Multi-Year Performance Award	8-24
iv. In-Kind Earnings on Restricted Stock Reportable in “Outstanding Equity Awards” Table	8-25
v. Previous Fiscal Year vs. Last Completed Fiscal Year	8-25
vi. Disclosing Stock Options with Right to Repurchase	8-26
3. Option Exercises and Stock Vested Table	8-26
i. Reporting Net or Gross Shares for Restricted Stock	8-26
b. Comment Letters	8-26
IV. How the Rule Works	8-27
a. Grants of Plan-Based Awards Table	8-27
– Disclosure of Awards for Last Completed Fiscal Year	8-27
– Equity Awards Covered	8-28
– Non-Equity Incentive Plan Awards Covered	8-28
– Tabular Disclosure	8-28
– Naming the NEOs	8-29
– Award-by-Award Disclosure	8-29
– Disclosing Different Types of Awards	8-29

– Grants From More Than One Plan	8-29
– Transferred Awards	8-29
– Tandem Awards	8-29
– Awards Granted After Fiscal Year-End	8-29
– Omitting Column is Permitted	8-30
– Additional Columns Sometimes Required	8-30
• Approval Date vs. ASC 718 Grant Date	8-30
• Option Exercise/Base Price vs. Closing Price	8-30
– Determining an Award’s Grant Date	8-31
• Mutual Understanding Test	8-31
• Date of Approval Under Corporate Governance Procedures	8-31
• Awards Subject to Shareholder Approval	8-32
• Grant Date Examples	8-32
– Determining the Grant Date of Multi-Year Performance Award	8-32
– Non-Equity Incentive Plan Awards	8-33
• Awards Covered	8-33
• Both Annual & Long-Term Non-Equity Awards Reportable	8-33
• Estimated Future Payouts of Non-Equity Incentive Awards	8-33
• Reporting for Annual Incentive Plan Awards Only	8-33
• Reporting Awards With No Threshold, Target or Maximum	8-34
• Target Amount Not Determinable	8-34
• Awards Denominated in Units	8-34
– Equity Incentive Plan Awards	8-34
• Incentive Plan Awards Covered	8-34
• Estimated Future Payouts of Equity Incentive Awards	8-35
• Awards Denominated in Dollars, Payable in Stock	8-35
• Report TSR-Based Cash Awards as Equity	8-35
– All Other Stock Awards	8-35
– All Other Option Awards	8-35
• Reload Options	8-35
– Exercise or Base Price of Option Awards Column	8-36
– Grant Date Fair Value	8-36
• Determining the Grant Date Fair Value	8-36
• Reporting Stock & Option Awards Subject to Performance Criteria	8-36
• Determining the Reportable Fair Value of Multi-Year Performance Award	8-36
• Repricing of Option-Like Instruments	8-37
• Exceptions to Repricing	8-37
• Amendment or Modification of Equity Incentive Plan Award	8-37
• Reload or Restorative Options	8-38
• Assumptions	8-38
– Narrative Disclosure	8-38

- Omitting Performance Target Levels Due to Confidential Treatment 8-38
- Reporting Non-Equity Incentive Plan Award Payable in Stock 8-39
- Reporting Annual Incentive Plan Awards Payable in Stock or Cash 8-39
- Reporting Equity Incentive Award the Amount of Which May be Reduced
in the Discretion of the Compensation Committee 8-39
- Reporting a Non-Equity Incentive Plan Award That Executive Officer
Declines to Accept 8-40
- Reporting of Options Assumed in a Merger 8-41
- Smaller Reporting Companies & EGCs 8-41

- b. Outstanding Equity Awards at Fiscal Year-End Table 8-41
 - Outstanding Amounts 8-41
 - Equity Awards Covered 8-41
 - Tabular Disclosure for Outstanding Option Awards 8-42
 - Tabular Disclosure for Outstanding Stock Awards 8-42
 - Naming the NEOs 8-42
 - Transfers Other Than for Value 8-42
 - Option Awards Separately Reported 8-42
 - Stock Awards May Be Grouped Together 8-43
 - Reporting Multiple Types of Securities 8-43
 - Calculating Market Values 8-43
 - Equity Incentive Plan Disclosure 8-43
 - Unearned Equity Incentive Plan Awards 8-43
 - Awards with Single Payout 8-43
 - Target Amount Not Determinable 8-43
 - Reporting Multi-Year Equity Incentive Awards in Subsequent Years 8-43
 - Performance-Based Awards 8-44
 - Shifting Columns for Equity Incentive Plan Awards 8-44
 - Earnings on Stock Awards 8-44
 - Reporting Option Shares Subject to Repurchase 8-44
 - Vesting Date Footnotes 8-45
 - Smaller Reporting Companies & EGCs 8-45

- c. Option Exercises and Stock Vested Table 8-45
 - Disclosure of Options & Shares of Stock Acquired & Value Realized 8-45
 - Equity Awards Covered 8-45
 - Tabular Disclosure 8-45
 - Naming NEOs 8-46
 - Disclosure on Aggregate Basis 8-46
 - Gross vs. Net Reporting 8-46
 - Calculating Value Realized Upon Option Exercise 8-46
 - Calculating Value Realized Upon Vesting 8-46
 - Explaining Value Realized 8-46
 - Deferrals 8-47

– Transferred Awards	8-47
– Smaller Reporting Companies & EGCs	8-47
V. Common Questions and Our Analysis	8-47
a. Grants of Plan-Based Awards Table	8-47
1. Identifying Types of Awards	8-47
2. Awards Denominated in Dollars	8-47
3. Report TSR-Based Cash Award as Equity Award	8-48
4. Employment Agreement as “Plan”	8-48
5. Awards Granted After Fiscal Year-End	8-48
6. Awards Granted Prior to Fiscal Year-End	8-49
7. Awards Granted Prior to NEO Status	8-49
8. Bonus Criteria Set & Met Within the Same Year	8-50
9. One-Year Performance Periods for Cash Bonus vs. Equity Incentive Plans	8-50
10. Incentive Bonus Plan, Partially Payable in Stock	8-51
11. Fixed Cash Payments	8-53
12. Zero as “Minimum” Performance Target	8-53
13. Plans with No Targets	8-53
14. Provide Narrative Discussion of Modified Restricted Stock Awards	8-54
15. Report Modified RSU Terms If There’s An Accounting Charge	8-55
16. Determining Whether Modification Accounting Applies	8-55
17. No Confidential Treatment for Payout Amounts	8-56
18. Forfeiture of Performance-Based Award	8-56
19. Forfeiture of Equity Incentive Plan Award	8-57
20. Restricted Stock Award with Accelerated Vesting Feature	8-57
21. Reporting SARs with Different Vesting Schedules	8-57
22. Number of SARs Granted	8-58
23. Shareholder Approval Contingency for Equity Award	8-59
24. Phantom Stock Issued Under Performance Plan	8-59
25. Determining “Closing Market Price” for Thinly-Traded Stock	8-60
26. Determining “Grant Date” of Equity Award	8-60
27. Grant Date Fair Value Reporting	8-61
28. Approval Dates in Grants of Plan-Based Awards Table	8-61
29. Narrative vs. Footnote Disclosure	8-62
30. Narrative vs. CD&A Disclosure	8-62
31. Separate Tables for Different Awards	8-63
32. Fractional Shares	8-64
33. Report Forgone Incentive	8-64
b. Outstanding Equity Awards at Fiscal Year-End Table	8-65
1. In-Kind Earnings	8-65
2. Definition of “Previous Fiscal Year”	8-66
3. Option Transfer Under Divorce Settlement	8-66
4. Restricted Stock Awards Reporting	8-67
5. Stock-Settled SARs Reporting	8-68

6. Incentive Plan Based on Return on Equity	8-68
7. LTIP Grants After Performance Period	8-69
8. Vesting Dates for Vested Securities	8-70
9. Forfeiture of Performance-Based Awards	8-71
10. Determining Market Value of Stock with No Trading Market	8-71
11. Disclosing Clawback Recoveries.	8-72
c. Option Exercises and Stock Vested Table	8-72
1. Net vs. Gross Number of Shares	8-72
2. Reporting an Option Buy-Out	8-73
3. Calculating “Value Realized”	8-73
4. Explaining “Value Realized”	8-74
5. Vesting Date for Performance Shares	8-74
6. Reporting Exercised/Vested Awards in Other Compensation Tables	8-75
7. CFO Leaving the Company	8-75
VI. Practice Pointers	8-76
– Take “Best Fit” Approach	8-76
– The “Life Cycle” Perspective	8-76
– Make Equity Tables More User-Friendly	8-76
– Avoid “Springing” Columns	8-76
– Consult with Accountants	8-77
VII. Sample Disclosure	8-77
a. Narrative to the Grants of Plan-Based Awards Table—Exar Corporation Example	8-77
b. Adding a Description of Awards Type to Grants of Plan-Based Awards Table—Southwest Water	8-80
c. Alternative Disclosure for Equity Award with Performance Conditions—Intuit	8-82
d. Reporting Immediately Exercisable Options—Sycamore Networks	8-84
e. Detailed Option Exercises and Stock Vested Table—UnitedHealth Group.	8-88

Chapter 9 Post-Employment: Pension Benefits & Nonqualified Deferred Compensation Tables

I. History	9-4
II. SEC Rules and Regulations	9-5
III. SEC Staff Guidance	9-9
a. Compliance and Disclosure Interpretations	9-9
1. No Deviation from US GAAP for Actuarial Assumptions	9-9
2. Younger of Retirement Ages Required for Actuarial Present Valuation	9-9

3.	Measuring Actuarial Present Value of Accumulated Benefits	9-10
4.	Ignoring Assumptions Regarding Pre-Retirement Decrements	9-10
5.	No Reporting Accrued Benefit under Cash Balance Plan	9-10
6.	No Need for Footnotes If Amounts Not in Summary Compensation Table	9-11
7.	Definition of Nonqualified Deferred Compensation Plan “Earnings”	9-11
8.	Plan-By-Plan Disclosure of Nonqualified Deferred Compensation	9-11
9.	Nonqualified Deferred Compensation Contributions Reported in Year Earned	9-12
10.	Deferred Receipt of an Equity Award Reportable as Deferred Compensation	9-12
b.	Comment Letters	9-12
IV.	How the Rule Works	9-13
a.	Pension Benefits Table	9-13
–	Pension Plans Covered	9-13
–	Plan-By-Plan Disclosure	9-13
–	NEOs Participating in Multiple Plans	9-13
–	Pension Plan Measurement Date	9-14
–	Reporting Years Credited & Years Served	9-14
–	Handling Difference in Years Credited & Years Actually Served	9-14
–	Relationship to Summary Compensation Table	9-14
–	Reporting Actuarial Present Value of Plan Benefits	9-14
–	Assumptions for Actuarial Present Value Calculation	9-15
•	Accumulated Benefit	9-15
•	Working at Company and Living Until Retirement	9-15
•	Retirement Age	9-15
•	Mortality Assumptions	9-16
•	Discount Rate Assumption	9-16
•	Payment Distribution Assumptions	9-16
•	Cash Balance Plans	9-16
•	Valuation Assumptions Explained in Narrative Rather Than Cross-Referencing	9-17
–	Reporting Contingent Benefits Under Item 402(j)	9-17
–	Reporting Withdrawals or Distributions	9-17
–	Additional Narrative Disclosures	9-17
•	Material Terms and Conditions	9-17
•	NEOs Eligible for Early Retirement	9-17
•	Elements of Compensation	9-18
•	Purposes of Multiple Plans	9-18
•	Policies on Granting Years of Credited Service	9-18
–	No Pension Benefits Table for Smaller Reporting Companies or EGCs	9-18
–	Need to Coordinate Closely with Actuaries & Accountants	9-18
b.	Nonqualified Deferred Compensation Table	9-19
–	Growth in Nonqualified Plans & Arrangements	9-19

– Types of Plans Covered	9-19
– Tax-Qualified Plans Excluded	9-19
– Plan-by-Plan Disclosure	9-19
– Required Disclosure	9-19
• Executive Contributions	9-20
• Company Contributions	9-20
• Nonqualified Deferred Compensation Earnings	9-20
• Withdrawals and Distributions	9-20
• End of Year Account Balance	9-20
– Timing of Contributions	9-21
– “Double-Counting” Disclosures	9-21
– Narrative Disclosures	9-21
– No Nonqualified Deferred Compensation Table for Smaller Reporting Companies or EGCs	9-22
V. Common Questions and Our Analysis	9-22
a. Pension Benefits Table	9-22
1. Deviation from Assumptions Used for Accounting Purposes	9-22
2. Normal Retirement Age vs. Earlier Unreduced Benefit Age	9-23
3. Assumptions About Future Employment & Retirement	9-23
4. Assumptions Regarding Benefit Payment Methods	9-23
5. Pre-Retirement Events & Actuarial Present Value	9-24
6. Reporting Accumulated Pension Benefit Prior to Vesting	9-24
7. Actuarial Present Value in Change in Control Context	9-25
8. Cash Balance Plans & “Accrued Benefits”	9-25
9. Valuing Benefits Replacing Terminated Pension Plan	9-25
10. SERP Payments	9-26
11. Life Insurance Policies to Hedge SERP	9-26
12. Pensionable Earnings Calculation	9-27
13. Determining Accumulated Benefit of SERP	9-27
14. Including Valuation Assumptions in Narrative Disclosure	9-28
15. Bifurcated Plans	9-28
16. ESOP/Pension Plan Offset Arrangement	9-28
17. Canadian Registered Retirement Savings Plan	9-29
18. Defined Benefit Plan Termination Prior to Retirement	9-30
b. Nonqualified Deferred Compensation Table	9-30
1. Reporting When Earned or Deferred	9-30
2. Matching Contributions: Report in Year in Which Condition Satisfied	9-31
3. Definition of “Earnings” Includes Losses	9-32
4. Including Above-Market Earnings	9-32
5. Spillover Payments from Qualified Plan	9-32
6. Tie-In of Aggregate Balance & Summary Compensation Table	9-33
7. Plan-by-Plan vs. Aggregated Disclosure	9-34

8. Footnote Disclosure to Avoid “Double Counting”	9-34
9. Definition of “Contributions” for Nonqualified Deferred Compensation & Summary Compensation Tables	9-34
10. Employee Stock Ownership Plans	9-35
11. RSU Award as Deferred Compensation	9-35
12. Reporting Deferred Net Share-Settled RSUs	9-36
VI. Practice Pointers	9-36
– Dealing with Valuations	9-36
– Potential for Large Numbers	9-37
– Changes from Year-to-Year Likely	9-37
– Coordinate Early & Often	9-37
– Streamline Your Plans & Arrangements	9-37
– Consider Supplemental Disclosure	9-37
– Disclosure Controls	9-38
– For Alternative Approaches for Disclosing Estimated Benefits, Show Larger Amount	9-38
– Establish Procedures for Tracking Deferred Amounts in Summary Compensation Table	9-38
– Prepare “Dry Run” Before Year-End	9-38
– Coordinate Disclosures Required by Post-Employment Tables with CD&A	9-38
– Develop List of Key Assumptions & Data Requirements	9-38

Chapter 10 Post-Employment: Change-in-Control & Severance Disclosures

I. History	10-5
II. SEC Rules and Regulations	10-8
III. SEC Staff Guidance	10-9
a. Compliance and Disclosure Interpretations	10-9
1. Disability Plans That Do Not Discriminate	10-9
2. Accrue Amounts When Due	10-10
3. Calculate Accelerated Options Using “Spread”	10-10
4. No Omission If Executives Receive Amounts Greater Than Employees	10-11
5. Calculating the Value of Life Insurance Benefits	10-11
6. Quantification Date for Tax Gross-Ups	10-11
7. Trigger Date After Fiscal Year End	10-12
8. Can’t Limit Disclosure to Specific Triggering Event	10-12

b.	Comment Letters	10-12
–	Relationship to the CD&A	10-13
–	Narrative Disclosure Under Item 402(j)	10-13
–	Tables	10-13
–	Terminology	10-13
–	Triggers	10-13
–	Amounts Payable	10-13
–	Totals	10-13
IV.	How the Rule Works	10-14
a.	General	10-14
–	Many—and Varied—Post-Employment Compensation Arrangements	10-14
–	Investors Targeting Post-Employment Compensation Arrangements	10-14
–	Rethinking Purpose of Post-Employment Compensation Arrangements	10-14
–	Five Different Locations to Disclose Post-Employment Compensation Arrangements	10-15
–	Trend Towards Tabular Format	10-15
–	Complexity of Tables	10-15
–	Principles-Based Disclosure	10-15
–	Calculating Amounts	10-16
–	No <i>De Minimis</i> Threshold for Disclosure	10-16
–	Disclosure of Full “Walk-Away” Totals	10-16
–	Time Consuming & Complex Disclosure	10-16
–	Narrative Disclosure for Smaller Reporting Companies & EGCs	10-17
b.	NEOs	10-17
–	Identifying the NEOs to Which Disclosure Relates	10-17
–	NEO Departure Before End of Year	10-17
–	NEO Departure After End of Year	10-17
c.	Reportable Arrangements	10-18
–	Reportable Arrangements	10-18
–	Covered Agreements	10-18
–	Amounts Covered	10-18
–	Include Unwritten Policies & Arrangements	10-19
–	Plans That Do Not Discriminate Among Employees	10-19
–	Form & Duration of Payments; Identity of Obligor	10-19
d.	Triggering Events	10-19
–	Types of Triggering Events	10-19
–	Change in Responsibilities	10-20
–	Definition of Change-in-Control	10-20
–	Dates Presumed for Triggering Dates	10-20
–	Disclosure of Trigger Details	10-20

e.	Estimated Payments	10-20
	– Quantifying “Reasonable” Estimates	10-20
	– Estimates vs. Actual Numbers	10-20
f.	Determination of Appropriate Payment & Benefit Levels	10-21
	– How Payment & Benefit Levels are Determined	10-21
g.	Calculations for Specific Events	10-21
	– Calculating Healthcare Benefits	10-21
	– Calculating Perquisites & Other Personal Benefits	10-21
	– Calculating Value of Equity Acceleration	10-21
	– Extending Term of Stock Options	10-22
	– Calculating Value of Life Insurance Benefits	10-22
	– Retirement Benefits & Nonqualified Deferred Compensation	10-23
	– Gross-Ups & Other Tax Reimbursements	10-23
h.	Material Conditions or Obligations	10-24
	– Applicable Material Conditions or Obligations	10-24
	– Whistleblower Enforcement Actions	10-24
i.	Other Material Factors	10-24
	– “Any Other Material Factors”	10-24
V.	Common Questions and Our Analysis	10-25
a.	General	10-25
	1. Cross-References from Pension Benefits Table	10-25
	2. No Confidential Treatment	10-25
	3. Item 402(j) Equivalent for Smaller Reporting Companies	10-26
	4. Both Acquiror & Target Are Public Companies	10-26
b.	NEOs Covered	10-28
	1. NEOs Employed by Non-Reporting Subsidiary	10-28
c.	Reportable Agreements	10-28
	1. Disclosing Acceleration Agreement with a “Single Trigger”	10-28
	2. Consulting Agreement for Fired NEO	10-28
	3. Non-Compete Agreement for Terminated NEOs	10-29
	4. Adopting Severance Plan After Fiscal Year-End	10-29
	5. Replacement of Severance Benefit Plan	10-29
	6. Termination of NEO After Fiscal Year-End	10-30
	7. Termination of NEO After Fiscal Year-End with New Severance Agreement	10-31
	8. Reportable Agreements in Annual/Merger Proxy Statement	10-32
	9. Disclosure for Non-Retirement Eligible NEO	10-33
	10. “Generally Available” Exclusion & Stock Option Plans	10-34
	11. “Generally Available” Exclusion & Foreign Employees	10-35
	12. “Generally Available” Exclusion & Plan Closed to New Employees	10-35
	13. “Generally Available” Exclusion & Continuing Health Care Benefits	10-35

14. Extension of Equity Award	10-35
15. Pro-Rated Annual Incentives	10-36
d. Triggering Events	10-36
1. How to Disclose Triggering Event Definitions	10-36
2. Disclosing Agreement with Both Single & Double Triggers.	10-36
3. Disclose Adoption of Double-Trigger Even If Not Required	10-37
4. Severance as Triggering Event.	10-37
5. Change in Responsibilities.	10-37
6. Trigger Event Occurs <i>At</i> Fiscal Year-End	10-38
e. Valuation Methods/Estimated Payments.	10-38
1. Total “Walk-Away” Numbers	10-38
2. Incremental Cost Valuation	10-38
3. Uncertainty of Estimated Payments.	10-39
4. Valuing Discriminatory Plans/Benefits	10-40
f. Calculation for Specific Events.	10-40
1. Last Business Day of Fiscal Year for Gross-Up Calculations	10-40
2. Valuing Acceleration of In-the-Money Options.	10-41
3. Valuing Acceleration of Underwater Options	10-41
4. Contingent Acceleration of Options.	10-41
5. Annual vs. Lump Sum Disclosure of Lifetime Payments	10-42
6. Accelerated Equity.	10-43
7. Benefit Enhancement	10-44
8. Handling “Eve of Merger” Bonuses	10-44
VI. Practice Pointers	10-45
– Use Table to Supplement Narrative Explanation of Benefits/Assumptions	10-45
– Cross-Reference CD&A Discussion of Post-Employment Arrangements	10-45
– Disclose Definitions/Material Assumptions & Conditions for Triggers.	10-45
– Disclose Maximum Cost Estimates for Tax Gross-Ups	10-45
VII. Sample Disclosures	10-45
a. Energizer’s Post-Employment Compensation Disclosure	10-45
b. Costco’s Accelerated Equity Awards Disclosure	10-46
c. Humana’s “Walk-Away” Numbers	10-48
d. Sycamore Networks’ “Single Trigger” Change in Control Table.	10-57
e. Starbucks Corporation’s “Walk-Away” Numbers.	10-60
f. Spherion Corporation’s Tabular Disclosure	10-63
g. Pall Corporation’s Section 280G Assumptions Disclosure.	10-66
h. Fluidigm’s CD&A Disclosure as Supplement to Post-Employment Compensation Disclosure	10-69
VIII. Full “Walk-Away” Values	10-72
– Wealth Accumulation—And Full “Walk Away:” What You Need to Know— And Do	10-72

– What is a Wealth Accumulation Analysis?	10-72
– Why a Wealth Accumulation Analysis Is Important	10-72
– How to Implement a Wealth Accumulation Analysis	10-73
– A Full-Blown Chart	10-74
– Compare Against Wealth Created for Shareholders	10-74
– A Few Additional Pointers	10-74
IX. Reconsidering the “Need” for Severance & Change-in-Control Arrangements	10-80
– Don’t Necessarily Rely on “Experts”	10-81
– Leading By Example: The True Leaders Speak Up	10-81
X. Negotiating the Removal of Tax Gross-Ups	10-82
– What is a Tax Gross-Up	10-82
– Reasons for Tax Gross-Ups	10-83
– How to Negotiate Your Way Out of an Unreasonable Gross-Up	10-83

Chapter 11 Director Compensation

I. History	11-5
II. SEC Rules and Regulations	11-6
III. SEC Staff Guidance	11-10
a. Compliance and Disclosure Interpretations	11-10
1. Directors Covered by Director Compensation Table	11-10
2. Footnote Disclosure Regarding Equity Awards	11-11
3. “All Other Compensation” Column	11-11
4. Interaction with Related Person Transaction Disclosure	11-12
5. Reporting Director Pension Benefits	11-12
b. Comment Letters	11-12
IV. Nasdaq “Golden Leash” Rules	11-12
V. How the Rules Work	11-15
– Evolution of Types of Director Pay	11-15
– Shareholders Focus on Director Pay	11-15
– Monitor Director Pay Levels	11-16
– Tabular Disclosure Format	11-16
– Total for Each Director	11-17
– Fewer Tables Required for Directors than NEOs	11-17
– Reporting More Than Required	11-17

– Omitting Columns If Not Applicable	11-17
– Anyone Serving Last Year As Non-Employee Director Covered	11-17
– NEOs & Executive Officers Who Don’t Earn Director’s Compensation Not Covered	11-17
– Omitting Fees That Can’t Be Determined	11-17
– Round Numbers & Report in Dollars	11-18
– Reporting of Equity Awards is Similar to Summary Compensation Table	11-18
– Reporting Deferred Payments	11-18
– Instructions Comparable to Summary Compensation Table Instructions	11-18
– No Director CD&A Required	11-19
– Need Footnote Disclosures	11-19
– Narrative Disclosure Required	11-19
– Trend of Expanded Narrative Disclosure	11-19
– Some Types of Compensation Not Reportable	11-19
– Perquisites & Other Personal Benefits	11-20
– Disclosure for Directors vs. NEOs Similar, But Not Identical	11-20
– Include All Other Compensation	11-20
– Determining Whether Severance is Reportable	11-20
– Charitable Donations in Director’s Name	11-21
– Disclosure of Hedging Policy	11-21
– Potential Need to Ratify Director Compensation	11-21
• Meaningful Limits	11-22
• Limits on Equity & Cash Compensation	11-23
• Avoid Problematic Pay Practices	11-23
• Improved Governance Procedures	11-23
• Committee Charter	11-23
• Independent Review	11-23
• Peer Group Benchmarking	11-24
• Improved Disclosure	11-24
– Shareholder & Proxy Advisor Policies on Director Pay Proposals	11-24
– Limited Relief for Smaller Reporting Companies	11-24
– Disclosure of Golden Leash Arrangements for Nasdaq Companies	11-25
– D&O Questionnaires Should Ask About Golden Leash Arrangements	11-26
– Failing to Timely Disclose Golden Leash Arrangements	11-26
– Independent Committee Not Expressly Required	11-26
VI. Common Questions and Our Analysis	11-27
a. Location of Director Compensation Table	11-27
b. Directors Covered by the Director Compensation Table	11-27
1. Director Joins Board After Fiscal Year-End	11-27
2. Director Leaves Before Fiscal Year-End	11-27
3. Director Leaves After Fiscal Year-End	11-27

4.	Director Who Serves as NEO	11-27
5.	Director Who Serves as Officer But Not NEO	11-28
6.	Director Who Serves as Employee But Not Officer	11-28
7.	Director Emeritus Compensation	11-29
8.	Director Earned No Compensation	11-29
9.	Director Waives Compensation	11-29
10.	Director as CEO for Part of the Year	11-30
11.	Director Who Serves as Officer but Not NEO Resigns as Director	11-32
c.	Aggregating/Disaggregating Director Compensation	11-32
1.	Reporting for Each Director When Compensation Identical	11-32
2.	Separating Cash from Equity Compensation	11-32
d.	Reporting Director Cash Compensation	11-32
1.	Meaning of "Earned or Paid"	11-32
2.	Don't Subtract Withholdings	11-33
3.	Fees Forgone When Equity Elected Instead	11-33
4.	Compensation Paid Prior to Joining Board of Directors	11-33
5.	Special Committee Fees	11-34
e.	Reporting Director Equity Compensation	11-34
1.	Reporting Cash-Settled Equity Awards	11-34
2.	Disclosure of Aggregate Outstanding Equity Awards	11-35
3.	Equity Granted in Lieu of Retainer & Meeting Fees	11-36
4.	Deferred Compensation Payable Partly in Equity	11-38
5.	Grant Date Fair Value for Each Award	11-39
6.	Grant Date Fair Value for Last Fiscal Year	11-39
7.	Grant Date Fair Value & Dividends	11-39
8.	Option Exercises & Vesting of Restricted Stock	11-39
9.	Equity Awards Delivered to Director's Employer	11-40
f.	Reporting Non-Equity Incentive Plan Compensation	11-40
1.	Earnings for Services Performed During Year	11-40
2.	Earnings on Outstanding Awards	11-40
g.	Reporting Director Pension Benefits & Nonqualified Deferred Compensation	11-41
1.	Calculation of Change in Plan Value	11-41
2.	Inclusion of Pension Benefits Earned as Former Employee	11-41
3.	Omitting "Change in Pension Value" Column	11-42
4.	Deferral of Shares Held in Phantom Stock Account	11-42
5.	Reporting Earnings on Nonqualified Deferred Compensation	11-43
h.	Reporting Compensation in "All Other Compensation" Column	11-44
1.	Consulting Arrangements	11-44
2.	Fees from Non-Public Parent As "Other Compensation"	11-44
3.	Reporting Amounts "Accrued To" Director	11-45
4.	Director Payments Upon Retirement	11-45

5. Director Charitable Programs	11-46
6. Director Travel as Perquisite	11-48
7. Director Travel to Board Meeting	11-48
8. Director Travel to Teach Business Course	11-49
9. One Director Flying on Another Director’s Airplane	11-49
10. Administrative Support for Directors	11-50
11. iPad/Laptop a Perk?	11-50
12. Reimbursement of Perquisites	11-51
13. Foreign Tax Preparation Help	11-51
14. Tax Gross-Ups	11-52
15. Gifts to Directors	11-52
16. Fees Paid to Director’s Law Firm	11-55
17. SERP Payments Earned as NEO	11-55
18. Receipt of Retirement Benefits for Former Service as Employee	11-56
i. Footnotes & Narrative Accompanying Director Compensation Table	11-56
1. General Principles	11-56
2. Relationship to CD&A	11-57
3. Description of Different Types of Fees	11-58
4. Equity Award Footnotes	11-58
VII. Practice Pointers	11-58
– Consider CD&A Discussion of Director Compensation Principles	11-58
– Consider Describing All Perquisites Even If Below Disclosure Threshold	11-59
– Weigh the Costs/Benefits of Director Legacy & Charitable Gift Programs	11-59
– Address Committee Policies & Procedures for Determining Director Compensation	11-59
– Consider Disclosing Specific Compensation for Each Director by Name Even If Compensation Identical	11-60
– Note Differences in Supplemental Disclosure for Outstanding Director Equity Awards	11-60
VIII. Sample Disclosures	11-60
a. Directors Compensation Table/Narrative Sample	11-60
b. Footnote Disclosure of Cash & Equity Awards	11-65
c. Addressing Recent Revisions to Director Compensation Program	11-70
d. Disclosing Director Expenses	11-71
e. Example of Director Aircraft Use Disclosure	11-73
f. Example of Director Hedging Policy Separate from General Hedging Practices Disclosure	11-73
g. Example of Use of Compensation Consultant to Review Director Pay	11-73

Chapter 12 Related-Party Transactions: Interplay of Items 402 & 404

I. History	12-3
II. SEC Rules and Regulations	12-3
III. SEC Staff Guidance	12-4
a. Compliance and Disclosure Interpretations	12-4
1. Valuation of Stock Options for Item 404(a)	12-4
2. Allocation of Compensation Paid by Subsidiary & Parent	12-5
3. Omitting Executive Officer from Director Compensation Table	12-5
4. Employee Director Compensation Not Repeated in Item 404(a)	12-5
5. Children Employed by Company	12-6
6. Amount Involved in Transaction for Employment Arrangements	12-6
7. Non-Executive Officer Immediate Family Members	12-6
b. Comment Letters	12-6
IV. How the Rule Works	12-7
– “All” Compensation Required by Item 402	12-7
– Related-Party Disclosure Required by Item 404	12-7
– Duplicative Disclosure Still Possible	12-7
– Principles-Based Nature of Item 404	12-7
– NEO Compensation Disclosed in Item 402, Not Item 404	12-7
– Non-NEO Officer Compensation Disclosure Excluded from Item 404	12-7
– No Need to Disclose Director Compensation under Item 404	12-8
– Item 404 Disclosure for Compensation of Immediate Family Members	12-8
– Need to Obtain Compensation Committee Approval (or Recommendation) of Executive Compensation	12-9
– PCAOB’s “Related-Parties” Standard	12-9
V. Common Questions and Our Analysis	12-9
a. Meaning of “Approximate Dollar Amount”	12-9
b. Meaning of “Is Reported”	12-10
c. Calculating “Amount Involved” under Item 402	12-10
d. Non-NEO Officer Compensation Disclosure under Item 404	12-11
e. Employee-Director Compensation Disclosure under Item 404	12-11
f. Employees that are Immediate Family Members of Non-NEO Executive Officers	12-12
g. Employees that are Immediate Family Members of Directors	12-12
h. Item 404(a) Threshold Based on Date Payments Made, Not Earned	12-13
i. NEO’s Child Employed by Public Company’s Supplier	12-13
j. Executive of Related Party is Immediate Family Member of NEO	12-14
k. Option Granted to Family Member	12-14

l.	“After the Fact” Board Approval of Non-NEO Executive Officer Compensation	12-15
m.	Fees Paid to Company Employing Contract Executive	12-15
n.	NEO’s Pay Forfeiture May Be Related Party Transaction	12-15
o.	Payments for Shares as Compensation	12-16
p.	Sale of Discounted Securities to Executives	12-16
q.	Disclose Option Granted to Director Nominee	12-17
r.	Ex-Director Consulting Arrangement	12-19
s.	NEO Receives Bonus from Another Company with Same Owner	12-19
t.	Reimbursement of Spousal Airplane Use	12-20
u.	May Be Better to Characterize Payments as “Perks” Vs. “Related Person Transaction”	12-20
v.	Legal Fee Reimbursement by Executive May Be Related Party Transaction	12-21
w.	Private Parent Supplies Executives to Public Subsidiary for Management Fee	12-21
x.	Charitable Contributions	12-22
y.	Interplay Between Item 5.02(c) of Form 8-K & Item 404	12-24
z.	Sale of Stock	12-25
aa.	Disclosure for Smaller Reporting Companies	12-25

Chapter 13 Compensation Committee Disclosure

I.	History	13-3
II.	SEC Rules and Regulations	13-5
III.	SEC Staff Guidance	13-10
	a. Compliance and Disclosure Interpretations	13-10
	1. Disclosure about Compensation Consultants	13-10
	2. Compensation Consultant Consents	13-10
	3. Relationship to CD&A’s Discussion of Consultants	13-10
	4. Scope of “Additional Services”	13-11
	5. Fee Disclosure for Excluded Services	13-11
	6. “Additional Services” Includes All Services & Products	13-12
	7. Omission of Compensation Committee Interlocks Disclosure	13-12
	b. Comment Letters	13-12
IV.	How the Rule Works	13-15
	– Purpose of Compensation Committee Disclosure	13-15
	– Relationship to CD&A	13-15
	– Relationship to Compensation Committee Report	13-15

– Disclosing Authority Over Compensation Matters	13-16
– Companies Increasingly Describe Broader Role of Compensation Committee . . .	13-16
– Disclosing Role of Executive Officers.	13-16
– Disclosing Identity of Compensation Consultants.	13-16
– Disclosing Role of Compensation Consultants	13-17
– Exception for Non-Discriminatory Plans & Non-Customized Information	13-17
– Compensation Consultant Fee Disclosure	13-18
– “Additional Services” Is Broadly Interpreted	13-19
– Independence of Compensation Committee Advisers	13-20
– No Consent Necessary from Consultants	13-22
– Authority Over Advisers & Funding	13-22
– Compensation Consultant Conflict of Interest Disclosure Requirements	13-23
– Disclosure & Posting of Compensation Committee Charter	13-24
– Disclosing Charter’s Delegation Limits.	13-24
– Compensation Committee Interlocks/Insider Participation.	13-26
– Lack of Compensation Committee	13-26
– Independence of Compensation Committee Members	13-26
V. Common Questions and Our Analysis	13-27
a. Change in Committee Membership	13-27
b. Definition of Compensation Committee	13-28
c. Omission of Compensation Committee Report	13-28
d. Omission of Interlock Disclosure	13-29
e. “Interlock” Requires Overlapping Relationship	13-29
f. CD&A’s Relationship to Committee Disclosure	13-29
g. Referral of Compensation Consultant	13-30
h. Instructions to Compensation Consultant	13-31
i. Definition of “Additional Services”.	13-31
j. Rare to Have Pre-Approval Policy for “Additional Services”.	13-32
k. Overlap Between “Independence” & “Conflicts” Analysis.	13-32
l. Compensation Consultant Indemnification	13-33
m. One Consultant Working for Two Different Firms	13-33
n. ISS Corporate Services Isn’t a Consultant.	13-34
o. Law Firm Refusal to Provide Independence Information	13-34
p. Compensation Consultant’s Stockholdings & Independence	13-35
q. Frequency Determination of Compensation Consultant’s Independence	13-35
r. Nasdaq’s Requirement to Establish Compensation Committees.	13-36
s. Compensation Consultant Rotation	13-36
t. Compensation Committees Not Setting Pay for More Junior Officers	13-37
VI. Compensation Adviser Conflict of Interest Questionnaire	13-38
VII. Sample Disclosures	13-40

Chapter 14 Equity Compensation Plan Information

I. History	14-3
II. SEC Rules and Regulations	14-4
III. SEC Staff Guidance	14-7
a. Compliance and Disclosure Interpretations	14-7
1. Location of Disclosure	14-7
2. Grants Subject to Forfeiture	14-8
3. Disclosure of Performance Shares, Phantom Stock	14-8
4. IRC Section 423 Plans	14-8
5. Rights Exercisable for No Consideration	14-9
6. Plans Approved by a Court	14-9
7. Awards Settled in Cash and/or Stock	14-9
8. “Qualified” Foreign Plans	14-10
9. Shares Issuable Under Stock Appreciation Rights	14-10
b. SEC Staff Interpretive Letter	14-10
1. Narrative Description of Materially Similar or Identical “Individual Compensation Arrangements”	14-10
2. Identifying Recipients of Individual Compensation Arrangements & Number of Securities Covered	14-11
3. Amendment to Plan Previously Approved by Shareholders to Increase Shares Available for Future Issuance	14-11
4. Assumption of Equity Compensation Plan	14-12
5. Placement of Item 201(d) Disclosure in Form 10-K	14-12
6. Scope of Proxy Statement Disclosure Requirement	14-12
IV. How the Rule Works	14-13
– Supplemental to Item 402 Disclosure	14-13
– Location of Equity Plan Disclosure	14-13
– Placement in Form 10-K	14-13
– Placement in Proxy Statement	14-13
– Item 201(d) Doesn’t Always Govern Equity Plan Disclosure	14-13
– “All” Equity Plans & Arrangements	14-14
– Meaning of “In Effect”	14-14
– Tabular Format	14-14
– Narrative Disclosure Required for Non-Approved Plans	14-15
– “Evergreen” Plans	14-15
– Plans Assumed in Mergers, Consolidations & Other Acquisitions	14-15
– Exceptions to Required Disclosure	14-16
– Disclosure Not Required in Registration Statements	14-16
– When Exchanges Require Shareholder Approval	14-16

V. Common Questions and Our Analysis	14-17
a. Required in Form 10-K—Can Incorporate by Reference from Proxy	14-17
b. Required in 10-K (Regardless of Whether Voting on Plan)	14-17
c. 10-K Placement: Disclose under Item 12 of Part III	14-18
d. Required in Proxy & 10-K If Voting on Plan	14-19
e. Not Required in Proxy If Not Voting on Plan	14-19
f. Disclosure of Plans Assumed in Merger	14-19
g. Approval by Sole Shareholder Prior to Spin-Off	14-20
h. Disclosure of Specific Grants	14-21
1. Grants of Non-Plan Options to Directors	14-21
2. Grants to New Chief Executive Officer	14-21
i. Shares Issuable Under Restricted Stock Plan	14-22
j. Deferred RSUs	14-22
k. Instruction 6 to Item 201(d)	14-23
l. Awards Settled Only in Cash	14-23
m. Amendments to Plans	14-24
n. Obligation to Update Table	14-25
o. Disclosure of Plans to be Approved/Amended	14-25
p. Employee Stock Purchase Plans	14-25
1. ESPP Disclosure in Equity Compensation Plan Table	14-25
2. ESPP & Broker Voting	14-26
q. Stock Exchange Shareholder Approval Requirements	14-26
1. Individual Grants to NEOs in Connection with “Re-upped” Employment Agreement	14-26
2. Exception for Inducement Grants	14-26
r. Disclosure of New Equity Plan in IPO Prospectus	14-27
s. Plan Expiration Date	14-27
t. Disclosure Not Required for Non-Compensatory Issuances	14-27
u. Footnote Disclosure Explaining Grant Date Determination for Awards Finalized in Subsequent Year	14-28
VI. Sample Disclosure	14-28

Chapter 15 Plan Disclosure When Seeking Shareholder Action

I. History	15-3
II. SEC Rules and Regulations	15-3

III. SEC Staff Guidance	15-8
a. Compliance and Disclosure Interpretations	15-8
1. Triggering Events for Item 10 Disclosure	15-8
2. Preparation of New Plan Benefits Table	15-8
3. List All Individuals & Groups	15-9
4. Focus on New Plan Benefits Table Exclusively	15-9
5. No Dollar Value Reported for Options	15-9
6. Amounts Not Determinable	15-10
7. No “Pro Forma” Presentation for Discretionary Awards	15-10
8. Applies to Plans With “Objective Criteria”	15-10
9. Market Value of Underlying Securities	15-11
10. No Grants to Report for New Plan	15-11
11. Can Disclose Pension & Retirement Plans in Narrative Format	15-11
12. Item 10(b)(2)(ii) Applies to Options Received At Any Time	15-12
13. Amendment to Add New Class of Participants	15-12
– Schedule 14A, Item 10	15-12
14. Filing Requirements	15-12
– Schedule 14A, Item 10, Instruction 3	15-12
15. Columns Added for Each Plan	15-12
– Schedule 14A, Item 10(a)(2)	15-12
16. Applies to Each Grant or Plan	15-12
– Schedule 14A, Item 10(b)(2)(i)	15-12
17. Preliminary Proxy Required to Approve or Ratify Awards	15-13
18. No Need to Unbundle Multiple Changes to Omnibus Plan	15-13
IV. How the Rule Works	15-14
– Supplemental to Item 402 Disclosure	15-14
– Shareholder Solicitation Triggers Item 10 Disclosure	15-14
– When Shareholder Action is Required	15-14
– “Plan” is Broadly Defined	15-14
– Disclosure of All Plans Not Required	15-15
– Relationship to Equity Compensation Plan Information Table	15-15
– Tabular & Narrative Disclosure Both Required	15-15
– Need Information for Individuals and Groups	15-15
– Amounts Required to Be Disclosed	15-16
– “Pro Forma” Disclosure May be Required	15-16
– Disclosure Required for Each Plan	15-16
– Additional Information Required for Retirement and Option Plans	15-16
– Notify SEC Regarding Securities Act Registration or Exemption	15-16
– No Need to Unbundle Multiple Changes to Omnibus Plan	15-17
– Disclosure Required If Shareholder Approval Unnecessary for Plan Amendment	15-17
– Describe Tax Consequences to Company & Participants	15-17
– Filing Copy of Written Plan	15-17

– Litigation	15-17
– Uptick in Disclosure	15-19
– Compensation Committee Process	15-20
– ISS’ “Equity Plan Scorecard” for Shareholder Approvals	15-20
– ISS Evaluation of Plan Amendments	15-23
– ISS Evaluation of Director Plans	15-23
– Glass Lewis “Equity Compensation Model” for Shareholder Approval	15-23
V. Common Questions and Our Analysis	15-24
a. Persons Covered	15-24
1. Options Disclosure Regarding “Associates”	15-24
2. Individual NEO Disclosure	15-24
b. Item 10 Applies to Both New and Existing Plans	15-24
c. New Plans Tend to Get More Support Than Amendments	15-24
d. Include All Awards to Current & Former Employees in Item 10(b)(2)(ii) Table	15-25
e. Re-Approval of Section 162(m) Plans: Include New Plan Benefits Table	15-25
f. Re-Approval of Section 162(m) Plans: May Still Be Necessary	15-26
g. Amended Plans: Address Item 10(a) & 10(b) for Additional Securities	15-26
h. Future Discretionary Grants Under Equity Plan	15-27
i. Disclosure of Contingent Options	15-28
j. Plans Providing Awards Settled Only in Cash	15-29
k. Disclosure of Performance Targets	15-29
l. Disclosure of Existing Awards for Plan Amendments	15-30
m. Attaching Plan to Proxy Statement	15-30
n. Describe Tax Consequences to Company & Participants	15-30
VI. Sample Disclosure	15-31

Chapter 16 Stock Performance Graph

I. History	16-3
II. SEC Rules and Regulations	16-4
III. SEC Staff Guidance	16-7
a. Compliance and Disclosure Interpretations	16-7
1. Presenting Monthly or Quarterly Returns	16-7
2. Presenting Self-Constructed Peer or Market Capitalization Index	16-7
3. Determining Opening Price of IPO	16-7
4. Optional vs. Required Placement of Performance Graph	16-8
5. Change in Self-Constructed Index	16-8
6. Change in Listed Exchange	16-9
7. Last Day Used by Third-Party Provider	16-9

8. Use Spin-Off Effective Date to Start	16-9
9. Parent Adjusting for Spin-Off	16-9
10. Acquired But Still Has Stock Outstanding	16-9
11. Composite Peer Group for Distinct Lines of Business	16-10
12. Change in Self-Selected Peer Group	16-10
13. Short Fiscal Years	16-10
14. Emergence from Bankruptcy	16-10
15. Definition of “Published Industry or Line-of-Business Index”	16-10
b. Comment Letters	16-11
IV. How the Rule Works	16-11
– Decoupled from Executive Compensation Disclosure	16-11
– Limited Liability of “Furnished,” Not “Filed”	16-11
– Period Covered of Five Years	16-12
– Comparison of Yearly Percentage Change to Total Shareholder Return	16-12
– Use of Third-Parties to Create Graph	16-12
– Timeline to Prepare Graph	16-13
– No Graph for Smaller Reporting Companies	16-13
V. Common Questions and Our Analysis	16-13
a. Placement of Performance Graph	16-13
1. Placement in “Glossy” Annual Report	16-13
2. Placement in Form 10-K Wrap	16-13
3. Placement in Both “Glossy” Annual Report & Proxy Statement	16-14
4. Placement in Proxy Statement	16-14
5. No Color Required	16-15
b. Self-Constructed Peer Group	16-15
1. Peer Group Composition	16-15
2. Changes to Components in Self-Constructed Peer Group Index	16-15
3. Presentation of the Performance of the Old & New Peer Group in the Year of a Change	16-16
c. Changes Year-to-Year	16-16
1. Change in Stock Exchange	16-16
2. Change in Market Value Index Range	16-17
3. Fiscal Year Change	16-17
4. Performance Graph for “Split-Off” Stock	16-18
d. Mistaken Omission of Graph from Annual Report	16-18
e. Using Table Following Graph with Actual Dollar Values	16-18
f. Liability Disclaimer	16-19
g. When Performance Graph is Not Required	16-19
1. No Annual Report Due to Change in Control	16-19
2. No Graphs for Special Meeting Proxy Statements	16-20

h.	Transitioning from Smaller Reporting Company Status	16-20
VI.	Practice Pointers	16-20
–	Consider Most Meaningful Comparison (and Potential Alternative Measures)	16-20
–	Determine Whether Explanatory Disclosure Might be Necessary	16-21
–	Reconsider Placement of Performance Graph	16-21
VII.	Sample Stock Performance Graphs	16-21
a.	Sample Performance Graph with a Published Industry or Line-of-Business Index	16-21
–	Shareholder Return Performance	16-21
b.	Sample Performance Graph with a Self-Constructed Peer Group	16-22
c.	Sample Performance Graph with Changes in Comparison Group with Explanation For Why Changes Made	16-23

Chapter 17 Form 8-K

I.	History	17-8
II.	SEC Rules and Regulations	17-12
III.	SEC Staff Guidance	17-17
a.	Compliance and Disclosure Interpretations	17-17
1.	Loss of NEO Status Not Triggering Event	17-17
2.	Equity Plan Adoption as Triggering Event	17-17
3.	Cash Plan Adoption as Triggering Event	17-18
4.	Exception for Setting Performance Targets If Materially Consistent with Previously Disclosed Terms	17-18
5.	Exception for Payouts Under Cash Bonus Plan	17-18
6.	Disclosure of Specific Targets	17-19
7.	Discretionary Bonus Subsequent to Disclosure	17-19
8.	Plan Termination As Triggering Event	17-19
9.	Compensatory Arrangements with New Directors	17-20
10.	Automatic Renewal of Employment Agreement	17-20
11.	NEOs of Foreign Private Issuers	17-20
12.	Calculating Due Date of Item 5.07	17-21
13.	Item 507(b) Application	17-21
14.	No Disclosure of Broker Non-Votes Required for Say-on-Frequency Vote	17-21
15.	Disclosure of Frequency Determination in Periodic Reports	17-22
b.	XBRL Compliance and Disclosure Interpretations	17-22

c. Comment Letters	17-24
IV. How the Rule Works	17-24
a. Item 5.02	17-24
– “Triggering Events” Event-Driven	17-24
– “Person” vs. “Arrangement” Triggers.	17-24
– Many Compensatory Triggering Events Exist; May Need to Go Beyond Minimum Disclosure	17-25
– Deadline for Filing	17-25
– Limited Safe Harbor for Late Filings	17-25
– Edgar Outage	17-25
– Exhibits Not Required When Form 8-K is Filed	17-26
– No Form 8-K Necessary If Information Previously Disclosed.	17-26
– Exclusion of Wholly-Owned Reporting Subsidiaries	17-26
– Exclusion of Non-Discriminatory/Generally Available Plans	17-26
– Meaning of “Principal Officer”.	17-27
– NEOs for Form 8-K Purposes.	17-27
1. Item 5.02(a): Departure of Director Due to Disagreement	17-27
– What Constitutes Reportable Director Disagreement	17-27
– Additional Deadlines for Disgruntled Departing Directors	17-28
2. Item 5.02(b): Departure of Directors or Certain Officers	17-28
– Resignations vs. Ongoing Negotiations.	17-29
– “Termination” Includes Demotions or Significant Loss of Responsibility	17-29
– Termination Happens But Don’t Know Effective Date At Time of 8-K Filing.	17-29
– Reassignment, Later Termination of Principal Officer May Require Second 8-K.	17-30
– Temporary Departures Reportable.	17-30
– Notice of Non-Renewal as Termination Date	17-30
– Death of Officer or Director Doesn’t Require Filing.	17-30
– Filing Not Triggered By Decision Not to Renominate Director	17-30
– Automatic or “Springing” Resignations	17-30
– Disclosure of Related Compensatory Information	17-31
– Assess whether to Disclose Circumstances for Departure.	17-31
3. Item 5.02(c): Appointment of Certain Officers	17-31
– Meaning of “Appointment”.	17-32
– Officer Appointment Disclosure May Be Delayed to Announcement Date	17-32
– Re-Appointments Trigger Filing Requirement	17-32
– Not All New Officers Trigger 8-K.	17-32

– Filing Required for Designated Principal Officer Even If Not Executive Officer	17-32
– Disclose Promoted Officer’s Pay If Amended “In Connection With” Appointment	17-33
– File Amendment Upon Determination of Material Terms of Compensation	17-33
4. Item 5.02(d): Election of Directors	17-33
– “Board Chair” Isn’t Designated Principal Officer	17-33
– New Directors (Other Than by Shareholder Vote).	17-33
– Disclosure of All Material Arrangements Required.	17-34
– Disclose Related-Party Transactions	17-34
– File Amendment Upon Determination of Related Party Transactions.	17-34
– Amendment for Director Committee Assignments	17-34
5. Item 5.02(e): Compensatory Arrangements of Certain Officers	17-35
– Triggering Event	17-35
– If Plan Subject to Shareholder Approval, Trigger is Shareholder Approval Date	17-35
– Trigger for NEO’s Material Raise is Board Approval, Not Effective Date	17-35
– Covered Persons.	17-35
– Required Disclosure; Cross-Referencing.	17-35
– “Previously Disclosed” Exception.	17-36
– Types of Plans and Arrangements Covered	17-36
– Ad Hoc Bonuses, Salary Increases & Salary Cuts Typically Not Reportable	17-36
– Plan Termination May Be Reportable	17-36
– File Item 5.02(e) 8-K When Interim PEO Becomes Permanent	17-36
– Disclose NEO Separation Agreement Entered Into After Departure.	17-37
– Indeterminable Salary & Bonus Amounts	17-37
– “Materiality” Standard; No Presumption.	17-37
– 8-K Not Required for “Materially Consistent” Terms.	17-37
– Independent “Materiality” Requirement for Periodic Report Exhibits	17-39
– S-3 Eligibility Safe Harbor	17-39
6. Item 5.02(f)	17-39
b. Item 5.07	17-40
– Disclosure Required.	17-40
– Calculating the Due Date.	17-40
– Preliminary Results Required Within Four Business Days	17-41
– 150-Day Deadline for Say-on-Frequency Decision.	17-41
– Shareholder Voting Not at a Meeting.	17-41
– No Proxy Solicitations.	17-41

- Information Contained in Soliciting Material 17-41
- Disclosing Voting Percentages 17-42
- Disclosure of Broker Non-Votes Not Required for Say-on-Frequency 17-42
- Wholly-Owned Subsidiary Disclosure Exclusion 17-43
- S-3 Eligibility 17-43
- Reporting Voting Results in Periodic Report 17-44
- Announcing Results at Meeting 17-44
- Announcing Voting Results on Same Day of Meeting 17-44
- Voluntary Disclosure of Withdrawn Shareholder Proposal 17-44

V. Common Questions and Our Analysis 17-45

- a. Item 5.02 17-45
 - 1. Persons Covered 17-45
 - i. Disclosure Only Required for Designated Officers & NEOs 17-45
 - ii. Function Controls; Not Title 17-45
 - iii. “President” Under Item 5.02(b) 17-46
 - iv. Meaning of “President”: Division Heads 17-46
 - v. Meaning of “President”: Function Filled By CEO 17-47
 - vi. Meaning of “Principal Financial Officer” 17-47
 - vii. Specify “Principal Financial Officer” Function in Appointment
8-K 17-48
 - viii. Meaning of “Principal Accounting Officer” 17-48
 - ix. NEO Determination 17-49
 - x. PFO Loses PAO Function 17-49
 - xi. NEO Becomes Non-Executive Officer 17-50
 - xii. Status Change from Non-NEO to NEO 17-50
 - xiii. Mergers: Announce Executive Officer Changes At Signing 17-50
 - xiv. Mergers: Reporting Amendments Contingent on Shareholder
Approval 17-51
 - xv. Material Change in Duties Can Trigger 8-K 17-51
 - xvi. Mid-Year Resignations 17-52
 - xvii. Retired NEO Hired as Consultant 17-52
 - 2. Item 5.02(b): Departure of Directors or Certain Officers 17-53
 - i. Rebalancing Staggered Board 17-53
 - ii. Trigger Date for NEO’s Future Resignation 17-53
 - iii. 8-K Can Be Triggered by Change in Duties Due to Merger 17-54
 - iv. Officer Changing NEO Positions May Trigger 8-K 17-54
 - v. NEO Termination: 8-K Triggered When Determination is Made 17-55
 - 3. Item 5.02(c): Appointment of Certain Officers 17-55
 - i. Appointment of Executive Chair 17-55
 - ii. Resigning CEO: 8-K Should Address Who’s Assuming Function 17-56
 - iii. File 8-K When Interim PEO Becomes Permanent 17-56

iv.	Officer Appointment and Immediate Departure May Not Trigger Item 5.02(c) Filing	17-57
v.	CFO Taking on PAO Responsibilities Requires 8-K Filing	17-57
4.	Item 5.02(c): Reporting Arrangements “In Connection With” Appointments. . .	17-58
i.	Reporting Compensation for New Officer.	17-58
ii.	Disclose Promoted Officer’s Pay If Amended “In Connection With” Appointment	17-59
iii.	Disclose Interim Officers’ Compensation	17-59
iv.	Comprehensive Disclosure Required	17-61
v.	File 8-K/A Upon Determination of Material Compensation Terms . . .	17-61
vi.	Officer Changes NEO Position—Reference Previous Disclosures. . . .	17-61
vii.	Insider’s Section 16 Filings Aren’t “Public Announcement” by Company	17-62
5.	Item 5.02(d): Election of New Director.	17-62
i.	Reporting Director Compensation.	17-62
ii.	No Need to Report Changes to Existing Director’s Compensation	17-63
iii.	Amend Original 8-K to Disclose Director Committee Assignments.	17-63
iv.	Disclose Equity Grant to New Director.	17-64
v.	Disclose Related-Party Transactions	17-64
vi.	CEO Becoming Board Chair	17-65
vii.	File New Director’s Pre-Existing Contract When Appointed to Board	17-65
6.	Item 5.02(e): Material Plan Amendments.	17-66
i.	“Net Exercise” as Material Modification.	17-66
ii.	Amending Plan for More Restricted Stock	17-66
iii.	Adoption of Clawback Policy Does Not Trigger Form 8-K Disclosure	17-66
iv.	Trigger for NEO’s Material Raise Is Board Approval (Not Effective Date)	17-67
v.	Modifying Incentive Calculation & Payout Date Triggers 8-K	17-67
vi.	May Omit Base Agreement Description When Disclosing Amendment	17-67
vii.	Disclose Material Amendment to Plan Even If NEOs Aren’t Affected	17-68
viii.	Modification of Change-in-Control Definition Likely Material Amendment	17-68
ix.	Plan Sponsor Change.	17-68
x.	Consulting Agreement with Former CFO	17-69

7.	Item 5.02(e): Contingent Amendments to Compensation Arrangement	17-70
	i. Acquisition Agreement as Possible Trigger	17-70
	ii. Shareholder Approval Triggers Form 8-K Requirement	17-70
	iii. Increase in Authorized Shares as Possible Trigger	17-71
8.	Item 5.02(e): Discretionary Bonuses	17-71
	i. Award of Discretionary Bonus	17-71
	ii. Adoption of One-Time Bonus Pool	17-72
	iii. Selection of Performance Criteria Under Bonus Plan	17-72
9.	Item 5.02(e): Goal-Based Incentives	17-73
	i. 8-K Not Required for Selection of “Materially Consistent” Goals	17-73
	ii. Determination of Performance-Based Bonus/Award Payment	17-74
	iii. Discretionary Increase Triggers 8-K	17-74
	iv. Negative Discretion at Payout Doesn’t Trigger 8-K	17-75
	v. Disclose Changes to Performance Metrics	17-75
	vi. Disclose Acceleration of Payout Under Performance Plan	17-75
10.	Item 5.02(e): Salary Changes	17-76
	i. Discretionary Changes	17-76
	ii. Salary Deferrals	17-76
	iii. Salary Cut & Change in Employment Terms	17-77
	iv. Change to NEO’s Director Fees	17-77
	v. Unwritten Agreement	17-77
	vi. Non-Executive Chair Compensation after Chair/CEO Service	17-78
11.	Item 5.02(e): Equity Plan Awards	17-79
	i. Individual Equity Awards Consistent with Filed Documents	17-79
	ii. New Type of Award	17-79
	iii. Grant to New Director	17-80
	iv. Material Amendment to Award Agreement Form	17-81
	v. Timing of “Materially Consistent” Exception	17-81
	vi. Filing Amended Option Agreement as Form 10-Q Exhibit	17-81
12.	Item 5.02(e): Other “Compensatory” Arrangements	17-82
	i. Sale of Discounted Securities to Executives Likely “Compensatory”	17-82
	ii. Advancement of Litigation Expenses	17-83
	iii. ESPPs	17-83
13.	Item 5.02(e): Exception for Arrangements “Generally Available”	17-83
	i. Plan Available to Business Unit Only	17-83
	ii. Plan Broad, But Awards Not	17-84
	iii. Severance Plan Available to All, Including NEOs, May Still Trigger Filing	17-84

14.	Item 5.02(e): Confidentiality of Performance Target Levels	17-84
	i. Need to Disclose Performance Target Levels	17-84
	ii. Don’t Need to Disclose “Materially Consistent” Measures or Targets	17-85
	iii. Confidential Treatment of Targets in Exhibits	17-87
	iv. Competitive Harm for 8-K vs. CD&A	17-88
15.	Item 5.02(e): Level of Disclosure Required	17-90
16.	Item 5.02(e): Exhibits Filed with Form 8-K	17-90
	i. General Exhibit Filing Requirements	17-90
	ii. Rules Don’t Allow Filing Summaries of Written Arrangements	17-91
	iii. Exhibit Number for Filing Employment Agreements	17-91
	iv. Filing Written Descriptions of Oral Compensation Arrangements	17-91
17.	Item 5.02(e): Form 8-K Exhibits—Summary Sheets	17-92
	i. Director Compensation Summary Sheets	17-92
	ii. Continued Need to File Summaries	17-92
	iii. Summary Sheets for Immaterial Salary Increases	17-93
18.	Item 5.02(e): Impact of Late Form 8-K Filings	17-93
19.	Item 5.02(e): Termination of Compensatory Arrangements	17-94
	i. Expiration of Existing Agreement; No New Agreement	17-94
	ii. Termination of Existing Employment Agreements	17-94
	iii. Termination of Executive Health Expense Plan	17-95
20.	Item 5.02(e): Disclosures Regarding Severance Arrangements	17-96
	i. Disclose Severance Agreement Under Item 5.02(e)	17-96
	ii. Termination of Severance Benefits for Breach Doesn’t Trigger 8-K	17-96
	iii. Materiality Influenced By Whether Separation Agreement Contains New Terms	17-97
	iv. Use 8-K to Head Off Questions About Severance Arrangements	17-97
	v. Severance Agreements Typically Material	17-97
	vi. Exhibit Can Be Filed With Next 10-Q	17-98
	vii. Trigger Date Probably Signing (Not Expiration of Revocation Period)	17-98
	viii. File Executed Release Agreement with Next Periodic Report	17-99
	ix. Trigger Date for Separation Agreement Not Signed by Both Parties	17-99
21.	NEO’s Non-Compensatory Agreement Doesn’t Trigger Item 5.02(e), But May Trigger Item 1.01	17-99
22.	Item 5.02(f): Disclosing Salary & Bonus Omitted from Proxy Statement	17-100

23. Interplay of 8-K Item 5.02 & Regulation S-K Item 404	17-100
i. 8-K Requires Disclosure As Of Current Date	17-100
ii. Difficult to Incorporate 8-K Into Proxy (But Not Vice Versa)	17-101
iii. Disclose Employee-Director’s Salary as Related-Party Transaction	17-101
b. Item 5.07	17-102
1. Disclosure of “Next Required Vote”	17-102
2. Disclose Say-on-Pay Frequency Determination in Initial Item 5.07 Form 8-K or in Amended Form 8-K	17-103

Chapter 18: Compensation-Related Risk Disclosure

I. History	18-3
II. SEC Rules and Regulations	18-4
III. SEC Staff Guidance	18-6
a. Compliance and Disclosure Interpretations	18-6
1. Location of Risk Disclosure	18-6
b. Comment Letters	18-6
IV. How the Rule Works	18-8
– High-Interest Subject	18-8
– Rule Doesn’t Apply to Emerging Growth or Smaller Reporting Companies	18-8
– Scope of Item 402(s)	18-8
– Overlap with Item 407(h)	18-8
– Need for Risk Assessment	18-8
– Look for “Red Flags” During Risk Assessment	18-11
– Compensation Practices that Mitigate Risk	18-12
– High Disclosure Threshold	18-13
– Voluntary Disclosure Abounds	18-13
– Content of Voluntary Disclosure	18-13
– Benefits of Robust Process & Mitigating Steps	18-14
– Examples of Situations Mandating Disclosure	18-14
– Content of Mandatory Disclosure	18-15
– Location of Disclosure	18-16
– Effect of Say-on-Pay	18-16
– Attorney-Client Privilege & Work-Product Doctrine	18-17

V. Common Questions and Our Analysis	18-17
a. Examples of Mandatory Risk Disclosure	18-17
b. Liability for Voluntary Disclosure	18-18
c. Smaller Reporting Company Requirements	18-18
d. Compensation Committee Review of Compensation-Related Risk	18-19
VI. Practice Pointers	18-19
VII. Sample Risk Disclosure	18-38
a. Mandatory Risk Disclosure—Convergys	18-38
b. Voluntary Risk Disclosure	18-39
1. Ameren	18-40
2. PVH Corporation	18-41
c. Austere Voluntary Risk Disclosure—Revlon	18-43
d. Disclosure of Risk Assessment Process—Intel	18-44
e. Tandem Risk Disclosures—Harman International	18-46
f. Compensation Program Design & Policies Effect on Risk Disclosure— Honeywell International	18-48
VIII. Step-by-Step Action Plan for Conducting Executive Compensation Risk Assessments	18-51

Chapter 19 Say-on-Pay Solicitation Strategies

I. The Cry for Shareholder Engagement: What is “Shareholder Engagement”?	19-6
II. Describe Shareholder Engagement Efforts in Proxy	19-6
III. Pay-for-Performance: Stress Test Payouts & Describe Methodology	19-7
IV. Pay-for-Performance: Samples	19-9
V. Compensation Committee Oversight: Sample	19-9
VI. Know Your Investors’ Voting Policies	19-10
1. Investors Don’t Always Follow Proxy Advisors’ Recommendations	19-10
2. Investors May Immediately Vote Against Compensation Committee	19-10
3. Maintain Relationships with Portfolio Managers & Governance Teams	19-11
VII. Describe Program Changes in CD&A	19-11
VIII. The Roadmap: How (& When) to Engage Effectively	19-11
1. Who are Your Shareholders	19-11
2. Who Speaks for the Company	19-11

3.	When to Engage	19-12
	– Advance Engagement	19-13
4.	Form of the Engagement	19-13
	– Surveys	19-13
	– Group Meetings	19-14
	– One-on-One Meetings	19-14
	– E-Forums	19-14
	– The “Non-Deal” Roadshow	19-14
	– Special Pay Conference Calls	19-15
5.	Use of Supplemental Materials	19-15
	– Post-Mailing Engagement	19-15
	– Pay-for-Performance	19-16
	– Errors	19-17
	– Communicating the Message	19-17
	– A Split Decision	19-17
	– The ISS Reaction	19-18
6.	Acting on Shareholder Concerns	19-18
IX.	Overcoming Reg FD Concerns about Engagement	19-18
	– Section 14(a) & Reg FD Compliance Considerations for Engagement Activities	19-19
X.	The Roadmap: “When” & “How” to Hire a Proxy Solicitor	19-20
	– Who to Hire?	19-20
	– When to Hire?	19-20
	– How Much Will It Cost?	19-20
	– What Can Your Expert Do?	19-21
	1. Call Campaigns	19-21
	2. E-Mail Campaigns	19-21
	3. Web Campaigns	19-21
XI.	The Preliminary Vote Count Looks Close: What Can You Do?	19-22
XII.	Confidential Voting Policies: Proper Implementation	19-22
	– A Little History; Where Might Your Policy Be?	19-22
	– Where <i>Should</i> Your Policy Be?	19-23
	– How to Implement Your Confidential Voting Policy	19-23
	– Don’t Be Tempted to Check How Employees Voted	19-23
XIII.	How to Calculate Voting Result Percentages: Read Your Bylaws (& Compare with Your Proxy)	19-23
XIV.	Proxy Advisors	19-25
	1. Who Are the Proxy Advisors	19-25
	– ISS & Glass Lewis Are Biggest Proxy Advisors in US	19-25
	– ISS Structure & Capabilities	19-25

– Glass Lewis Structure & Capabilities	19-26
– Use of Contract Analysts During Proxy Season	19-26
2. Policy Setting & Availability	19-26
– Nature of Proxy Advisor Policies	19-26
– Proxy Advisors’ Voting Advice is “Solicitation”	19-27
– Process for Annual Policy Updates	19-27
– ISS Obtains Policy Input From Companies	19-27
– Transparency of ISS Policies	19-28
– Transparency of Glass Lewis Policies	19-28
– Asking Questions About Policies	19-29
– Proxy Advisors Obtain Policy Input From All Investors (Not Just Loudest Ones)	19-29
– ISS Doesn’t Always Side With Investors (Even Though They Are Clients)	19-29
– ISS’ QualityScore Not Directly Related to Policies	19-30
– ISS’ “Corporate Due Diligence Profiles” Distinct From QualityScore & Policies	19-30
3. Policy Application	19-30
– Common Reasons for Negative Recommendations Against Directors	19-30
– Different ISS Policies for Newly Public Companies	19-32
– Policies on Shareholder Proposals Typically Factor-Based	19-32
– Policies Determined “Case-by-Case” Doesn’t Mean Always Side With Investors	19-32
– ISS More “Case-by-Case” With Environmental & Social Responsibility Proposals Compared to Governance Proposals	19-33
– Written Consent Proposals Are Case-by-Case Determinations	19-33
– Director Pay Proposals Are Case-By-Case Determinations	19-33
– Most Investors Don’t Just Copy Proxy Advisor Policies As Their Own	19-34
– Smaller Investors May Outsource Voting Decisions	19-34
4. Proxy Voting Reports	19-35
– What Are “Voting Reports”?	19-35
– Safe Harbors for Proxy Advisor Policies	19-36
– Timing of Voting Reports	19-36
– Importance of Voting Reports	19-37
– Companies Can Obtain Their ISS Voting Reports for Free; Must Pay for Glass Lewis Reports	19-37
– ISS Allows S&P Companies 24-48 Hours to Review Draft Voting Reports	19-38
– Glass Lewis Allows Enrolled Companies 24-48 Hours to Review Data Points (But Not Draft Voting Reports)	19-38

– SEC’s Rules Will Give Companies Ability to Comment on Voting Reports	19-39
– Glass Lewis Will Distribute Company Feedback—But Must Purchase Report.	19-39
– Proxy Advisors Don’t Allow Sharing of Voting Reports	19-39
– Voting Spikes After Voting Reports Released	19-40
– Proxy Advisors Look Beyond Proxy Materials for Company Information	19-40
– Reports Not Started From Scratch; Focus on Changes From Prior Years.	19-41
– Proxy Advisors Do Cover 1st Annual Meetings After IPOs	19-41
– Proxy Advisors Do Cover Controlled Companies.	19-41
5. Say-on-Pay Analysis	19-41
– “Failed” Say-on-Pay Vote Isn’t Majority Vote “Against”	19-41
– Beware Prior-Year Cautionary Support	19-42
– ISS Review Process for Say-on-Pay: Quantitative Screen	19-42
– Relative TSR Remains Most Important Part of ISS Assessment.	19-43
– ISS Won’t Always Give Negative Recommendation for Failing Quantitative Test	19-43
– Secondary FPA Screen Doesn’t Apply if “Low” Initial Concern Level	19-43
– ISS Closely Examines Qualitative Factors When Overall Quantitative Concern Level is “High” or “Medium”	19-44
– Even “Low Concern” From ISS Can Result in Negative Recommendation	19-44
– ISS Factors for Qualitative Screens	19-45
– ISS Reports Include GAAP Metrics—But They Don’t Affect Vote Recommendation	19-46
– Add EVA Metrics to Proxy if Company Uses Them	19-46
– Glass Lewis Review Process for Say-on-Pay	19-47
– Glass Lewis Say-on-Pay Process: Quantitative Assessment	19-47
– Glass Lewis Factors for Qualitative Screen.	19-48
– Glass Lewis Reports Include Its Own Supplemental CEO Pay Calculations	19-49
– Proxy Advisors Use Proprietary Methods to Evaluate Say-on-Pay Proposals	19-49
– Consultants Help Understand Proxy Advisor Methods	19-49
– Negative Say-on-Pay Recommendation Doesn’t Necessarily Cause Failed Vote	19-50
– Proxy Advisors Might Regularly Change Your Peer Group	19-50
– ISS Peer Groups Rely on “GICS” Classifications	19-50
– Glass Lewis Peer Groups Are Based On Several Factors	19-51

– Companies Struggling to Set Peer Groups Can Make Their Case.	19-51
– Proxy Advisors Don’t Require Companies to Use TSR as Performance Metric	19-51
– Be Aware of Adjusting Performance Metrics In Mid-Cycle	19-52
– Disclosure Practices to Help Make Your Case.	19-53
– Options Are Performance-Based Depending On How Granted	19-54
– Proxy Advisors Rely On “Shareholder Engagement” Proxy Disclosures.	19-54
6. Director Election Analysis	19-54
– Director Elections Always on Ballot for Annual Meetings	19-54
– Proxy Advisors Typically Recommend “For” Management Nominees	19-55
– Factors Triggering Recommend “Against” Management Nominees.	19-55
– Different ISS Policies for Newly Public Companies.	19-56
– “Excessive” Outside Director Pay Means Top 2-3% of Comparable Directors.	19-56
7. Handling Errors in Voting Reports	19-57
– Proxy Advisors Will Issue Corrected Reports for Material Errors	19-57
– Alert Top Shareholders Yourself If Recommendation Is Reversed	19-57
– Contacting ISS to Verify Data & Report Errors.	19-57
– Contacting Glass Lewis to Verify Data & Report Errors.	19-58
– Don’t Bother Proxy Advisors With Immaterial Errors	19-58
– ISS’ Data Verification Site for Equity Plan Approvals	19-58
8. Handling Negative Recommendations	19-59
– Sometimes Negative Recommendations Inevitable.	19-59
– ISS Will Listen If You Want to Reverse Negative Recommendations	19-59
– Seek to Overturn Negative Recommendations Right Away	19-60
– Proxy Advisors Must Allow Companies to Review & Respond to Proxy Voting Advice—Beginning in 2022.	19-60
– ISS Won’t Change Recommendation Five Business Days Before Annual Meeting	19-61
– Change By Company May Require Resolicitation	19-61
– Negative Recommendations Shouldn’t Stop You From Engaging With Shareholders Directly	19-61
– Contact Shareholders As Soon As Possible	19-62
– Responses Can Be Part of Supplemental Materials Filed With the SEC.	19-62
– Don’t File Supplemental Materials Slamming Proxy Advisors; Be Proactive Instead	19-63
– Try to Avoid Supplemental Materials Altogether; Make Your Case Once	19-63
– Investors Don’t Want to Hear You Complain About Proxy Advisors	19-63

– Use Experience to Improve Next Year’s Disclosures	19-63
– Glass Lewis Will Distribute “Feedback” on Reports (For A Cost)	19-64
9. Engagement With Proxy Advisors	19-64
– How to Set Up Meetings With Proxy Advisors	19-64
– Glass Lewis Won’t Talk to Companies Once Proxy Statement Filed	19-64
– Meeting With ISS During Proxy Season Possible (But Difficult to Schedule)	19-65
– ISS Prefers Conference Calls to In-Person Meetings	19-65
– Bring Right People to Meetings.	19-66
– Don’t Let Your Advisor Do All The Talking	19-66
– ISS Wants Directors to Participate in Engagement	19-66
– Inform the Board (or Board Committee) About Engagement Activity	19-66
– Send Your Presentation to Proxy Advisors In Advance of Meeting	19-66
– Know Proxy Advisor’s Policies Before You Engage With Them	19-67
– Tell Your Story In Your Proxy Disclosures (Not Just During Meetings)	19-67
– Companies Hiring ISS Corporate Services Shouldn’t Mention That	19-67
– Don’t Expect Definitive Answers at Proxy Advisor Meeting	19-68
– Companies Shouldn’t Violate Reg FD During Meetings.	19-68
XV. When SOP “Fails”: What Now	19-69
– Binding vs. Non-Binding: Does It Make a Difference?	19-69
– Disclosure of a Board’s Deliberations: Required?	19-70
– Spruce-up Proxy Disclosure Following Low SOP Vote	19-70
XVI. The Importance of Making Your Compensation Disclosure “Usable”	19-71
XVII. Checklists	19-71

Chapter 20 Say-on-Pay Disclosure Issues

I. History	20-4
II. SEC Rules and Regulations	20-5
a. Exchange Act Rule 14a-21.	20-5
b. Item 402(t) of Regulation S-K	20-7
c. Exchange Act Rule 14a-8(i)(10) Note	20-11
d. Item 24 of Schedule 14A	20-11
III. SEC Staff Guidance	20-12
a. Compliance and Disclosure Interpretations	20-12
1. Phrasing of Say-on-Frequency Vote	20-12
2. Phrasing of Say-on-Pay Vote	20-12
3. Which Officers to Include in Say-on-Golden Parachute Disclosure	20-13

4. How to Report Say-on-Frequency Results	20-14
IV. How the Rule Works	20-14
a. Generally	20-14
– Dodd-Frank Section 951	20-14
– Exclusion of Shareholder Proposals	20-15
– Broker Discretionary Voting	20-15
– Exclusion From the Requirement to File a Preliminary Proxy Statement.	20-15
– Smaller Reporting Companies	20-15
– Interaction with EESA Requirements	20-15
b. Say-on-Pay Vote.	20-16
– Say-on-Pay Vote.	20-16
– When Required	20-16
– What Is Covered by the Resolution?	20-16
– What Is Not Covered by the Resolution?	20-16
– Wording of the Resolution	20-16
– Additional Disclosure Item for the Proxy Statement.	20-18
– Additional CD&A Disclosure	20-18
– Diminishing Role of Supporting Statement.	20-18
– Separate Say-on-Pay Resolution & Other Pay Disclosures.	20-19
– Form 8-K Disclosure	20-19
– Voting Standard	20-19
c. Say-on-Frequency Vote	20-20
– Say-on-Frequency Vote	20-20
– Four Choices	20-20
– Most Companies Select “Annual”	20-20
– Factors to Consider When Making Choice	20-20
– Wording of the Resolution.	20-22
– Additional Disclosure Item in the Proxy Statement	20-22
– Form 8-K Disclosure	20-22
– Can Disclose Results in 10-Q/10-K in Limited Circumstances.	20-23
– Disclosing Frequency Votes Simultaneously With Say-on-Pay Vote Common (But Not Required)	20-23
– Broker Non-Votes	20-23
– Compliance Tips	20-23
– Can Voluntarily Hold Frequency Votes More Often	20-24
– Smaller Reporting Companies “Off-Cycle” Compared to Other Companies	20-24
– EGCs Don’t Need Frequency Vote	20-24
– EGCs Who Lose EGC Status Need to Conduct Frequency Vote Before Say-on-Pay Vote.	20-24

d. Say-on-Golden Parachutes	20-25
– Say-on-Golden Parachutes	20-25
– What Disclosure is Required?	20-25
– May Need to Disclose Agreements for Post-Closing Services	20-26
– Application of the Say-on-Golden Parachute Exception	20-27
– Whose Compensation Must be Disclosed?	20-27
– Additional Forms Requiring Golden Parachute Compensation Disclosure	20-27
– Increased Focus on Say-on-Golden Parachutes	20-27
– ISS Review	20-28
– Glass Lewis Review	20-28
V. Common Questions and Our Analysis	20-28
a. Say-on-Pay Vote	20-28
1. Do NEOs Have an “Interest” in Say-on-Pay Vote?	20-28
2. Say-on-Pay Requirements for Wholly-Owned Subsidiary of Reporting Company	20-29
3. Say-on-Pay & NYSE Notice	20-29
4. Use of Non-GAAP Measures in Say-on-Pay Proposal	20-29
5. Impact of Say-on-Pay Rules on Previously-Approved Shareholder Say-on-Pay Resolution	20-30
6. Say-on-Pay for Canadian Companies	20-31
7. Placement of Say-on-Pay & Say-on-Frequency Proposals in Proxy Statement	20-31
8. Pay Ratio Doesn’t Have To Accompany Say-On-Pay	20-32
9. Dual Classes of Voting Stock	20-33
10. Disclosing Consideration of Say-on-Pay Vote Results	20-33
11. First Say-on-Pay Deadline for EGC	20-33
b. Say-on-Frequency	20-34
1. Proxy Card for Say-on-Frequency Proposal	20-34
2. Form of Say-on-Frequency Proposal	20-34
3. Disclosure of Voting Standard for Say-on-Frequency Proposal	20-35
4. Disclosure of Anticipated Company Response to Say-on-Frequency Vote	20-37
5. Disclosure of Current Frequency & Next Say-on-Pay Vote	20-37
6. Interplay of Say-on-Frequency Vote Standard & Bylaw Requirements	20-38
7. Say-on-Frequency Proposal Without Management Recommendation	20-38
8. Impact on 10-K of Omitting Required Say-on-Frequency Proposal	20-39
9. Say-on-Frequency & Regulation FD	20-39
c. Golden Parachute Vote	20-39
1. Trends for When to Hold the Golden Parachute Vote	20-39
2. Equity Issuance May Not Trigger Golden Parachute Vote	20-40

VI. Practice Pointers	20-41
a. Ten Tips for Preparing Say-on-Pay Disclosure	20-41
1. Executive Summaries—You Don’t Get a Second Chance to Make a First Impression	20-41
2. Compensation-Related Risk Disclosure	20-43
3. “Pay-for-Performance:” It’s Still the Bottom Line	20-44
4. Good Practice Creates Good Disclosure	20-45
5. Continue to Describe Your Program Components—But Briefly	20-46
6. Scale Back Your Process Discussions: Going Forward, Less is More	20-47
7. Don’t Hide Your Perks in a Say-on-Pay World	20-47
8. Be Sure to Explain Your Post-Employment Compensation	20-48
9. Golden Parachutes & “Walk-Away” Numbers	20-49
10. A Bonus Tip: Recommending a Choice for the Frequency on Say-on-Pay Vote	20-50
b. Say-on-Golden Parachutes	20-51
VII. Sample Disclosure	20-53
a. Say-on-Pay	20-53
b. Say-on-Frequency	20-54

Chapter 21 Executive Summary for the CD&A

I. History	21-2
a. Initial Versions	21-2
b. Influence of Say-on-Pay	21-2
c. Is a Summary of the Summary Really Necessary?	21-3
II. Current Disclosure Trends	21-3
a. Streamlined Pay-for-Performance Discussion	21-3
b. Use of Alternative Pay Measures	21-4
c. Placing Alternative Pay Measures in Other Locations	21-5
d. Executive Transitions	21-5
e. Executive Summaries Continue to Evolve	21-5
III. Use of Graphics	21-5
IV. Checklists	21-8

Chapter 22 Proxy Statement Summary

I. Typical Content	22-1
II. Companion to CEO/Chair Letter	22-2
III. Sample Disclosures	22-2

Chapter 23 10-K and 10-Q Exhibits

I. SEC Rules and Regulations	23-7
II. SEC Staff Guidance	23-30
– Item 601 CDIs	23-30
– Inline XBRL CDI	23-37
III. How the Rules Work	23-37
a. General Requirements	23-37
– Many Exhibits Required for Periodic Reports	23-37
– Approximately 30 Types of Exhibits Required for 10-Ks; 20 Types for 10-Qs	23-38
– Confidential Treatment Requests Not Uncommon	23-38
– Only Need to File One Copy of Substantially Identical Documents	23-38
– Copies Permitted to Be Filed; No Need for Originals	23-38
– Paper Filing Permitted in Rare Circumstances	23-38
– Exhibits Must Be Filed Again For Each Periodic Report But Can Use Incorporation by Reference	23-39
– Item 601 Requires Links to Exhibits Incorporated by Reference	23-39
– Smaller Reporting Companies Have Substantially Similar Exhibit Filing Requirements	23-39
– Inline XBRL	23-39
– Sample Exhibit 101—Interactive Data Files	23-40
– Include Reference to Exhibit 104 in Exhibit Index and Cross Reference to Exhibit 101	23-40
b. Exhibit Index	23-40
– Flexibility Permitted for Exhibit Numbering But Ensure Your System Workable In Practice	23-40
– Continue to List “Incorporated by Reference” Items in Exhibit Index	23-41
– Full Exhibit Index Not Required in Form 10-Q	23-41
– Restate Entire Exhibit Index If Amended in 10-K or 10-Q	23-41

– Sometimes Need Special Notation in Exhibit Index	23-41
– Removal of Exhibits From Exhibit Index	23-42
– Exhibit Index Need Not Include Page Number for Each Exhibit	23-43
– Exhibit Index Should Include Notations for Management Contracts	23-43
– Exhibit Index Must Appear Before Required Signatures	23-43
– Okay to Include Only One Exhibit List	23-43
– Include “Interactive Data Files” as Exhibit 101 & 104 in Exhibit Index	23-44
– Description of “Interactive Data” Exhibits Must Include Word “Inline”	23-44
– Exhibit 104 Should Cross-Reference to Exhibit 101	23-44
c. Links to Exhibits Required	23-44
– File Exhibits in HTML	23-44
– No Need to Refile Old Paper Exhibits (But Can Do So Voluntarily)	23-45
– Include Notation for Paper Exhibits	23-45
– Can Delete Original Filing Info When Adding E-Version of Paper Exhibit	23-45
– Link to Full Filing for Exhibits Previously Filed in ASCII Format	23-45
– Include Links to All Exhibits in Amended & Restated Exhibit Index	23-46
d. Timing of Exhibit Filing	23-46
– Material Contracts & Merger Agreements Must Be Filed No Later Than Periodic Report Covering Date of Relevant Document	23-46
– Choice of Filing Date for Agreements Signed Between End of Reporting Period and Filing of Corresponding Periodic Report	23-46
– No Need to File Contract Twice If “When Executed” & “When Effective” Are Different Quarters	23-47
– Special Timing Rules for Articles & Bylaws	23-47
– Special Timing Rules for Incorporated Glossy Annual Reports	23-47
– Relationship of Exhibit Filings in Periodic Reports with 8-K	23-47
– Amended Exhibit Should Be Filed in Next Periodic Report	23-48
– Unredacted Agreement for Which Confidential Treatment Expired Must Be Filed with Next Periodic Report	23-48
e. Instruments Defining the Rights of Security Holders	23-48
– File Most Long-Term Debt Instruments	23-48
– No Need to File Indentures Amounting to 10% or Less of Total Assets	23-49
– Item 202 Information Required as Exhibit to Form 10-K	23-49
– Item 10-K Exhibit Can Incorporate By Reference to Earlier Exhibit	23-49
– Most Companies Don’t Include Specimen Stock Certificate as Exhibit	23-49
– Can’t Incorporate From “Description of Capital Stock” In Prospectus	23-50
– Item 10-K Exhibit Requirement Applies to Securities Registered as of Year-End	23-50
– Item 10-K Exhibit Must Reflect Modifications & Amendments to Securities During Fiscal Year	23-50

f.	Material Contracts	23-50
	– “Materiality” Definition for “Material Contract”	23-50
	– “Immaterial in Amount or Significance” vs. “Material Definitive Agreement”	23-51
	– Ordinary Course Contracts Not Filed Even If Dollar Amounts Huge	23-51
	– File Contracts That Are Material & Require Ongoing Performance	23-52
	– Non-Compensatory Agreements as Exhibits: It’s Not Just Materiality	23-52
	– Terminated Contracts Can Be “Material Contract”	23-53
	– File Material Contract Even If No Longer Material By Filing Date	23-53
	– Can Omit Immaterial Confidential Information without Submitting CTR	23-53
	– Can Omit Immaterial Schedules to Exhibits	23-54
	– Exhibit Index Should Include Notations for Management Contracts	23-54
	– Compensatory Agreements as Exhibits	23-54
	– Summarizing Unwritten Compensation Agreements: Standard Arrangements	23-55
	– Signature Requirements	23-56
g.	Other Exhibit Types	23-56
	– Acquisition Agreements	23-56
	– Change in Auditor: File Letter & Consent From Former Accountant as 10-K Exhibits	23-57
	– Subsidiary List Not Required if Company is a Wholly Owned Subsidiary	23-58
h.	Disclosure Controls & Practice Pointers	23-58
	– Assess Disclosure Controls for Linking Exhibits	23-59
i.	Failure to Timely File Consequences	23-59
	– Chronic Failure to File Required Exhibits May Indicate Problem with Disclosure Controls	23-59
	– Failure to Incorporate Previously-Filed Exhibit—Pick Up in Next 10-K	23-60
j.	Exhibits Can Result in Liability	23-60
IV.	Common Questions & Our Analysis	23-61
a.	General Requirements	23-61
	– Incorporation by Reference for 8-K Exhibit Filed After Quarter Ended	23-61
	– Incorporation by Reference for 8-K Itself As 10-Q Exhibit	23-61
	– Incorporation by Reference to Exhibits of Acquired Subsidiary	23-61
	– Incorporation by Reference to Exhibits Filed by Predecessor	23-61
	– Filing Exhibits With Different Formatting	23-62
b.	Exhibit Index	23-62
	– Deleting Compensation Arrangements for Former Executive Officers/Directors	23-62

– Deleting Old Merger Agreement	23-63
– Numbering for 10-Q Exhibit of Amended Material Contract	23-63
– Deleting Ongoing Agreement That’s No Longer Material	23-63
– Restate Entire Exhibit Index If Amended in 10-K or 10-Q	23-64
– Restated Exhibit Index: Incorporate By Reference To Previously Filed Exhibits	23-64
c. Links to Exhibits	23-65
– No Need to Refile Old Paper Exhibits (But Can Do So Voluntarily)	23-65
– Include Notation for Paper Exhibits	23-65
– Can Delete Original Filing Info When Adding E-Version of Paper Exhibit	23-66
– Link to Full Filing for Exhibits Previously Filed in ASCII Format.	23-66
– Contract Amendments: Separately List & Link.	23-66
– Missing Links Probably Don’t Render Filing “Materially Deficient”	23-67
– Include Links to All Exhibits in Amended & Restated Exhibit Index.	23-67
d. Timing Issues	23-67
– No Need to File Exhibit Before Periodic Report for Corresponding Period.	23-67
– 8-K Exhibits Filed During Last Quarter; Include in Next 10-Q’s Exhibits.	23-68
– File New Director’s Pre-Existing Contract When Appointed to Board.	23-68
– 10-Q Exhibits Previously Reported as 10-K Exhibits	23-68
– Can Attach Exhibit in “Applicable Period”—Even If Earlier Report Had Narrative Description.	23-69
– No Need to File Contract Twice If “When Executed” & “When Effective” Are Different Quarters	23-69
– Exhibit Amended & Restated After Disclosed in 8-K But Before Filed as Exhibit	23-70
– File Material Contract Even When Made & Performed Within Single Period	23-70
– File Amended Articles with Next Periodic Report if Included in Proxy Statement	23-71
– Don’t Need to File Earlier Amendments in Prior Quarters Within Single Year for 10-K.	23-71
– When to Fix Error in Exhibit	23-71
– Failure to Incorporate Previously-Filed Exhibit—Pick Up in Next 10-K	23-72
– Amend 10-K to Correct Failure to File Description of Securities Exhibit	23-72
– File Missed Exhibit In 8-K or Next 10-Q Rather Than Wait Until 10-K	23-72

e. Material Contracts	23-73
– Filing Exhibits, Annexes & Schedules to Material Agreements	23-73
– Management Contracts: Filed v. Furnished	23-73
– Exhibit Required for NEO’s Separation Agreement	23-74
– Exhibit Required for Director’s Separation Agreement	23-74
– Exhibit Often Unnecessary for Non-NEO Separation Agreement	23-74
– File Individual “Management Contracts” As Exhibit	23-75
– Can File “Form” Agreements if Substantially Similar	23-75
– Substantially Similar Agreement—Substantive Term Change Likely Requires Filing	23-76
– Don’t Label Unique Agreements as “Form”	23-76
– File Amended Agreement If Inconsistent With “Form”	23-76
– Keep Incentive Plan in Exhibit Index as Long as Awards Outstanding	23-77
– Exhibits to Underwriting/Distribution Agreements	23-78
– No Need to File Immaterial Rule 144A Purchase Agreement	23-78
– Investment Banker Engagement Letter as “Material Contract”	23-79
– Confidentiality Agreements as “Material Contract”	23-79
– Immaterial Related Party Agreements Need Not Be Filed (In Most Cases)	23-80
– “Property, Plant or Equipment” Definition	23-80
– Disclosing 15% Property Acquisition Even if Ordinary Course	23-80
– Voluntarily Filing Broad-Based Pension Plans & Other Non-Required Plans Can Create Headaches	23-81
– ESPP Likely Covered by Exception to Exhibit Requirement	23-81
– Rules Don’t Allow Filing Summary of Written Arrangements	23-82
– Indemnification Agreements Filed for ’34 Act Reports (Not ’33 Act Registration Statements)	23-82
– Definition of “Material Lease”	23-83
– Executive Officer Becomes NEO; Timing of Filing	23-83
– Whether to Still Identify Exhibit as “Management Contract” If Individual No Longer Management	23-84
– Must File Amendments to Material Contracts Even If Amendment Immaterial	23-84
– Immaterial Changes May Not Need to Be Refiled If No Formal Contract Amendment	23-85
– File Waiver If It Alters Ongoing Contractual Obligations	23-85
– File Forbearance or Waiver Agreement that Amends Material Contract	23-85
– No Need to Refile Exhibits Solely to Reflect Name Change	23-86
– Must Still File Initial Restated Contract Even Though Restated Again Within Quarter	23-86
– Can’t Forego Filing Material Contract Entirely	23-87

– Don't Need to File Term Sheet & Definitive Employment Agreement If Substantially Identical	23-87
– Section 16 Settlements	23-88
f. Exhibits Other Than Material Contracts	23-88
– Refile Entire Articles of Incorporation When Amended (Even Though Practice Varies)	23-88
– Redlined Bylaw Amendments	23-89
– File Amended Articles or Bylaws With "Next" Periodic Report	23-89
– Filing Amended Articles as Exhibit for First Time	23-90
– File Articles & Bylaws With Every 10-Q	23-90
– Long-Term Debt Instruments Under Exhibit 4	23-91
– Trust Preferred Securities	23-92
– May Include Capital Stock in Description of Securities Exhibit Too	23-92
– No Need to File Supplemental Indentures If Duplicative (& Details Adequately Disclosed)	23-93
– Remove Debt/Equity Instrument Once Retired	23-93
– Attach As-Filed "Certificate of Designation"	23-93
– Legal Opinions & Updating Pre-Effective Amendments	23-93
– Exhibit 15 Filed with 10-Q Might Raise Need to File Amended 10-Q for Auditor Independence Failure	23-94
– Powers of Attorneys & Signatures	23-95
– Filing Target Financials as Exhibit to 10-K	23-95
g. Proxy Statements & Form 10-K Wraps	23-96
– No Need to Deliver Exhibits for "Wrapped" 10-K to Shareholders; Just File Them	23-96
– Appendix in Proxy Statement As "Exhibit"	23-96
– No Need to Attach Plan as Proxy Statement Appendix	23-96
– Don't Link to Documents Not Filed with SEC	23-97
h. CEO/CFO Certification Issues	23-97
– No Need for New 906 Certification for Amended 10-K If Just to File Missing Exhibit	23-97
– Section 906 Certification References Wrong Period; Refile Entire Periodic Report	23-97
– CEO/CFO Certifications Need Not Be Delivered to Shareholders	23-98
– Date of Certifications If Omit Them Accidentally	23-98
i. Auditor Consents	23-98
– Required Date of Consent	23-98
– Auditor Consent Mistakenly Refers to Wrong Registration Statement	23-99
– Amend Registration Statement to Fix Error in Auditor Consent	23-99
– Form S-8 & Auditor Consents Filed in 10-Ks	23-99

- Can Remove Lapsed Registration Statements From Auditor Consent . . . 23-100
- j. Subsidiaries 23-100
 - Indirectly Owned Subsidiaries 23-100
 - Subsidiary List Should Be of Recent Date (In Most Cases) 23-101
- k. Inline XBRL 23-101
 - Timing of Inline XBRL Requirement for Non-Calendar Year Large Accelerated Filers 23-101
 - Timing of Inline XBRL Requirement for New Large Accelerated Filer . . . 23-101
 - Drafting Exhibit 101—Interactive Data Files 23-102
 - Include Reference to Exhibit 104 in Exhibit Index 23-102
- V. **History** 23-102

Chapter 24 Pay Ratios

- I. **History** 24-9
- II. **SEC Rules & Regulations** 24-10
 - A. Item 402(u) of Regulation S-K 24-10
- III. **SEC Guidance** 24-17
 - A. Compliance and Disclosure Interpretations 24-17
 - Selecting “Consistently Applied Compensation Measure” to Identify Median Employee 24-17
 - Inability to Exclusively Use Hourly/Annual Rates When Using CACM 24-17
 - Relevant Time Period When Using CACM 24-18
 - Impact of Furloughed Employees on Determining Employee Population 24-18
 - Impact of Independent Contractors on Determining Employee Population 24-19
 - Can Describe Pay Ratio As “Estimate” 24-19
 - B. Interpretive Guidance 24-19
 - SEC Guidance: Encouraging Flexibility to Reduce Compliance Costs 24-19
 - Corp Fin Guidance: Examples of Reasonable Estimates & Statistical Methodologies 24-20

IV. How the Rule Works	24-26
A. Which Companies Must Comply & When Disclosure Is Required.	24-26
– Mandate Began With 2018 Proxy Statements	24-26
– Add Pay Ratio Tasks To Proxy Timetable (Process May Take Months)	24-26
– Required in Proxy Statements, Information Statements & Form 10-Ks	24-26
– No Pay Ratio Required Until CEO Salary/Bonus Determined	24-26
– Required in Registration Statements (But Not IPOs or Spin-Offs)	24-27
– EGCs, FPIs & Smaller Reporting Companies Exempt	24-27
– Pay Ratio Not Required in IPO (But Required 1st Year After)	24-27
– Exiting EGC/Smaller Reporting Companies Have One Transition Year to Prepare	24-28
– Report Early to Directors on Pay Ratio Calculation Process & Disclosure	24-28
B. Identifying “Median Employee”	24-28
– Three Steps to Identify “Median Employee”	24-28
– Median Employee Determination Only Required Every Three Years	24-29
– Permitted to Recalculate Median Employee Every Year	24-29
– Disclosure Required If No Changes In “Off” Years	24-29
– Recalculate Median Employee’s Pay For Years When Same Median Employee Used	24-30
– Must Make New Median Employee Determination for Change in Employee Population or Executive Pay Arrangements	24-30
– Not Clear What’s a “Significant” Change Triggering New Median Employee	24-30
– Consider Impact of Turnover on Median Employee	24-31
– May Replace Your Median Employee With Someone Similar (If They Leave or Otherwise)	24-31
– Substitution of “Medianable” Employee Preferable to Annualizing	24-32
– Make Your Identification Process Repeatable	24-32
– Document Year-Over-Year Changes To Methodology	24-32
– Follow Rule’s Principles—But Know Your Analysis Will Be Unique	24-32
– Don’t Disclose Median Employee’s Personal Information	24-33
C. Identifying “Employees”	24-33
– It’s Not Linear Exercise—Keep All Factors In Mind	24-33
– Begin By Gathering Workforce Numbers	24-34
– Keep Track of Data in Aggregate & By Employee Segment	24-34
– Enlist Local Officers to Complete Uniform Spreadsheet	24-34
– Considerations for Global Companies	24-34
– Accessing Global Data With Numerous Payroll Providers	24-35
– Obtaining Data From Outsourced Payroll Vendors	24-36
– Document Your Employee Workforce Analysis	24-36

– Include All Employees (Even Part-Time, Seasonal & Temporary)	24-36
– Furloughed Workers Treated Same as Non-Furloughed Employees	24-36
– Include Employees of Consolidated Subsidiaries (Not All Subsidiaries) . . .	24-37
– “Consolidated Subsidiaries” Likely Includes Public Subs	24-37
– Consolidated Public Subsidiaries Also Need to Report Own Ratio	24-37
– Acquirors Can Exclude Seller’s Employees for Acquisition Year (But Disclosure Required)	24-37
– “Acquired Employee” Exclusion Not Always Practical	24-38
– Include Employees Hired By New Division	24-38
– Treatment of Contractors & Third-Party Service Providers	24-38
– Identify Material Assumptions for Distinguishing Contractors From “Employees”	24-39
– Pay Ratio May Not Apply to Externally-Managed Companies	24-39
– Take Big-Picture Look At Whether Contractors Will Affect Median	24-40
– Select “Median Employee” As of Any Day in Last Three Months of Fiscal Year	24-40
– Benefits of Early Determination Date	24-40
– Employee Determination Date Is Usually Month-End	24-41
– Must Disclose Employee Determination Date (But Not Reason for Date’s Selection)	24-41
– Possible Disconnect Between Determination Date & Total Compensation Calculation	24-41
– Include Permanent Employees on Temporary Leave (And Annualize Their Pay).	24-41
– Can Exclude Employees On Leave More Than One Year As Of Determination Date	24-41
– “Determination Date” May Impact Inclusion of Temporary Employees . . .	24-42
– “Determination Date” May Impact Inclusion of Furloughed Employees . . .	24-42
– Whether Furloughed Employee is “Permanent” Depends on Facts	24-42
D. Data Privacy & De Minimis Exemptions	24-42
– May Exclude Non-US Employees If Would Violate Data Privacy Laws . . .	24-42
– Relying on Data Privacy Exemption Requires Disclosure	24-43
– Need to File Legal Opinion As Exhibit If Use Data Privacy Exemption . . .	24-43
– Invoking Data Privacy Exemption Is Difficult	24-43
– To Comply With Data Privacy Laws, Implement Data Transfer Compliance or Gather On-Site.	24-43
– May Exclude Non-US Employees If Comprise Less Than 5% of Workforce.	24-44
– De Minimis Exemption Valuable If It Impacts Median	24-44
– De Minimis Exemption is All or Nothing	24-44
– De Minimis Exemption Still Requires Total Headcount	24-45
– May Use Internal Records to Evaluate De Minimis Exemption	24-45

– Relying on De Minimis Exemption Requires Disclosure	24-45
– Interplay of Data Privacy & De Minimis Exemptions.	24-45
E. Using Statistical Sampling or Other Reasonable Methods	24-45
– How Statistical Sampling Can Make Your Job Easier.	24-45
– Understanding the Limits of Statistical Sampling.	24-46
– Always an Estimate (Even When Not Using Statistical Sampling).	24-47
– Statistical Sample Must Be Representative	24-47
– Select Your Confidence Level	24-48
– Select Your Margin of Error.	24-48
– Select Your Sample Size	24-48
– Limiting Sample Populations.	24-48
– Perception Matters for Sample Sizes	24-49
– Ensure Your Sampling is Valid & Reliable (Which Are Two Different Concepts)	24-49
– Ensure Your Sampling is Defensible & Explainable	24-50
– Understand How Your Methodology Differs From Peers’	24-51
– Complexity of Pay Distribution	24-51
– Challenges of Global Bimodal Employee Populations	24-51
– Types of Sampling Techniques	24-52
– Random Sampling May Not Work for Large Companies	24-52
– Stratified Sampling is More Precise.	24-53
– Can Use “Reasonable Estimates” When Identifying Median	24-54
– Can Use “Other Reasonable Methods” When Identifying Median	24-55
– Examples: Using Reasonable Estimates, Statistical Sampling & Other Reasonable Methods	24-56
– Document Your Sampling Methodology	24-59
– Brief Disclosure About Selected Methodology Required	24-59
F. Selecting a “Consistently Applied Compensation Measure”.	24-60
– Flexibility to Use Reasonable Estimates to Identify Median Employee	24-60
– Can’t Use Industry Estimates to Identify Median	24-60
– CACM Must Reasonably Reflect Company’s Compensation Profile	24-61
– Don’t Use Pay Rates As CACM	24-61
– If Many Employees at Median CACM, Don’t Cherry-Pick High Earner	24-62
– Don’t Construct CACM That Allows You to Manipulate Results.	24-62
– Example: Selecting CACM When There Are Several Pay Elements	24-62
– Can Exclude Equity & Bonuses If They Won’t Change Median.	24-63
– Test Your CACM	24-64
– CACM Must Get You Close To Median.	24-64
– Consider Reliability of Your CACM	24-64
– Think About Benefits Volatility When Identifying Median Employee	24-65
– Tenure, Age, Nature of Job & Location’s Impact	24-65

– Non-US Workers’ Pay Elements May Affect CACM & Decision to Exclude	24-66
– Temporary Employees’ Pay Structure May Affect CACM	24-66
– Risks of Using Methodology Other Than Summary Compensation Table	24-66
– Forms of Cash Compensation Are Most Popular CACMs	24-67
– “Taxable Wages” Can Vary By Country	24-67
– Cost-of-Living Adjustments Permitted But Add Much Work	24-67
– Narrow Situation Where COLA Might Make Sense	24-68
– Using COLA Requires Disclosure	24-68
– Calculate Your CACM Over Any Reasonable Time Period	24-68
– Choose Measurement Period That Permits Easy Data Collection	24-70
– Choose Measurement Period That’s Easy to Justify	24-70
– Measurement Period Can Be Partial Year	24-70
– Partial-Year Period Can’t Significantly Change “Median Employee”	24-70
– Can Use 12-Month Period That Runs Over 2 Fiscal Years	24-71
– Using Year-Old Data Is Permitted, But Tricky	24-71
– Steer Clear of Annualizing Partial-Year Data	24-71
– Majority of Companies Annualize Pay for New-Hires	24-72
– Don’t Annualize Seasonal or One-Time Pay Elements	24-72
– Full-Time Equivalent Adjustments Not Allowed	24-72
– Don’t Annualize Only Portions of Employee Population	24-73
– Rules Don’t Dictate Currency Conversion Method	24-73
– Document Your CACM Analysis	24-73
G. Determining Median Employee’s “Annual Total Compensation”	24-74
– Use Summary Compensation Table Rules to Calculate “Annual Total Compensation”	24-74
– Reasonable Estimates Can Be Used to Determine “Annual Total Compensation”	24-74
– Don’t Use CACM to Calculate Annual Total Compensation	24-74
– State Conversion Rate & Methodology for Foreign Currency	24-75
– Variability of Benefits Values for Employees	24-75
– Volatility of Interest Rate Movements	24-75
– Volatility of Retirement Plan Value	24-76
– Can Voluntarily Include Perks Under \$10k & Other Non-Discriminatory Benefits	24-76
– Including Benefits Could Affect Employee Perceptions	24-77
– Including Benefits Could Cause Pay Ratio to Vary Each Year	24-77
– Apply COLA If Used to Identify Median Employee	24-77
– Calculate Total Annual Compensation Every Year	24-77
H. Determining CEO’s Total Compensation	24-77

– CEO’s “Total Compensation” Determined Same Way As Summary Compensation Table	24-77
– Two Alternatives If Company Has Two CEOs During Fiscal Year	24-78
– If Company Has Two CEOs During Fiscal Year, Explain Why Pay Ratio Is High	24-79
– No Pay Ratio Required Until CEO Salary/Bonus Determined	24-79
I. Disclosure	24-79
– Placement of Disclosure Flexible (Fits Best Outside of CD&A)	24-79
– But Pay Ratio May Need to Be Addressed in CD&A	24-80
– Pay Ratio Doesn’t Have To Accompany Say-On-Pay	24-80
– Pay Ratio Only Modestly Impacts Say-on-Pay	24-80
– Ratio Can Be Disclosed Numerically or Narratively (Or Both)	24-80
– Don’t Use Decimals	24-81
– Disclose Method & Estimates to Identify Median & Calculate Total Pay	24-81
– Brief Disclosure About Methodology Shouldn’t Be Technical	24-81
– Pay Ratio May Be Described as “Estimate”	24-81
– Disclose Any Changes in Methodology From Prior Year	24-82
– Disclosure Required If No Change to Median Employee In “Off” Years	24-82
– Must Disclose Employee Determination Date (But Not Reason for Date’s Selection)	24-82
– Disclose Material Features of Statistical Sampling	24-82
– Model Disclosure: Statistical Sampling	24-83
– Extra Disclosure Required for “Data Privacy” Exemption	24-83
– Extra Disclosure Required for “De Minimis” Exemption	24-83
– Model Disclosure: De Minimis Exemption	24-84
– Extra Disclosure Required for “Acquired Employees” Exemption	24-84
– Model Disclosure: Acquisition Exemption	24-84
– Extra Disclosure Required for Substitute Median	24-85
– Model Disclosure: Anomalous Non-US Median Employee	24-85
– Model Disclosure: Anomalous Commissioned Employee	24-85
– Extra Disclosure Required for Cost of Living Adjustments	24-85
– Interplay with Advisor Independence Disclosure	24-86
– Provide Context In Proxy If Helpful to Shareholders	24-86
– Use Pay-For-Performance & Pay Philosophies to Frame Narrative	24-86
– Align Proxy Narrative & Employee Communications	24-87
– Avoid Detailed Employee Pay Assertions (And If Included, Have Data)	24-87
– Don’t Disclose Median Employee’s Personal Information	24-87
– Consider Describing Position & Tenure of Median Employee	24-88
– Model Contextual Disclosure: Global Operations	24-88
– Model Contextual Disclosure: Approach to Workforce Compensation	24-88
– “Disclaimer” Common	24-89

– Model Disclaimer	24-89
– Supplemental Ratios Might Ease Peer Comparisons, But Not Recommended	24-90
– Supplemental Disclosures Increase Confusion & Litigation Risks	24-90
– Supplemental Ratios Set Precedent for Future Years	24-91
– Model Supplemental Ratio: One-Time Equity Award	24-91
– Model Supplemental Ratio: Change in Award Cycle Timing	24-91
– Model Supplemental Ratio: Combining Pay of Two CEOs	24-91
– Model Supplemental Ratio: Annualizing Pay of New CEO	24-92
– Model Supplemental Ratio: Pension Value Complexities	24-93
– Model Supplemental Ratio: US Employees	24-93
– Model Supplemental Ratio: Full-Time Employees	24-94
– Model Supplemental Ratio: Excluding Employees of Certain Businesses	24-94
– Understand How Your Workforce & Methodology Compares to Peers	24-95
– Anticipate Scrutiny of Trends	24-95
– Disclosure Updated Annually (But Not Before)	24-96
– Considered “Filed”; Not “Furnished”	24-96
– Include Pay Ratio in CEO/CFO Certification Process	24-96
– Create Disclosure Controls & Procedures for Pay Ratio	24-96
– Reasonable Estimates Won’t Result in SEC Enforcement Action	24-97
– Report Early to Directors on Pay Ratio Calculation Process & Disclosure	24-97
– Prepare Communications Strategy Beyond Proxy Statement	24-97
– Include FAQs in Annual Meeting Prep	24-98
– Common Talking Points For All Audiences	24-98
– Investor Communications Likely Are “Additional Soliciting Material”	24-98
– Document Investor Reactions	24-99
V. Managing Employee Fallout	24-99
– Use True Internal Look to Provide Most Useful Ratio	24-99
– Types of Companies at Greatest Risk	24-100
– Factors Influencing Employee Pay Ratio Perceptions	24-101
– Comparisons Among Pay Ratios in Same Industry Inevitable	24-102
– Anticipate Scrutiny of Trends	24-102
– Possible Reasons for Employee Fallout	24-103
– Biggest Risk for Employees Not Expecting to Be Near Median & Those at Bottom	24-103
– Employees Even Above Median May Complain	24-103
– Consequences of Employee Fallout	24-104
– Use Cross-Functional Team to Develop Pay Ratio Talking Points	24-104
– Create Consistent Job Levels & Titles to Ease Fallout	24-105

– Three Compensation Areas to Consider for More Transparent Communications	24-105
– Consider Providing “Total Rewards” Statements	24-106
– Remember Non-Monetary Benefits	24-106
– Create Value for Employees	24-106
– Leveraging Existing Communication Channels (Including Town Halls)	24-106
– Relying on Line Managers to Explain Ratios	24-107
– Typical FAQ Topics	24-107
– Using Proxy Disclosure Explanations to Minimize Employee Fallout	24-108
– Avoid Detailed Employee Pay Assertions (And If Included, Have Data)	24-109
– Employee Communications Could Be “Additional Soliciting Material” If Widespread Ownership	24-109
VI. Impact of Pay Ratio Disclosure	24-109
– Directors Should Discuss Impact of Pay Ratio Disclosure	24-109
– Pay-for-Performance Provides Context for Board Pay Ratio Discussions	24-109
– Pay Ratio Isn’t “Material” to Proxy Advisors (Yet)	24-110
– Consider Tax & Licensing Fee Impact	24-110
– “Human Capital Management” Impact	24-110
VII. Common Questions & Our Analysis	24-111
A. Finding the Median: Partial-Year Employees	24-111
– Can Annualize Pay to Furloughed “Permanent” Union Employees	24-111
– Annualizing is “All or Nothing”	24-112
– Include Permanent Employees on Temporary Leave (And Annualize Their Pay)	24-112
– Can Exclude Employees On Leave More Than One Year	24-113
B. Finding the Median: De Minimis Exception	24-113
– De Minimis Exception for 5% of Global Workplace	24-113
C. Finding the Median: “Consistently Applied Compensation Measure”	24-114
– Treatment of Annual Bonuses Paid After FYE	24-114
– Year-End Employees: Can Use Comparable Employee’s W-2 Amount ...	24-115
D. Finding the Median: Other Issues	24-115
– Even-Numbered Employee Population: Use Reasonable Judgment to Select Median	24-115
E. Changing the Median Employee	24-116
– Can Use Substitute Employee if Median Leaves Company	24-116
– Can Still Use Prior-Year Median Employee With New CEO	24-117
F. Calculating Median Employee Pay	24-117
– Can Annualize Median Employee Who’s New-Hire	24-117

G. Calculating CEO Pay	24-117
– Multiple CEOs: Existing Employee Becomes CEO	24-117
– CEO Pay Ratio When CEO Waives Compensation.	24-119
H. Disclosure Issues	24-119
– Can Characterize Pay Ratio as “Estimate”—But Don’t Editorialize.	24-119
I. Transitions for EGCs & Smaller Reporting Companies	24-120
– Exiting EGC/Smaller Reporting Companies Have One Transition Year to Prepare	24-120
VIII. Pay Ratio To-Do List	24-120
IX. Annotated Model Pay Ratio Disclosures	24-122
– Example 1—Listed Company with Global Workforce & CEO Transition	24-122
– Example 2—Listed Company with Wholly U.S.-Based Workforce	24-124
– Example 3—Listed Company with Global Workforce	24-127
– Example 4—Listed Company with Global Workforce (Supplemental Disclosure).	24-133
X. Real-World Pay Ratio Disclosures	24-140

Chapter 25 Hedging Disclosure

I. History	25-3
II. SEC Rules & Regulations	25-3
A. Item 407(i) of Regulation S-K	25-3
III. SEC Guidance	25-4
IV. How the Rule Works	25-4
A. Which Companies Must Comply & When Disclosure Is Required.	25-4
– Applies to All U.S. Companies Except Funds	25-4
– Disclosure Mandate Began With 2019 Proxies	25-5
– Required in Proxy Statements for Director Elections	25-5
B. Scope of Rule.	25-5
– Disclosure Requirement is Broadly Worded & Interpreted.	25-5
– Disclose Any “Practices or Policies”	25-5
– Applies to Unwritten Practices & Policies Too	25-6
– Broader Than CD&A Requirement	25-6

– Doesn't Require Adoption of Policy	25-6
C. Rule Covers Broad Range of People	25-7
– Applies to Employees, Officers, Directors & Designees	25-7
– Address "Designees" In Your Policy & Disclosure	25-7
D. Rule Covers Broad Range of Transactions & Securities	25-7
– "Financial Instruments" Broadly Defined	25-7
– Not Limited to "Financial Instruments"	25-7
– "Hedging" Not Defined	25-8
– "Equity Securities" Includes Parents, Subsidiaries	25-8
– "Equity Securities" Not Limited to Registered Securities	25-8
– Describe Policy's Treatment of Different Classes (If Applicable)	25-8
– Not Limited to Equity Compensation	25-8
– Applies to Directly or Indirectly Held Equity Securities	25-9
– Elaborate Policy Not Required	25-9
E. Drafting Issues for Proxy	25-9
– Provide Either "Fair & Accurate Summary" or Full Policy	25-9
– State Whether You're Providing "Fair & Accurate Summary" or Full Policy	25-10
– Disclose Unwritten Policies & Practices	25-10
– Required Disclosure If No Practices or Policy	25-10
– How to Disclose Hedging Policies Embedded in Other Policy Documents	25-10
– No Need to Disclose Hedging Transactions That Have Occurred	25-10
– Interplay With Section 16 & Beneficial Ownership Table	25-11
– Disclosure of Waivers Not Required (But People Will Figure It Out)	25-11
– Keep Shareholder Concerns In Mind	25-11
– Location of Disclosure	25-12
F. Sample Disclosures	25-12
– Sysco	25-13
– Dick's Sporting Goods	25-13
– Clorox	25-14
G. Recommended Policies & Practices	25-15
– Common to Embed In Insider Trading Policy	25-15
– Pros & Cons of Standalone Hedging Policy	25-16
– Elaborate Policy Not Required	25-16
– Keep Pledging Concepts Separate	25-17
– Be Practical About Who's Covered	25-17
– Ability to Grant Permission or Exceptions	25-18
– Address Consequences of Violations	25-19

Appendix A Regulation Text for Executive Compensation Disclosures

1. Item 402 of Regulation S-K	A-1
2. Item 403 of Regulation S-K	A-51
3. Item 404 of Regulation S-K	A-53
4. Item 407 of Regulation S-K	A-59
5. Item 201(e) of Regulation S-K	A-75
6. Item 5.02 of Form 8-K	A-78
7. Item 5.07 of Form 8-K	A-82