

TABLE OF CONTENTS

CHAPTER 1

Introduction

§ 1.01	A Brave New World.....	1-1
§ 1.02	What Is Executive Compensation?	1-7
§ 1.03	The Logic	1-9
§ 1.04	The Interrelationship of Securities and Tax Laws	1-11

CHAPTER 2

Employment Agreements

§ 2.01	Purpose of the Agreement	2-3
	[1] Advantages to the Employee.....	2-4
	[2] Advantages to the Employer.....	2-7
§ 2.02	Basic Provisions of an Employment Agreement.	2-10
	[1] Introduction.....	2-10
	[2] Term	2-11
	[3] Duties and Obligations.....	2-15
	[4] Compensation.....	2-18
	[a] Base Salary	2-22
	[b] Bonus	2-23
	[c] Deferred Compensation.....	2-25
	[d] Supplemental Executive Retirement Plans.....	2-28
	[e] Benefits, Fringes and Perks	2-29
	[f] Equity Grants.....	2-30
	[5] Termination for Cause or with Good Reason	2-32

EXECUTIVE COMPENSATION

[a]	Overview	2-32
[b]	Definition of “Cause”	2-33
[c]	Common Provisions Included in the Definition of Cause.....	2-35
	[i] Commission of a Crime.....	2-35
	[ii] Dishonesty.....	2-37
	[iii] Abuse of Alcohol or Drugs ...	2-38
	[iv] Willful Misconduct.....	2-39
	[v] Gross Malfeasance or Nonfeasance	2-41
	[vi] Insubordination and Failure to Follow Direction	2-41
	[vii] Negligence.....	2-42
	[viii] General Breach of Contract ...	2-42
	[ix] Confidentiality, Fiduciary Duty.....	2-43
	[x] Noncompete	2-44
	[xi] Regulation of Professional Conduct or Industry Practice	2-45
	[xii] Code of Conduct.....	2-45
[d]	Other Issues Relating to “Cause” ...	2-46
[e]	Termination for “Good Reason” ...	2-48
[f]	Common Occurrences Treated as Good Reason.....	2-51
	[i] Demotion in Position or Assignment of Noncommensurate Duties ...	2-51
	[ii] Failure to Elect as Board Member.....	2-53
	[iii] Late Payments.....	2-53
	[iv] Relocation of Workplace of Executive.....	2-53
	[v] Uncured Breach by Employer.....	2-54
	[vi] Failure to Assume.....	2-54
	[vii] Reassignment to Subsidiary or Division	2-55
	[viii] Failure to Give Raises	2-55
	[ix] Failure of Grants to Be Made	2-55
	[x] Change of Control	2-56
[6]	Termination Without Good Reason.....	2-56
[7]	Severance	2-58
	[a] General Considerations	2-58

TABLE OF CONTENTS

[b] Amount and Form of Severance
 Pay 2-62

[8] Death and Disability 2-70

 [a] Death 2-70

 [b] Disability 2-70

[9] Confidentiality 2-73

[10] Representation Regarding Past
 Agreements and Actions 2-75

[11] Noncompetition Provisions 2-75

[12] Equity Plans and Clawbacks 2-79

[13] Assignment of Patents and Other
 Intellectual Property 2-82

[14] Bad-Mouthing or Non-disparagement 2-82

[15] Arbitration 2-83

[16] Indemnification 2-85

[17] Legal Fees 2-86

[18] Assignment 2-87

[19] Guarantee of Obligations 2-88

§ 2.03 Severance Agreements 2-89

 [1] General Considerations 2-89

 [2] Release of the Employer 2-90

 [3] Release of the Employee 2-92

 [4] Confidentiality of Severance
 Agreement 2-92

 [5] Other Provisions 2-93

 [6] Tax Issues 2-93

CHAPTER 3

Section 162(m) Deductibility of Compensation

§ 3.01 Background 3-2

§ 3.02 Publicly Held Corporations 3-4

§ 3.03 Covered Employees 3-8

§ 3.04 Written Binding Contract 3-11

§ 3.05 Performance-Based Compensation 3-15

§ 3.06 Stock Options, Stock Appreciation Rights
 and Other Stock-Based Compensation 3-19

§ 3.07 Compensation Committee 3-22

§ 3.08 Shareholder Approval Requirement 3-26

§ 3.09 TARP Provisions 3-28

§ 3.10 Health Service Provider Employees 3-29

§ 3.11 Litigation 3-31

EXECUTIVE COMPENSATION

CHAPTER 4

Non-Competes and Related Issues

§ 4.01	Introduction	4-3
§ 4.02	Restrictions Implied by Law	4-5
	[1] In General	4-5
	[2] Duty of Loyalty	4-6
	[a] Solicitation of Employers’ Customers	4-6
	[b] Solicitation of Co-workers	4-8
	[c] Preparation to Compete While Still Employed.	4-11
	[d] Corporate Opportunity.	4-13
	[e] The Faithless Servant Doctrine.	4-16
	[3] Trade Secrets and Confidential Information.	4-17
	[a] Protection of Trade Secrets in General	4-17
	[b] The Defend Trade Secrets Act Alters the Landscape	4-18
	[c] Duty Not to Disclose.	4-19
	[d] General Skills and Knowledge of Industry	4-20
	[e] Definition of Trade Secret	4-22
	[f] Factors to Consider in Determining Whether a Trade Secret Exists.	4-24
	[i] Disclosure of Information to Public	4-24
	[ii] Disclosure to Employees	4-25
	[iii] Value of Information to Employer.	4-26
	[iv] Measures to Ensure Confidentiality	4-26
	[v] Time and Money Spent in Development and Acquisition of Information.	4-28
	[vi] Ease of Duplication or Acquisition of Information.	4-29
	[g] Subject Matter	4-30
	[4] Intellectual Property Rights	4-33
	[a] Overlap with Trade Secret Law	4-33
	[b] Patents and Inventions.	4-35
	[c] Copyrights	4-38
	[5] Sale of Business.	4-40

TABLE OF CONTENTS

§ 4.03	Uses of Restrictive Covenants	4-42
§ 4.04	Standards for Determining Enforceability of Restrictive Covenants	4-44
	[1] Reasonableness	4-44
	[2] Protectable Interests of the Employer	4-45
	[3] Burden on Employee	4-49
	[4] Harm to Public Interest	4-51
	[5] Adequate Consideration	4-52
§ 4.05	Types of Restrictive Covenants	4-57
	[1] Nondisclosure Covenants	4-57
	[2] Assignments of Invention and Copyright Provisions	4-61
	[3] Non-Solicitation and Non-Interference Provisions	4-65
	[4] Covenants Not to Compete	4-69
	[5] Employee “No Raid” and “No Hire” Provisions	4-71
	[6] Paid Non-Compete Periods at the Employer’s Election	4-73
	[7] “Garden Leave” Restrictions	4-74
	[8] “Clawback” and Damage Provisions	4-75
	[9] Forfeiture Provisions and the “Employee Choice” Doctrine	4-76
§ 4.06	Issues Relating to the Particular Context of a Restrictive Covenant	4-80
	[1] Restrictive Covenants in Connection with the Sale of a Business	4-80
	[2] Restrictive Covenants During the Duration in Term Contracts	4-81
	[3] Restrictive Covenants in Severance Agreements	4-83
	[4] Restrictive Covenants in Partnership and Shareholder Agreements	4-84
	[5] Restrictive Covenants in Deferred Compensation Arrangements	4-85
§ 4.07	Other Possible Provisions in a Contract Containing a Covenant Not to Compete	4-91
	[1] Arbitration Clauses	4-91
	[2] Choice of Law Provisions	4-92
	[3] Forum Selection Provisions	4-93
	[4] Liquidated Damage and Forfeiture Provisions	4-95
	[5] Other Suggested Provisions	4-98
§ 4.08	State Statutes Governing Non-Competes and Other Restrictive Covenants	4-101

§ 4.09	Litigating International Non-Compete Issues in the United States	4-114
	[1] Forum <i>Non Conveniens</i>	4-114
	[a] Plaintiff's Chosen Forum	4-114
	[b] The Adequacy of a Foreign Forum	4-115
	[c] Balancing the Public and Private Interests	4-115
	[2] Personal Jurisdiction	4-116
	[3] Subject Matter Jurisdiction	4-117
	[a] Diversity Jurisdiction	4-117
	[b] Extraterritorial Application of American Laws	4-118

CHAPTER 5

Equity-Based Compensation

§ 5.01	Overview	5-2
	[1] Choosing an Equity-Based Incentive Program	5-2
	[2] Retention vs. Incentive	5-5
	[3] The Consequences of Variations	5-7
	[4] Public vs. Private Companies	5-18
	[5] Addressing a Changing World	5-23
§ 5.02	Stock Options	5-27
	[1] Description	5-27
	[2] Tax Effects	5-27
	[3] Securities Law Registration	5-33
	[4] Section 16(a) Reporting and Section 16(b) Liability	5-39
	[5] Accounting Treatment	5-41
	[6] Exercise Techniques	5-43
§ 5.03	Stock Appreciation Rights ("SARs")	5-45
	[1] Description	5-45
	[2] Tax Effects	5-45
	[3] Accounting Treatment	5-46
	[4] Securities Law Issues	5-47
§ 5.04	Restricted Stock	5-49
	[1] Description and Uses	5-49
	[2] Tax Effects	5-49
	[3] Accounting Treatment	5-51

TABLE OF CONTENTS

xix

	[4] Securities Law Issues	5-52
§ 5.05	Deferred Issuance Stock Awards	5-54
	[1] Description and Uses	5-54
	[2] Tax Effects	5-56
	[3] Accounting Treatment	5-60
	[4] Securities Law Issues	5-60
§ 5.06	Stock Purchase Programs	5-62
	[1] Description and Uses	5-62
	[2] Public vs. Private Companies	5-63
	[3] Financing the Purchase	5-66
	[4] Tax Effects	5-68
	[5] Securities Law Issues	5-70
	[6] Accounting Treatment	5-71

CHAPTER 6

Other Cash Incentive Compensation

§ 6.01	Overview	6-2
	[1] Introduction	6-2
	[2] Tax Law Constraints on Design	6-4
	[3] Addition of Stock Features	6-9
	[4] Presentation in the Compensation Discussion and Analysis	6-10
§ 6.02	Criteria for Program Selection	6-12
	[1] Is the Program Intended to Retain Executives or Incentivize Them to Achieve Specific Objectives?	6-12
	[2] Is the Cash Plan to be a Short-Term Plan or a Long-Term Plan?	6-15
	[3] What Should the Performance Objectives Be?	6-18
	[4] Should a Limit Be Imposed on the Maximum Benefit Payable?	6-22
§ 6.03	Short-Term Incentive Compensation	6-25
	[1] Methodology of Bonus Determination	6-25
	[2] Annual Bonus as Part of Basic Compensation	6-26
	[3] Annual Bonus Based on Performance	6-27
	[4] Effect of Employment Condition on Payment	6-31
§ 6.04	Long-Term Plans	6-33
	[1] Choice of Objectives	6-33
	[2] Form of Program	6-36

EXECUTIVE COMPENSATION

	[3] Vesting, Involuntary Termination and Retirement	6-39
	[4] New or Recently Promoted Employees	6-51
§ 6.05	Delivery of Cash Plan Payments in Stock	6-53
	[1] Design	6-53
	[2] Regulatory Issues	6-54
§ 6.06	Cash Plans For Special Purposes	6-58
	[1] Unit Plans or Special Purpose Programs	6-58
	[2] Retention Bonuses	6-59
§ 6.07	Change of Control Issues	6-62
	[1] Short-Term Plans	6-62
	[2] Long-Term Plans	6-64
	[3] Change of Control and Section 409A	6-66

CHAPTER 7**Structuring and Paying Deferred
Compensation Under Section 409A**

§ 7.01	Deferred Compensation Subject to Section 409A	7-4
	[1] Section 409A: Overview of Scope and Provisions	7-5
	[2] Substantive and Documentary Requirements	7-7
	[3] Significant Adverse Tax Consequences to the Recipient for Failure to Comply	7-8
§ 7.02	Short-Term Deferral Exception	7-11
	[1] Substantial Risk of Forfeiture	7-12
	[2] Effect of Available Election	7-13
	[3] Permitted Delays	7-13
	[a] Insolvency	7-13
	[b] Unforeseeable Administrative Delays	7-13
	[c] Unanticipated Section 162(m) Delays	7-14
	[4] Dangers of Imprecision as to Time of Payment	7-14
§ 7.03	Allowable Payment Events	7-16
	[1] Six Permitted Payment Triggers	7-16
	[2] Separation from Service	7-17
	[a] Affiliated Entities	7-17

TABLE OF CONTENTS

xxi

	[b]	“Facts and Circumstances,” Anti-Abuse Definition.	7-18
	[c]	Director/Independent Contractor Arrangements.	7-19
	[d]	Asset/Stock Sales	7-20
	[e]	Leave of Absence	7-22
[3]		Change in Control Event	7-22
	[a]	Extension of Forfeitability Period. . .	7-24
[4]		Time-Frame for Payment When the Trigger Event Occurs.	7-24
	[a]	Event-Based and Fixed-Date Payments	7-24
	[b]	Payment Toggles.	7-25
	[c]	Additional Delays	7-26
	[d]	Good Faith Disputes	7-27
	[e]	Schedule Based on Third Party Payments/“Back-to-Back” Arrangements	7-27
	[f]	Correlation with Social Security or Disability Benefits	7-27
§ 7.04		Initial Deferral Elections	7-28
	[1]	General Rule.	7-28
	[2]	First Year of Eligibility	7-28
	[3]	Performance-Based Compensation	7-29
	[4]	Forfeitable Compensation	7-30
	[5]	Commissions.	7-30
	[6]	Short-Term Deferrals	7-31
	[7]	Irrevocability.	7-31
	[8]	Excess and Make-Up Plans.	7-32
§ 7.05		Subsequent Changes in Time and Form of Payment	7-34
	[1]	General Rule.	7-34
	[2]	Actuarially Equivalent Life Annuities. . .	7-36
	[3]	Series of Scheduled Payments.	7-37
		[a] Life Annuity.	7-37
		[b] Installment Payments.	7-37
	[4]	Implied Modifications	7-38
§ 7.06		Six-Month Delay for Specified (Key) Employees	7-40
	[1]	Identifying the “Specified Employees” . .	7-40
		[a] Identifying Officers.	7-41
		[b] Date/Period for Identifying Specified Employees	7-42
		[c] “Compensation” for Identifying Specified Employees.	7-43

EXECUTIVE COMPENSATION

	[2] Corporate Transactions	7-44
	[a] General	7-44
	[b] Combinations of Public Corporations	7-44
	[c] Public Corporation's Acquisition of a Private Corporation	7-45
	[d] Spinoffs	7-45
	[e] IPOs	7-45
§ 7.07	Section 409A and Severance Pay	7-47
	[1] What Constitutes an Involuntary Termination	7-47
	[2] Application of the Short-Term Deferral Exception	7-48
	[3] Benefits Payable Upon a Separation from Service	7-49
	[4] Separation Pay Plan Exemption From Section 409A	7-50
	[5] Window Program	7-51
	[6] Collectively Bargained Separation Pay Plan	7-51
	[7] Separation Pay Required Under Foreign Law	7-52
§ 7.08	Special Rules for Special Circumstances: Expenses and In-Kind Benefits, Medicals Benefits, Disputed Payments, Funding Rules and Grandfathered Plans	7-53
	[1] Expense Reimbursements, In-Kind Benefits and Indemnities	7-53
	[2] Medical Benefits	7-54
	[3] Disputed Payments	7-55
	[4] Prohibition Against Offshore or Financial Health Springing Funding	7-55
	[5] "Grandfathered" Pre-2005 Deferrals	7-56
	[a] Additional Benefits or Rights	7-57
	[b] Investment Changes	7-57
	[c] Exercise of Existing Rights	7-57
§ 7.09	Exceptions to the No Acceleration Rule	7-58
	[1] Plan Terminations	7-58
	[a] Targeted Termination Upon Change in Control	7-58
	[b] Elimination of Plan Category	7-58
	[c] Bankruptcy or Liquidation	7-59
	[2] Acceleration Pertaining to FICA and Other Taxes	7-59

TABLE OF CONTENTS

xxiii

	[3] Adding Payment Triggers for Death, Disability and Unforeseen Hardship . . .	7-60
	[4] Disputed Payments	7-60
	[5] Other Permitted Accelerated Payments . . .	7-61
§ 7.10	ERISA and Other Plan Design Considerations . . .	7-62
	[1] Does ERISA Apply to the Deferred Compensation Arrangement?	7-62
	[2] Top-Hat Plans: Exemption from ERISA’s Substantive Provisions	7-63
	[a] Defining the “Top-Hat Group”	7-64
	[b] Case Law on Top-Hat Status	7-65
	[3] State Taxation	7-67
	[4] Considerations Regarding Participation of Elective Plans	7-68
	[a] Advantages and Disadvantages of Deferred Compensation	7-68
	[5] Plan Design Considerations-Defined Benefit Plans	7-69

CHAPTER 8

Funding Mechanisms for Nonqualified Deferred Compensation Plans and Arrangements

§ 8.01	Overview	8-2
	[1] Introduction	8-2
	[2] The Principal Types of Nonqualified Deferred Compensation Programs	8-5
	[a] Elective Deferred Compensation Programs	8-5
	[b] Nonelective Deferred Compensation Programs	8-6
§ 8.02	Principles Governing Taxation of Deferred Compensation	8-9
	[1] Section 409A	8-9
	[a] Summary of the General Rules	8-9
	[b] Impact on the Constructive Receipt Doctrine	8-11
	[c] Approach to Nonqualified Deferred Compensation in a Change in Control	8-12

EXECUTIVE COMPENSATION

	[d] Impact on Non-Payment of Nonqualified Deferred Compensation	8-14
	[e] Special Rules Related to Trusts	8-16
	[2] Section 83	8-17
	[3] Section 402(b)	8-18
	[4] Tax Treatment of Nonqualified Deferred Compensation Plans	8-20
	[a] Employee/Service Provider Income Tax	8-20
	[b] Employer/Service Recipient Income Tax	8-22
	[c] Section 162(m) Considerations	8-22
	[d] Section 3121(v)	8-26
§ 8.03	ERISA and “Funded” and “Unfunded” Deferred Compensation	8-27
	[1] In General	8-27
	[2] Exemptions of Top-Hat Plans from ERISA Substantive Provisions	8-28
	[a] The “Unfunded” Plan Requirement	8-29
	[b] Select Group of Management or Highly Compensated Employees	8-34
§ 8.04	Funding Arrangements to Assist in the Payment of Deferred Compensation	8-42
	[1] Nonqualified Trusts	8-43
	[a] Rabbi Trust	8-44
	[b] Taxation of the Rabbi Trust	8-45
	[i] Taxation of Employer	8-45
	[ii] Taxation of Employee	8-46
	[2] Terms of the Trust	8-46
	[a] Accounting Considerations	8-49
	[b] Application of ERISA	8-49
	[c] Investment in Employer Stock	8-50
	[d] Secular Trusts	8-52
	[i] Taxation of the Secular Trust	8-54
	[ii] Application of ERISA	8-58
	[3] Employer Assets	8-58
	[a] Company Owned Life Insurance . . .	8-59
	[b] Purchase of Annuities	8-60
	[c] Matching Assets	8-62
	[d] Third Party Arrangements	8-63

CHAPTER 9

Change of Control Arrangements

§ 9.01	Overview	9-4
	[1] Why Provide Change in Control Protection?	9-4
	[2] Defining a Change of Control	9-6
	[3] Elements of Change of Control Arrangements	9-9
	[a] Change of Control Severance and Employment Agreements	9-9
	[b] Severance Plans	9-12
	[c] Stock-Based Plans	9-13
	[d] Cash-Based Plans	9-15
	[e] Pension Benefits and Deferred Compensation	9-15
	[f] Funding Mechanisms	9-17
	[4] The “Golden Parachute” Tax	9-18
	[a] The Nature of the Tax	9-18
	[b] Managing the Excise Tax	9-19
	[5] Legal Standards for Adopting Change of Control Arrangements and Other Considerations	9-22
§ 9.02	Why Provide Change in Control Protection?	9-26
	[1] Impact of a Change in Control	9-26
	[2] Benefits of Change in Control Protection	9-28
	[3] Legal Standards and Other Considerations	9-29
§ 9.03	Defining a Change of Control	9-30
	[1] Introduction	9-30
	[2] Stock Accumulations	9-31
	[3] Change in Board Composition	9-32
	[4] Major Corporate Transactions	9-33
	[a] Mergers	9-33
	[b] Other Major Transactions	9-35
§ 9.04	Elements of Change of Control Arrangements	9-36
	[1] Change of Control Severance and Employment Agreements	9-36
	[a] When Does an Agreement Become Effective?	9-36
	[b] Qualifying Termination Events	9-37
	[c] Severance and Other Benefits	9-41

EXECUTIVE COMPENSATION

	[2]	Severance Plans	9-44
	[3]	Stock-Based Compensation Plans	9-46
	[4]	Cash-Based Incentive Plans	9-47
	[5]	Pension Benefits and Deferred Compensation	9-47
	[a]	Qualified Plans	9-47
	[b]	Nonqualified Plans	9-49
§ 9.05	The	“Golden Parachute” Tax	9-53
	[1]	History and Background	9-53
	[2]	The Operation of Section 280G and Section 4999	9-54
	[a]	Change in Control	9-54
	[i]	Change in Ownership of a Corporation	9-54
	[ii]	Change in Ownership of a Substantial Portion of a Corporation’s Assets	9-55
	[iii]	Change in Effective Control of a Corporation	9-57
	[iv]	Excluded Entities	9-58
	[v]	Non-U.S. Persons	9-60
	[b]	Disqualified Individuals	9-60
	[i]	1% Shareholders	9-60
	[ii]	Officers	9-61
	[iii]	Highly Compensated Individuals	9-61
	[c]	Parachute Payments	9-62
	[i]	Payment in the Nature of Compensation	9-62
	[ii]	Contingent on a Change in Control	9-63
	[iii]	Aggregate Payments Equal to or Exceeding the Safe Harbor	9-67
	[d]	Reasonable Compensation	9-72
	[i]	Reasonable Compensation for Services Rendered on or After a Change in Control	9-73
	[ii]	Reasonable Compensation for Services Rendered Before a Change in Control	9-76
	[e]	Section 280G Shareholder Vote	9-77
	[i]	Availability of Shareholder Vote	9-77
	[ii]	Effect of the Vote	9-77

TABLE OF CONTENTS

xxvii

	[iii] Shareholders Entitled to Vote	9-78
	[iv] Adequate Disclosure	9-80
	[3] Managing the Excise Tax	9-80
	[a] Gross-Up	9-81
	[b] Cutback	9-83
	[c] Modified Gross-Up	9-85
	[d] “Net Better” Cutback	9-85
	[e] Remain Silent Regarding Treatment	9-86
§ 9.06	Legal Standards for Adopting Change in Control Arrangements and Other Considerations	9-88
	[1] Case Law	9-88
	[a] Business Judgment Rule	9-88
	[b] Enhanced Scrutiny	9-89
	[c] Entire Fairness	9-91
	[d] Corporate Waste	9-91
	[2] Process and Practical Considerations	9-92
	[3] Stockholder “Say-on-Pay” and “Say-on-Golden Parachute” Considerations	9-93

CHAPTER 10

Taxation of Fringe Benefits

§ 10.01	Introduction	10-2
§ 10.02	Fringe Benefits Under I.R.C. Sections 132 and 119	10-4
	[1] No-Additional-Cost Services	10-4
	[a] Defined	10-4
	[b] Reciprocal Agreements	10-4
	[c] Discrimination	10-4
	[d] “Employee” Defined	10-5
	[2] Qualified Employee Discount	10-5
	[a] Defined	10-5
	[b] Reciprocal Agreements; Discrimination	10-6
	[3] Working Condition Fringe	10-6
	[a] Defined	10-6
	[b] Discrimination	10-6
	[c] Spouse as “Employee”	10-6

EXECUTIVE COMPENSATION

	[4] <i>De Minimis</i> Fringe	10-7
	[a] Defined	10-7
	[5] Qualified Transportation Fringe	10-9
	[a] Defined	10-9
	[b] Cash Reimbursements for Transportation	10-10
	[c] Discrimination	10-10
	[d] Limitations	10-11
	[6] Qualified Moving Expense Reimbursement	10-11
	[a] Defined	10-11
	[b] Lodging and Meals as Moving Expense	10-11
	[c] Traveling Via Scenic Route	10-11
	[7] On-Premises Athletic Facility	10-12
	[8] Employer-Provided Meals	10-12
	[9] Employer-Operated Eating Facility	10-13
§ 10.03	Specific Benefits Not Enumerated Under I.R.C. Sections 132 or 119	10-15
	[1] Transportation	10-15
	[a] Plane Travel	10-15
	[b] Automobiles	10-16
	[c] Chauffeurs	10-17
	[2] Housing	10-18
	[3] Lodges, Boats, and Entertainment Facilities	10-20
	[4] Club Dues	10-21
	[5] Professional Services: Legal, Financial, Tax	10-22
	[6] Loans	10-22
	[a] Interest-Free or Below-Market Loans	10-23
	[b] Exemptions	10-24
	[c] Discrimination	10-24
	[7] Travel and Entertainment	10-24
	[a] Travel	10-24
	[b] Entertainment	10-25
	[8] Frequent Flyer Miles	10-25
	[9] Insurance	10-27
	[a] Life Insurance	10-27
	[b] Health Insurance	10-28
	[c] Disability Insurance	10-28
	[10] Fringe Benefits Audit Techniques Guidelines	10-29
	[11] Potential Issues	10-30

CHAPTER 11

**Compensation and Benefits of
Non-Employee Directors**

§ 11.01	Overview	11-1
	[1] Historical Perspective	11-3
	[2] Stock Based Plans	11-9
	[3] Criteria for Program Selection	11-19
§ 11.02	Fee Deferral Arrangements	11-26
	[1] Section 409A	11-26
	[2] Basic Fee Deferral Arrangement	11-29
	[3] Deferrals and Phantom Stock	11-31
§ 11.03	Stock Compensation	11-33

CHAPTER 12

**Executive Compensation Disclosure:
8-K Requirements and
the Proxy Disclosure Rules**

§ 12.01	Overview of Executive Compensation Disclosure	12-2
	[1] Disclosure Under the Securities Laws	12-2
	[2] Form 8-K Disclosure	12-7
	[3] Overview of the Disclosure Rules for Proxies and Registration Statements	12-8
§ 12.02	Form 8-K Disclosure Regarding Executive Officers and Directors	12-12
	[1] Disclosure of Departures and Appointments	12-12
	[2] Disclosure of Compensatory Arrangements	12-15
	[3] Disclosure of Shareholder Votes on Executive Compensation	12-17
§ 12.03	Whose Compensation Must Be Disclosed?	12-19
§ 12.04	Explaining the Rationale and Showing the Bottom Line	12-23
	[1] CD&A	12-24
	[2] Pay for Performance Table and Associated Disclosure	12-32
	[3] Shareholder Approval of Named Executive Compensation	12-38

EXECUTIVE COMPENSATION

	[4] CEO Pay Ratio Rule	12-43
	[5] Risk Analysis	12-46.3
§ 12.05	The Summary Compensation Table and Supporting Tables.....	12-46.7
	[1] Column A: Name and Principal Position.....	12-46.10
	[2] Columns C/D: Salary and Bonus	12-48
	[3] Column E: Stock Awards	12-50
	[4] Column F: Option Awards	12-53
	[5] Column G: Non-Equity Incentive Plan Compensation.....	12-54
	[6] Column H: Change in Pension Value and Nonqualified Deferred Compensation Earnings.....	12-56
	[7] Column I: All Other Compensation	12-58
	[8] Grant of Plan-Based Awards.....	12-60.1
	[9] Outstanding Equity Awards at Fiscal Year-End	12-64
	[10] Option Exercises and Stock Vested Table	12-67
	[11] Pension Benefits Table	12-68
	[12] Nonqualified Deferred Compensation Table.....	12-72
	[13] Severance and Change of Control Benefits.....	12-73
	[14] Director Compensation Table	12-77
§ 12.06	Additional Disclosure to Address Particular Circumstances.....	12-81
	[1] Corporate Governance Disclosure.....	12-81
	[2] Related Party Transactions	12-86
	[3] Compensation Plans Subject to Shareholder Approval	12-88
	[4] Golden Parachute Compensation Table.....	12-93
	[5] Clawback Required Due to Restatement	12-97
	[6] Additional Disclosure Regarding Option/SAR Grants and the Disclosure of MINPI.....	12-99

CHAPTER 13

**Executive Compensation for
Tax-Exempt Organizations**

§ 13.01	Overview	13-2
§ 13.02	Background	13-4
	[1] Introduction	13-4
	[2] Section 457(f) Arrangements	13-7
	[3] Historical Reasons for Section 457(f)	13-8
	[4] Section 409A	13-10
	[5] Excise Tax	13-10
§ 13.03	Substantial Risk of Forfeiture	13-11
	[1] Definition	13-11
	[2] What Is Covered Under Substantial Risk of Forfeiture	13-13
	[3] Involuntary Termination; Impact on Substantial Risk of Forfeiture	13-16
§ 13.04	Exceptions	13-20
	[1] Exception for Churches and Church-Qualified Organizations	13-20
	[2] Exception for <i>Bona Fide</i> Severance and Similar Plans	13-20
	[3] <i>Bona Fide</i> Death Benefit or Disability Pay Plans	13-25
	[4] <i>Bona Fide</i> Sick and Vacation Leave Plans	13-26
	[5] Grandfathering Provisions	13-26
	[6] Buyout Provisions	13-30
	[7] Other Exceptions	13-31
§ 13.05	Use of Section 457(f) Plans	13-34
	[1] General Rules	13-34
	[2] Elective Deferred Compensation Arrangements	13-37
	[3] Top-Hat Rules	13-38
§ 13.06	Other Arrangements	13-40
	[1] Section 401(a) Plans	13-40
	[2] Section 403(b) Plans	13-40
	[3] Section 457 Eligible Employer Plans	13-43
§ 13.07	Other Limitations in Designing Compensation Packages	13-47
	[1] Private Inurement	13-47
	[2] Intermediate Sanctions	13-48
	[3] Form 990	13-54
	[4] Employer Excise Tax	13-55

CHAPTER 14

Multinational Executives

§ 14.01	Overview	14-3
	[1] Introduction	14-3
	[2] International Compensation Policies	14-3
	[3] Coordination and Integration	14-4
§ 14.02	Incentives to Accept Foreign Assignments	14-6
§ 14.03	Allowances and Reimbursements	14-8
	[1] General	14-8
	[2] Relocation	14-8
	[3] Housing	14-10
	[4] Cost-of-Living	14-11
	[5] Dependent Education	14-12
	[6] Home Leave	14-12
	[7] Tax Equalization	14-13
§ 14.04	Immigration and Tax Residence	14-14
	[1] In General	14-14
	[2] Immigration Status	14-15
	[a] Immigrant Visas	14-15
	[b] Nonimmigrant Visas	14-15
	[3] Tax Residence	14-18
§ 14.05	Income Tax Treatment of U.S. Citizens and Residents	14-21
	[1] In General	14-21
	[2] Income and Housing Exclusions	14-21
	[a] Foreign Tax Home	14-21
	[b] Residence and Physical Presence Tests	14-22
	[c] Foreign Earned Income and Foreign Housing	14-23
	[d] Amount of Exclusions and Effect of Election	14-25
	[3] Foreign Tax Credit	14-26
§ 14.06	Income Tax Treatment of Nonresident Aliens	14-27
	[1] In General	14-27
	[2] Sourcing Rules and Applicable Rates	14-27
	[3] Withholding and Split Payrolls	14-28
	[a] Income Tax Withholding	14-29
	[b] Split Payrolls	14-31
	[c] Special Considerations	14-31

TABLE OF CONTENTS

xxxiii

§ 14.07	Social Security Coverage and Totalization Agreements	14-33
	[1] Multinational Social Security Issues	14-33
	[2] Impact of Totalization Agreements	14-35
	[a] Avoidance of Dual Coverage and Double Taxation	14-36
	[b] “Totalization” of Benefits	14-38
	[3] Social Security Strategy	14-38
§ 14.08	Retirement and Other Benefits	14-40
	[1] In General	14-40
	[2] Pension and Termination Indemnity Benefits	14-40
	[a] Inbound Executives	14-40
	[i] Continued Coverage Under Foreign Plans	14-41
	[ii] Coverage Under U.S. Plans	14-42
	[b] Outbound Executives	14-42
	[i] Continued Coverage Under U.S. Plans	14-43
	[ii] Coverage Under Nonqualified Plans	14-45
	[iii] Coverage Under Foreign Plans	14-45
	[3] Health Care and Welfare Benefits	14-46
	[4] Other Benefits and Perquisites	14-47
§ 14.09	Tax Treaties	14-49
§ 14.10	<i>Form: Company A—Expatriate Policy Including Third Country Nationals and Former Inpatriates</i>	14-51
§ 14.11	<i>Form: Company A—International Assignment Letter</i>	14-65
§ 14.12	<i>Form: Company B—Sample Tax Totalization Agreement</i>	14-71

CHAPTER 15

Using Life Insurance in Executive Compensation

§ 15.01	Overview	15-3
§ 15.02	Bonus Plan	15-5
	[1] In General	15-5
	[2] Policy Terms and Ownership	15-5
	[a] Type of Coverage	15-6
	[b] Other Permanent Policy Features	15-9

EXECUTIVE COMPENSATION

	[c]	Amount of Death Benefit and Premiums	15-10
	[d]	Policy Ownership and Beneficiaries	15-12
	[e]	Insurable Status	15-14
	[f]	The Insurer	15-15
	[g]	Additional Considerations	15-17
	[3]	Tax Treatment	15-17
	[a]	Premium Inclusion and Deduction	15-17
	[b]	Exclusion of Death Proceeds	15-19
	[c]	Treatment of Cash Value Growth and Distributions	15-20
	[d]	Other Relevant Tax Rules	15-22
	[4]	Group Coverage and Bonus Plan “Carve-Out”	15-23
§ 15.03		Nonqualified Deferred Compensation Funding	15-26
	[1]	The Promise and Its Funding	15-26
	[2]	The COLI Policy	15-27
	[3]	Tax and ERISA Treatment	15-29
	[4]	A Cautionary Tale: A Death Benefit Plan as Deferred Compensation in Disguise	15-35
§ 15.04		Split Dollar Plans	15-37
	[1]	Overview	15-37
	[2]	Structures and Terminology	15-37
	[a]	Characteristics of Split Dollar	15-37
	[b]	Examples	15-39
	[i]	Traditional Split Dollar	15-39
	[ii]	Equity Split Dollar	15-40
	[iii]	Reverse Split Dollar	15-40
	[3]	Income Tax Treatment	15-40
	[a]	Historic Tax Treatment	15-40
	[i]	Traditional Split Dollar	15-40
	[ii]	Equity Split Dollar	15-42
	[iii]	Reverse Split Dollar	15-43
	[b]	Split Dollar Regulations	15-44
	[i]	Economic Benefit Regime	15-45
	[ii]	Below Market Loan Regime	15-49
	[c]	Grandfather Rules	15-51
	[i]	Value of Current Life Insurance Protection	15-52
	[ii]	Policy Equity	15-53
	[4]	Other Considerations	15-54
	[a]	Deferred Compensation Rules	15-54
	[i]	Section 409A	15-54
	[ii]	Section 457(f)	15-57

TABLE OF CONTENTS

xxxv

	[b] ERISA Considerations	15-58
	[c] Sarbanes-Oxley	15-60
§ 15.05	Other Insurance Benefits	15-62
	[1] Annuities, Including “Longevity” Insurance	15-62
	[2] Long-Term Care Insurance and Combination Products	15-65
	[3] Welfare Benefits Funded with Life Insurance	15-67

CHAPTER 16

Compensation Committees

§ 16.01	Introduction	16-3
§ 16.02	The Business Judgment Rule: Executive and Non-Employee Director Compensation Case Law Developments; ISS Policy on Director Compensation	16-11
§ 16.03	The Role of the Compensation Committee and Corporate Governance	16-25
	[1] The Role and Functions of the Compensation Committee	16-27
	[2] Compensation Committee Charters	16-30.1
	[3] Compensation Committee Procedural Action Items	16-32
	[4] Compensation Committee Interlocks and Proxy Reporting Requirements	16-33
	[5] Other Corporate Governance Considerations	16-34
	[a] Executive Compensation Disclosure Requirements	16-34
	[b] Disclosure Requirements Regarding Timing of Option Grants	16-39
	[c] SEC Clawback Rule	16-40
	[d] State Law Considerations	16-42
	[e] Enforcement Considerations	16-43
	[f] Risk Management	16-43
§ 16.04	Independence of Compensation Committee Members	16-45
	[1] Requirements Under Section IRC 162(m)	16-45
	[2] Requirements Under the Securities and Exchange Act	16-49

EXECUTIVE COMPENSATION

	[a]	SEC Rule 16b-3	16-49
	[b]	The Dodd-Frank Act and the SEC Rules	16-50
	[i]	Independence of Compensation Committee Members	16-50
	[ii]	Independence of Compensation Committee Consultants, Legal Counsel and Other Advisers	16-51
[3]		NYSE and Nasdaq Requirements	16-53
	[a]	NYSE Section 303A	16-53
	[i]	Director Independence Under the NYSE Rules	16-54
	[ii]	Retention of Compensation Consultants, Independent Legal Counsel and Other Advisers	16-56
	[iii]	Exemptions	16-56
	[b]	NASDAQ Rule 5605	16-58
	[i]	Director Independence Under the NASDAQ Rules	16-58
	[ii]	Retention of Compensation Consultants, Independent Legal Counsel and Other Advisers	16-60
	[iii]	Exemptions	16-60
§ 16.05		Shareholder Advisory Votes on Executive Compensation	16-62
	[1]	Say-on-Pay Proposals	16-63
	[2]	Proxy Advisory Companies	16-64
	[a]	Influence Generally	16-64
	[b]	Specific Policies and Guidelines	16-65
	[i]	ISS	16-65
	[ii]	Glass, Lewis & Company	16-72
	[3]	Responding to a Negative (or Less than Overwhelming) Advisory Vote	16-74
	[4]	Proxy Advisory Firms' Views of the Impact of COVID-19	16-75
	[a]	ISS	16-75
	[b]	Glass, Lewis & Company	16-77
	[5]	Conclusion	16-77
§ 16.06		Chart of Relevant Independent Director Requirements	16-79
INDEX			I-1