Executive Pay Disclosure Requirements

November 1, 2022

Pay versus Performance - General Overview

- On August 25, 2022, the SEC adopted final rules implementing the pay versus performance disclosure required by the Dodd-Frank Act (**PVP Rules**), which **will go into effect for the 2023 proxy season**.
  - The PVP Rules will require affected companies to disclose how the "compensation actually paid" to their named executive officers (**NEOs**) relates to the financial performance of the company and its peers.
- Affected Companies: All reporting companies other than (i) foreign private issuers, (ii) registered investment companies and (iii) emerging growth companies.
  - Smaller reporting companies (**SRCs**) will be subject to scaled-back disclosure requirements.
- Timing: The new disclosure rules will apply to any proxy and information statement that is filed in respect of a fiscal year ending on or after December 16, 2022.
- Required Disclosure: Three new elements of disclosure will be required: (i) prescribed tabular disclosure (**PVP Table**), (ii) additional comparative disclosure that can be presented in either graphical or narrative form (or a combination thereof) (**PVP Disclosure**) and (iii) a tabular list of performance measures selected by the company (**PVP Tabular List**).

PVP Table – Covered Years

Year	Summary Compensation Table Total for PEO	Compensation Actually Paid to PEO	Average Summary Compensation Table Total for Non-PEO NEOs	Average Compensation Actually Paid to Non-PEO NEOs	Value of Initial Fixed $100 Investment Based On:		Net Income	Company-Selected Measure*
					Total Shareholder Return	Peer Group Total Shareholder Return*		
Year 1								
Year 2								
Year 3								
Year 4*								
Year 5*								

* Asterisked items indicate portions of the final rules from which SRCs are exempt

- The company will need to provide this Tabular Disclosure for the five most recently completed fiscal years (or three fiscal years for an SRC). However, in the first proxy that includes this Tabular Disclosure, only three fiscal years will be required (or two fiscal years for an SRC), with an additional year added in each of the following two proxy filings.

PVP Table – NEOs

Year	Summary Compensation Table Total for PEO	Compensation Actually Paid to PEO	Average Summary Compensation Table Total for Non-PEO NEOs	Average Compensation Actually Paid to Non-PEO NEOs	Value of Initial Fixed $100 Investment Based On:		Net Income	Company-Selected Measure*
					Total Shareholder Return	Peer Group Total Shareholder Return*		
Year 1								
Year 2								
Year 3								
Year 4*								
Year 5*								

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- The NEOs identified in the Tabular Disclosure must be the historic NEOs for the relevant fiscal year. For example:
  - If an executive was a NEO in 2020 and ceased to be a NEO in 2021, that executive's compensation would be reflected for fiscal year 2020 only.
  - If an executive became a NEO in 2022, that executive's compensation will only have to be reflected for fiscal year 2022.
- The NEOs whose compensation amounts are included in a relevant fiscal year must be identified by footnote.
- Companies with multiple principal executive officers ("PEOs") in a reported fiscal year must include separate Summary Compensation Table ("SCT") total and executive compensation actually paid columns for each PEO.

PVP Table – Total Compensation Paid

Year	Summary Compensation Table Total for PEO	Compensation Actually Paid to PEO	Average Summary Compensation Table Total for Non-PEO NEOs	Average Compensation Actually Paid to Non-PEO NEOs	Value of Initial Fixed $100 Investment Based On:		Net Income	Company-Selected Measure*
					Total Shareholder Return	Peer Group Total Shareholder Return*		
Year 1								
Year 2								
Year 3								
Year 4*								
Year 5*								

* Asterisked items indicate portions of the final rules from which SRCs are exempt

- Total Compensation Paid: For each applicable fiscal year, the total compensation paid to the company's PEO and, as an average, the company's other NEOs. This will be the total compensation amount reported in the SCT for the applicable fiscal year.

PVP Table – Compensation Actually Paid

Year	Summary Compensation Table Total for PEO	Compensation Actually Paid to PEO	Average Summary Compensation Table Total for Non-PEO NEOs	Average Compensation Actually Paid to Non-PEO NEOs	Value of Initial Fixed $100 Investment Based On:		Net Income	Company-Selected Measure*
					Total Shareholder Return	Peer Group Total Shareholder Return*		
Year 1								
Year 2								
Year 3								
Year 4*								
Year 5*								

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- Compensation Actually Paid: For each applicable fiscal year, the "compensation actually paid" to the PEO and, as an average, the company's other NEOs. To calculate this amount, start with the total compensation amount reported in the SCT for the applicable fiscal year, then adjust as follows:
  - *Subtract* the pension values and equity award amounts reported in the SCT;
  - *Add* the pension value service cost for the covered year and the entire cost of benefits granted pursuant to any plan amendments made in the covered year;
  - *Add* (i) the year-end fair value of unvested equity awards granted in the covered year, (ii) the vesting date fair value of equity awards that vested in the covered year, and (iii) any dividends paid on unvested equity awards that are not captured in the fair value calculation or in "all other compensation";
  - *Add/Subtract* (i) the change in fair value as of the end of the covered year for awards granted in prior years that remain unvested and (ii) the change in fair value as of the vesting date for awards granted in prior years that vested in the covered year; and
  - *Subtract* the prior year-end fair value for awards granted in prior years that were forfeited in the covered year.

Different Perspectives on Executive Pay

Managing Pay vs. Disclosing Pay – Various Approaches

	Target Pay	Summary Compensation Table (SCT) Reported Pay	Pay vs Performance Compensation Actually Paid (CAP)
Base Salary	• Annual rate	• Actually paid in fiscal year	• Same as SCT
Annual Bonus	• Target bonus opportunity	• Actually paid for fiscal year	• Same as SCT
Long-Term Incentive Plan	• Target award value	• RSUs: Grant date value • Stock Options: Grant date value • PSUs: Grant date value (1)	• Reflects fair value / change in fair value of the awards at year end or upon vesting • RSUs: Revalued using updated stock price • Stock Options: Revalued using an option-pricing model (e.g., Black Scholes) • PSUs: Revalued using updated payout projections (1) / actual payout
Retirement Benefits	• Established formula for 401K contributions and pension / retirement plan	• 401K Plan: Reflects amount contributed, including to excess benefit plans • Pension Plan: Reflects change in actuarial present value of accumulated benefits	• 401K Plan: Same as SCT • Pension / Retirement Plan: Service cost for most recent fiscal year and prior service cost resulting from plan amendment in respective year
Perquisites	• Establish eligibility for specific perquisites	• Reflect company calculated cost associated with benefit	• Same as SCT

Control / Influence over CAP

- Annual Bonus: Most controllable aspect of CAP as bonus payout decisions will directly influence CAP
- LTI: Largest influence on CAP but least controllable aspect of CAP as value is largely driven by changes in stock price
- Retirement Benefits / Perquisites: Nominal influence on CAP; reported value will be steady / consistent each year

PVP Table – Financial Performance Measures

Year	Summary Compensation Table Total for PEO	Compensation Actually Paid to PEO	Average Summary Compensation Table Total for Non-PEO NEOs	Average Compensation Actually Paid to Non-PEO NEOs	Value of Initial Fixed $100 Investment Based On:		Net Income	Company-Selected Measure*
					Total Shareholder Return	Peer Group Total Shareholder Return*		
Year 1								
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Year 4*								
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- <u>TSR and Peer Group TSR</u>: For each applicable fiscal year, the company's total shareholder return ("TSR") and the company's peer group TSR.
  - TSR and peer group TSR must be calculated based on a fixed investment of $100 at the measurement point, on the same cumulative basis as is used in Item 201(e) of Regulation S-K.
  - The peer group used for the PVP Table must be either (i) the peer group used by the company for purposes of Item 201(e) of Regulation S-K or (ii) the peer group used in the company's CD&A for purposes of disclosing compensation benchmarking practices.
  - Unless an indexed peer group is used, any change to the TSR peer group from the prior reporting year would require that the peer group TSR be re-calculated for all years reported and footnote disclosure must be included showing the cumulative TSR for the new peer group versus the cumulative TSR for the previous year's peer group.

Peer Group Considerations

Required to show indexed TSR performance for a weighted peer group of companies.

- Companies can select from either the peer groups disclosed in the 10K stock price performance graph, or the peer group disclosed in the CD&A for compensation benchmarking purposes

	Compensation Peer Group	Performance Peer Group	10K Peer Group
How it's used by Company?	• Benchmarking executive pay levels	• Measuring relative performance under LTI program	• Stock performance graph in 10K
Influence on Compensation Actually Paid	• Indirect influence on CAP, primarily in setting target pay	• Highest influence on CAP as it is the peer group used for determining payouts under the relative portion of the LTI program	• Depends on the peer group; could range from little impact on CAP to meaningful impact on CAP
Administrative Items	• Peer group is reviewed annually; if any changes are made to the peer group, required to describe in disclosure and compare TSR to both the old and new group	• If this group is an index, it creates ease in administration • If it's a custom peer group, would be required to describe year-over-year changes and compare TSR to both the old and new group • Would need to add these companies to the stock performance graph in the 10K so that it can be used in PvP disclosure	• Use of index creates ease in administration • Already calculate TSR performance for purposes of the 10K

PVP Table – Financial Performance Measures (cont.)

Year	Summary Compensation Table Total for PEO	Compensation Actually Paid to PEO	Average Summary Compensation Table Total for Non-PEO NEOs	Average Compensation Actually Paid to Non-PEO NEOs	Value of Initial Fixed $100 Investment Based On:		Net Income	Company-Selected Measure*
					Total Shareholder Return	Peer Group Total Shareholder Return*		
Year 1								
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Year 3								
Year 4*								
Year 5*								

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- Net Income: The company's net income for each applicable fiscal year.
- Company-Selected Measure: This is a financial performance measure selected by the company that represents the company's "most important" financial performance measure (that is not otherwise required to be disclosed in the PVP Table) used by the company to link "compensation actually paid" to its NEOs to company performance for the most recently completed fiscal year.
  - If a company does not have a financial performance measure, or only uses TSR and/or Net Income, then this column can be omitted.

PVP Tabular List

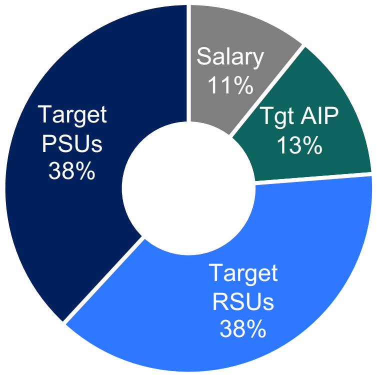
- General Requirements: The company must provide an unranked list of three to seven financial performance measures (including the Company-Selected Measure) that are the “most important” measures used by the company to link the actual compensation paid to the NEOs to company performance for the most recent fiscal year.
- Non-Financial Measures: Companies are permitted, but not required, to include non-financial performance measures (e.g., ESG metrics) in this PVP Tabular List if such measures are among their three to seven most important performance measures and it has disclosed its most important three (or fewer, if the company only uses fewer) financial performance measures.
- Less than Three Performance Measures: If the company uses less than three performance measures to link executive “compensation actually paid” to company performance, then the company will only be required to disclose the measures that it actually considers.
  - If the company does not use any performance measures, then it will not be required to disclose a PVP Tabular List.

Financial Performance Metrics – Tabular List

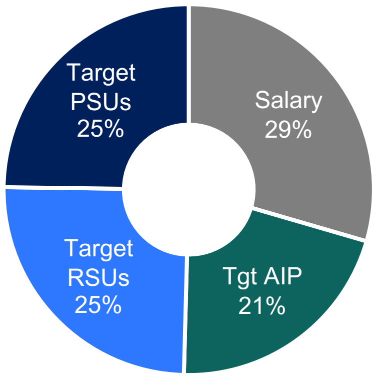
Required to disclose the three to seven most important metrics used to link executive compensation actually paid to company performance.

- As a starting point, the Company should evaluate the weighted impact of each metric as a percentage of total compensation
- For example, if the bonus is weighted as 20% of total compensation and operating income is 40% of the bonus, then the weighted average impact is 8% (20% x 40%)

<u>**CEO Target Compensation Mix**</u>



<u>**Other NEO Target Compensation Mix**</u>



Metric	Plan	Influence on CEO TDC at Target	Influence on NEO TDC at Target
Absolute TSR / Stock Price	PSUs and RSUs	76%	50%
PSU Metric 1 (50% of PSUs)	PSUs	19%	12.5%
PSU Metric 2 (50% of PSUs)	PSUs	19%	12.5%
AIP Metric 1 (50% Weighting)	AIP	6.5%	10.5%
AIP Metric 2 (30% Weighting)	AIP	3.3%	6.3%
Ind. Performance (20% Weighting)	AIP	2.6%	4.2%

Financial Performance Metrics – Company Selected Metric

Required to disclose performance for one company selected financial performance metric, which represents the most important financial measure used by the registrant to link compensation actually paid to company performance in the most recent year (i.e., 2022). This metric needs to be included in the tabular list.

Key considerations for Company Selected Metric:

- Metric selected will ideally be an enduring metric (i.e., a metric that we plan to incorporate in our incentive plans for some period of time)
- Absolute TSR, which is already included in the table, will likely have a significant impact on CAP
- Consideration should be given to the fact that GAAP Net Income is required to be disclosed and how that may affect the optics of the Company Selected Metric
- Does the metric lend itself to being clear in describing the relationship between compensation actually paid and the financial performance of the company? Do metrics lead or lag TSR performance?
- What is the relationship between the use of the metric in the PVP disclosure and the weighting in company incentive plans? As a practical matter, it would seem challenging to have an incentive metric that is heavily weighted in the company's incentive plans, but not included in the disclosure

PVP Disclosure (Graphical, Narrative or a Combination)

- The company must disclose a clear description, in graphical and/or narrative form, of the following relationships between (A) and (B) during the fiscal years reported on in the PVP Table:

(A)

"**compensation actually paid**" to the NEOs during the fiscal years reported on in the PVP Table

Company TSR

(B)

TSR

Net Income

Company-Selected Measure

Peer Group TSR during the fiscal years reported on in the PVP Table

E.g., A graph providing executive compensation actually paid and change in the financial performance measures on parallel axes and plotting compensation and such measures over the required time period

E.g., Narrative or tabular disclosure showing the percentage change over each fiscal year of the required time period in both executive compensation actually paid and the financial measures together with a brief discussion of how those changes are related

Permitted Supplemental Disclosures

- Companies may provide additional pay versus performance information as long as it is clearly labeled “supplemental” and it would not be misleading or obscure the required disclosures.
- Examples:
  - Any voluntary pay versus performance disclosure that has historically been included in the company’s proxies can continue to be included
  - Performance metrics measured over periods longer than a fiscal year
  - Additional compensation, performance measures or years of data may be included in the PVP Table

Decision Points, Disclosure, and Unknowns

Item	Considerations
Decision Points	**Peer Group for TSR Comparisons** • Can be self-selected companies / index in the 10K TSR graph or the peer group disclosed in the CD&A for benchmarking purposes • Alignment with pay outcomes and simplicity of maintenance preferred **Selection of 3-7 "most important" performance metrics to be included in the tabular list** • Financial and/or non-financial • Starting place should be metrics included in the incentive plans **"Company-Selected Measure" to be included in the table** • Must be the most important financial performance measure (that is not already included in the table) used to align compensation "actually paid" to the NEOs (based on most recently completed fiscal year) • Must be selected from tabular list
Disclosure	**Placement and Detail** • Directional thinking is to deemphasize the new disclosure, consistent with CEO Pay Ratio • Focus on essential information required to tell the Company's pay and performance story since the disclosure represents a significant increase in the amount of information being disclosed • Coordinate with prior year's CD&A to ensure consistency and cross-reference **Medium for Disclosure (**Narrative, Tabular, Graphical, or Combination) • Simpler is better; should tell the story plainly and consistently over time • Expect absolute TSR to have the biggest influence on Compensation Actually Paid
Unknowns	• **Proxy Advisory Firm Reaction**: Essential element of pay and performance analysis or will it be marginalized? • **Effectiveness in communicating pay and performance alignment**

Dodd-Frank Clawback Rules

On October 26, 2022, the SEC released final Dodd-Frank clawback rules that require companies to adopt policies for the recoupment of erroneously awarded incentive-based compensation in the event of a triggering restatement.

Timing/ Implementation	Following publication of the SEC's rules in the Federal Register, stock exchanges must: (i) adopt rules within 90 days, and (ii) have such rules become effective within one year. Issuers must adopt a compliant policy no later than 60 days following the effective date of the stock exchange rules
Covered Executives	Current and former executive officers ("officers" definition tracks the Section 16 definition) • Only incentive-based compensation received <u>after</u> beginning service as an executive officer is subject to recoupment under the new rules
Covered Compensation	Incentive-based compensation received by covered executives on or after the date the company is subject to the final rules • "Incentive-based" compensation includes: "any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a financial reporting measure," which includes stock price or total shareholder return (TSR) goals ➢ Time-based awards are <u>not</u> incentive-based compensation • Recovery is on a pre-tax basis and the amount subject to clawback is what was received in excess of what otherwise would have been received had it been determined based on the restated results ➢ For awards subject to stock price or TSR goals, the company would need to make a "reasonable estimate" of the impact of the restatement on stock price/TSR
Clawback Trigger	An accounting restatement due to the material noncompliance with any financial reporting requirement, including one made to correct an error that is material to: (i) the previously issued financial statements, or (ii) the current period financial statements
Discretion	Clawback occurs on a <u>*no-fault basis*</u> and companies <u>*do not have discretion about whether to claw back*</u> • There are limited exceptions, including whether direct expense paid to third party to assist in enforcing the policy would exceed amount to be recovered

Dodd-Frank Clawback Rules

Recovery	There is discretion in the means of recovery so long as it is prompt
Look-Back Period	Three completed fiscal years immediately preceding the date the company is required to prepare an accounting restatement • A company is “required” to prepare a restatement on the earlier of: (i) the date the company concludes, *<u>or reasonably should have concluded</u>*, that it is required to prepare an accounting restatement; or (ii) the date a court (or other legal body) directs the company to prepare an accounting restatement • Compensation must be “received” during the look-back period, where “received” is defined as when the financial reporting measure was attained (regardless of when the payment is made)
Disclosure Requirements	Issuers must, as applicable: • File the Dodd-Frank clawback policy as an exhibit to Form 10-K • Check the appropriate boxes on the 10-K cover page related to restated financials • Reflect clawed back amounts in the Summary Compensation Table • Provide detailed proxy disclosure regarding any action to recover compensation
Indemnification	Issuers are prohibited from indemnifying any covered executive officer against the loss of erroneously awarded compensation
Recovery	There is discretion in the means of recovery so long as it is prompt

Appendix

PVP Table – Compensation Actually Paid (Equity Calculations)

Equity Award	"Total Compensation Paid" Calculation (SCT)	"Compensation Actually Paid" Calculation (PVP Table)
Granted in relevant year	Include fair value at grant date	Include fair value at fiscal year end ("FYE") (if also vest in relevant year, include instead fair value at vest date)
Granted in prior year + still outstanding at FYE	–	Include change in fair value at FYE from prior FYE
Granted in prior year + vests during relevant year	–	Include change in fair value at vest date from prior FYE
Granted in prior year + forfeited during relevant year	–	Include a reduction equal to fair value at prior FYE
Granted in relevant year + forfeited during relevant year	Include fair value at grant date (per above)	No value included as forfeiture would cancel out grant
Dividends	Grant date fair value captures future ordinary dividends	Fair value at FYE or vest date does not factor in past dividends, so any dividends paid in the year to be added back into equity calculation

- "Fair Value" is computed consistent with FASB ASC Topic 718. Similar to the SCT, the fair value of performance awards must be based on the probable outcome of such conditions, but unlike the SCT, the determination of probable outcome must be made as of FYE.
- Footnote disclosure is required detailing amounts subtracted and added in order to calculate "compensation actually paid" and any assumption used for determining fair value if they differ materially from assumptions used for the grant date valuations in the footnotes to the SCT.

PVP Table – Compensation Actually Paid (Pension Value Calculations)

Pension and Nonqualified Deferred Compensation	“Total Compensation Paid” Calculation (SCT)	“Compensation Actually Paid” Calculation (PVP Table)
Aggregate change in actuarial present value of the NEO’s accumulated benefit under all defined benefit and actuarial pension plans for the relevant year	Included	Excluded
Above-market preferential earning on compensation that is deferred on a basis that is not tax-qualified, including such earning on a nonqualified defined contribution plan	Included	Included
“Service cost” calculated as the actuarial present value of the NEO’s benefit under all such plans for services during the relevant year	Excluded	Included
“Prior service cost,” calculated as the entire cost of benefits granted (or credit for benefits reduced) in a plan amendment during the covered fiscal year that are attributed by the benefit formula to services rendered in periods prior to the amendment (calculated consistent with how “service cost” is defined in FASB ASC Topic 715)	Excluded	Included