Selected Regulatory and Corporate Governance Developments

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Agenda

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  - Unsolicited M&A
- Delaware Case Law Updates
  - Controlling Shareholder Situations
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- Corporate Governance Trends and Board Focus
  - Shareholder Priorities and Engagement
  - Board Diversity
  - #MeToo Movement
  - Virtual Meetings
SEC UPDATES
Cybersecurity – Commission Guidance

- Commission issued Commission Statement and Guidance on Public Company Cybersecurity Disclosures, Release No. 33-10459, in February 2018
  - Discussed the application of disclosure controls and procedures, insider trading prohibitions, and Regulation FD selective disclosure prohibitions
  - Raised the possibility that companies may need to update cybersecurity disclosures, but acknowledged that this may not be required under the federal securities laws

- Chair Clayton has noted that cybersecurity disclosure will be “carefully monitored” as part of the staff’s selective filing reviews
Cybersecurity – Recent Settlement

- SEC settled enforcement proceeding in April 2018 with Altaba Inc. (f/k/a Yahoo! Inc.) for $35 million civil penalty in first action the SEC has brought based on a disclosure theory re a cyber incident

- Takeaways from Yahoo! settlement
  - Evaluate disclosure controls and procedures to ensure cyber events are identified and appropriately evaluated for potential and timely disclosure of material events
  - Carefully review risk factor disclosure (i.e., describing “potential breaches” is misleading when actual breaches have occurred)
  - SEC may find disclosure violation under Section 21(a) based on inaccurate representations in agreements filed as exhibits to SEC filings
Cybersecurity – Key Considerations

- Tailor oversight to risks facing the company
- Implement an oversight structure appropriate for the company and board structure
- Include cybersecurity oversight as a routine agenda item
- Develop tools to enable the board to measure cybersecurity risks
- Seek expert advice if needed for the board to meaningfully engage on cybersecurity issues
- Ensure protocols are in place to address a potential incident quickly
- Be alert to red flags and ask probing questions of management
- Ensure management is properly attuned to cybersecurity risks
Pay Ratio

- 2018 was first year for pay ratio disclosure
- Statistics:
  - Median CEO pay ratio tends to increase with market cap
  - Average pay ratio of 65, with the range from 0 to 5,908
  - Consumer goods and services industries tended to have higher pay ratios than utilities, financial, healthcare and conglomerates
  - Approximately 24.5% of Russell 3000 companies utilized the *de minimis* exception, with less than 10% providing a supplemental ratio and less than 1% applying a cost-of-living adjustment
- Pay ratio data is not always comparable company-to-company
- Compensation committees will want to consider the unique factors driving their company’s pay ratio (e.g., one-time compensation payments included in CEO compensation, a significant number of offshore workers that impacts selection of the median employee, etc.)
- Companies generally advised to take principles-based view when evaluating compensation

Source: Equilar CEO Pay Ratio Tracker (May 2018)
Universal Proxy

- No regulatory action to date since SEC proposed rules in 2016 to require parties in a contested election to use universal proxy cards that would include the names of all director nominees

- In May 2018, SandRidge Energy became the first US-incorporated company to use a universal proxy
  - Proxy card named all SandRidge nominees and dissident Icahn Capital nominees
  - Icahn Capital still sent a separate proxy card with only the dissident nominees listed
  - SandRidge entered into a settlement agreement with Icahn Capital, and newly constituted SandRidge board includes three incumbent directors and five Icahn Capital nominees
Selected Additional Priorities

- Facilitating capital formation has been and continues to be an area of focus for the Commission
  - Staff has placed a high priority on responding to Rule 3-13 requests for modifications to Reg. S-X disclosures triggered by transactions

- Disclosure effectiveness
  - Staff preparing recommendations to the Commission to finalize rules proposed under the FAST Act to simplify disclosure
  - Staff working on recommendations to improve disclosure requirements under Reg. S-X Rules 3-05, 3-10 and 3-16
  - Commission approved final amendments to the “smaller reporting company” definition to expand issuers eligible for scaled disclosure
    - Increase public float threshold to companies with less than $250 million of public float eligible, as compared to $75 million
    - Expand definition to include companies with less than $100 million in annual revenues if they also have either no public float or a public float that is less than $700 million
    - No changes to “Accelerated Filer” definition

Sources: Chairman Jay Clayton, Testimony on “Oversight of the U.S. Securities and Exchange Commission” (June 21, 2018); SEC Release No. 33-10513 (June 28, 2018)
Selected Additional Priorities (continued)

- **Exempt offerings**
  - Staff is working on increasing Rule 701 trigger for delivering additional disclosures to investors from $5 million to $10 million annually, along with other possible changes to modernize the rule
  - Staff is considering ways to streamline exempt offering rules

- **Shareholder engagement**
  - SEC is looking for updated feedback on 2010 “Proxy Plumbing” concept release
  - Chair Clayton is particularly interested in whether retail investors are underrepresented, misrepresented or selectively represented in corporate governance

Source: Chairman Jay Clayton, Testimony on “Oversight of the U.S. Securities and Exchange Commission” (June 21, 2018)
Selected Additional Priorities (continued)

- Digital assets and initial coin offerings (ICOs)
  - In *In the Matter of Munchee Inc.*, SEC Release No. 10445 (Dec. 11, 2017), a company selling digital tokens consented to a cease-and-desist order pursuant to Section 8A of the Securities Act of 1933 in which the SEC found that the company’s conduct constituted unregistered offers and sales of securities
  - On June 14, 2018, Corporation Finance Director William Hinman outlined the approach the Staff takes to evaluate whether a digital asset is a security in remarks delivered at the Yahoo Finance All Markets Summit: Crypto
    - “Central to determining whether a security is being sold is how it is being sold and the reasonable expectations of purchasers.”
    - Some participants appear to be forming blockchain ventures in more traditional ways, such as by conducting the initial funding through a registered or exempt equity or debt offering and then offering coins or tokens in a manner that suggests purchasers are not making an investment in the development of the enterprise

Source: Chairman Jay Clayton, Testimony on “Oversight of the U.S. Securities and Exchange Commission” (June 21, 2018)
2018 M&A MARKET OVERVIEW
# Multiple Drivers for M&A Activity

**Positive Drivers**

**Economic / Strategic**
- Need for top-line growth vs. cost-cutting
- Global diversification
- Economic stability and confidence in most global regions
- Technology-driven industry convergence

**Liquidity**
- Historically low borrowing costs
- Cash build-up around all-time highs (approximately $2 trillion)
- Public companies able to use stock as currency as equity market valuations remain strong

**Structural**
- Changes to U.S. tax policy expected to increase corporate earnings and deployable cash
- Continued de-regulation may trigger increased activity in certain sectors (i.e., energy, financial institutions)
- Defensive barriers low / activist support high
- Approval of AT&T / Time Warner deal removes some uncertainty around anti-trust scrutiny

**Negative Drivers**

**Economic / Strategic**
- Continued geopolitical uncertainty and ambiguity around certain Trump administration policies
- Significant reduction in outbound China M&A

**Liquidity**
- Recent increases and expected increases in interest rates may impact lending activity
- Limitations on tax deductibility of interest may reset leverage levels

**Structural**
- Regulatory uncertainty in certain industries (e.g., healthcare)
- Potential for increased regulatory scrutiny on cross-border transactions (particularly transactions with Chinese buyers)
- Activists increasingly attempting to block deals
Domestic M&A activity has rebounded thus far in 2018, with transaction values on pace to exceed 2016 levels, despite a drop-off in the number of transactions relative to 2017 levels

- Despite geopolitical surprises (i.e., Brexit) and sustained regulatory headwinds throughout most of 2016, M&A activity was resilient
- Uncertainty around tax and other reforms may have impacted larger transformative transactions in 2017, as the value of domestic M&A activity dropped significantly despite the number of transactions reaching their highest levels in history
- It remains to be seen whether Q1 ’18 will set the pace for the remainder of the year given recent market volatility

Historical Domestic M&A Activity

Source: Thomson Reuters, as of 3/31/18.
The Healthcare sector dominated U.S. M&A activity in Q1 ‘18 in terms of transaction values (driven by the announced Cigna / Express Scripts transaction), but the Technology sector was also particularly active, accounting for nearly 20% of M&A activity in terms of both number of deals and transaction values.
Multiples Remain High & Acquisition Premiums Stable

Transaction multiples have decreased thus far in 2018 relative to recent years but remain elevated.

Median EV/EBITDA Multiples

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Q1 '18</th>
</tr>
</thead>
<tbody>
<tr>
<td>EV/EBITDA Multiple</td>
<td>10.1x</td>
<td>8.3x</td>
<td>9.7x</td>
<td>9.3x</td>
<td>9.9x</td>
<td>9.5x</td>
<td>12.0x</td>
<td>12.8x</td>
<td>12.2x</td>
<td>12.8x</td>
<td>11.0x</td>
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</table>

10-Year Median: 10.0x

Average 4-Week Prior Acquisition Premiums

Transactions Below $1 Billion

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Q1 '18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium</td>
<td>42%</td>
<td>40%</td>
<td>38%</td>
<td>38%</td>
<td>39%</td>
<td>31%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Transactions Between $1 Billion to $10 Billion

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Q1 '18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium</td>
<td>38%</td>
<td>33%</td>
<td>30%</td>
<td>34%</td>
<td>36%</td>
<td>30%</td>
<td>31%</td>
</tr>
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</table>

Transactions Above $10 Billion

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Q1 '18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium</td>
<td>42%</td>
<td>27%</td>
<td>30%</td>
<td>34%</td>
<td>32%</td>
<td>31%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: Thomson Reuters, as of 3/31/18.
Unsolicited M&A Bids

Unsolicited M&A activity is on pace to achieve its first year over year increase in transaction values since 2013 driven by a significant uptick in the number of bids.

Value and Number of Domestic Unsolicited M&A Bids

<table>
<thead>
<tr>
<th>Year</th>
<th>Value ($ in billions)</th>
<th>Number of Bids</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$234.2</td>
<td>94</td>
</tr>
<tr>
<td>2009</td>
<td>$37.7</td>
<td>56</td>
</tr>
<tr>
<td>2010</td>
<td>$97.9</td>
<td>57</td>
</tr>
<tr>
<td>2011</td>
<td>$104.2</td>
<td>58</td>
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<tr>
<td>2012</td>
<td>$52.6</td>
<td>40</td>
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<td>2013</td>
<td>$101.0</td>
<td>34</td>
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<tr>
<td>2014</td>
<td>$315.6</td>
<td>40</td>
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<tr>
<td>2015</td>
<td>$238.2</td>
<td>48</td>
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<tr>
<td>2016</td>
<td>$222.2</td>
<td>55</td>
</tr>
<tr>
<td>2017</td>
<td>$179.5</td>
<td>36</td>
</tr>
<tr>
<td>2018*</td>
<td>$202.2</td>
<td>72</td>
</tr>
</tbody>
</table>

*2018 data has been annualized.

Sources: FactSet Mergerstat and Thomson Reuters, as of 3/31/18.

Notes:
The above chart includes both unsolicited and hostile bids.
FactSet classifies unsolicited bids as offers in which there were no prior discussions between the target and the acquirer.
FactSet classifies hostile bids as unsolicited bids that were rejected by the board of directors of the target.
Domestic M&A includes minority equity deals, equity carve-outs, exchange offers, open market repurchases, and deals with undisclosed transaction values.
DELAWARE CASE LAW UPDATES
State of Litigation in M&A Transactions

- The level of litigation in M&A has declined as a result of several key decisions in Delaware, however, there is a greater focus today on conflicts in transactions as a basis for a lawsuit.
  - Conflicts most frequently observed in a transaction context that create litigation risk:
    - Controlling stockholders
      - Majority shareholders or shareholders with significant influence
      - Dual class stock
    - Management conflicts or perceived conflicts
    - Advisor conflicts or potential conflicts to extent not sufficiently disclosed
  - Conflict-related litigation can jeopardize a transaction, create significant post-closing cost, and lead to reputation and board risk.
Controlling Shareholder Situations

- Controlling stockholder transactions by their nature can lead to unfair outcomes for minority shareholders and are subject to a higher degree of scrutiny
  - Controller take private – controlling shareholder on both sides of the transaction
  - Controlling shareholder may have liquidity and/or timing interests that differ from those of minority stockholders
  - Exert significant influence over the management team and the control of information such as financial projections
  - *Dole Food* case and resulting rulings profile a poignant outcome for the defendants
  - Other controller situations can involve dual class stock:
    - Public shareholder class of stock (low-vote / same economics)
    - Founder class of stock (high-vote stock)
    - Allows founding entrepreneurs to build long-term value with less impact from vagaries of short term financial or market pressures
Controlling Shareholder Situations (continued)

- **Mitigating Risk**
  - Form a fully-empowered special committee of independent directors
    - Ability to operate with a wide latitude of discretion
    - Ability to say “no” to a deal
    - Majority of minority shareholder vote
  - Special committee able to select its own independent advisors to assist in:
    - Determining best process to maximize value, balancing price maximization with outcome certainty and terms
    - Determining best time to sell, if at all, given industry, market and company dynamics
    - Determining pros and cons of available alternatives in context of value maximization
    - The review of financial projections and (potentially) multiple iterations
    - The creation of the right process record
Management Conflicts

- Situations can arise in transactions that create perceived or actual conflicts between the board, shareholders and management
  - Prospect of continued employment
  - Severance or incentive payments upon change of control
  - Potential investment alongside a buyer
  - Receiving consideration that is different from shareholders

- Mitigating Risk
  - Management openly cooperates with the special committee and its advisors
  - Management does not interfere or exercise undue influence
  - Ensure all bidders have appropriate access to company information and management
  - Ensure all relevant information is shared with the special committee
  - Retain an unbiased financial advisor who can design the appropriate process and does not have a pre-existing relationship with management
Advisor Conflicts

- Advisor conflicts, if not properly identified and disclosed at the outset of when the conflict arises, could materially impair transaction value and create reputational risk
  - Both sides of a deal (i.e., advising the seller and advising on the financing to buyer)
  - Holding securities in one or more participants in the transaction
  - Pre-existing relationships with participants in the transaction
  - Contingent fees triggered in the event of a transaction

- Mitigating Risk
  - Pre-engagement vetting of any advisor conflicts
  - Disclose conflicts that may arise during the process
Controlling Shareholder Trends

- **In re MFW S’holders Litig.,** 67 A.3d 496 (Del. Ch. 2013)
  - Holding that business judgment rule applies in the context of a going-private transaction if the following two safeguards are satisfied at the outset: (1) independent special committee of the board approves the transaction and (2) a fully informed and uncoerced majority-of-the-minority vote approves the transaction.

- **In re Dole Food Co., Inc.,** Consol. C.A. No. 8703-VCL and 9079-VDL, 2015 WL 5052214 (Del. Ch. 2015)
  - Holding that entire fairness standard of review applies in the context of a going-private transaction because “what the [special independent committee] could not overcome, what the stockholder vote could not cleanse, and what even an arguably fair price does not immunize, is fraud.”
  - Finding only the Chairman and CEO, who owned ~40% of company’s stock, and his “right-hand man,” the company’s COO and GC, liable where they, among other things, provided false information to the board, primed the market for a depressed company price, and violated procedures of the special independent committee.

- **Corwin v. KKR Financial Holdings LLC,** 125 A.3d 304 (Del. 2015)
  - Holding that business judgment rule applies in the context of a post-closing damages suit to review director decisions that were approved by “fully informed, uncoerced stockholder votes.”
Controlling Shareholder Trends
(continued)

  - Holding at the pleading stage that it was not reasonably conceivable that Brookfield, a 33.5% stockholder, was a controller in a going-private transaction that Brookfield proposed where (a) Brookfield’s board representatives recused themselves, (b) board formed a special committee, (c) special committee engaged independent advisors that rendered a fairness opinion, (d) Brookfield did not attempt to influence the board nor did it have a history of dominating board discussions.
  - A minority stockholder “is not considered to be a controlling stockholder unless it exercises such formidable voting and managerial power that, as a practical matter, it is no differently situated than if it had majority voting control.” Its ‘power must be so potent that independent directors cannot freely exercise their judgment, fearing retribution from the controlling minority blockholder.”

  - Holding that Elon Musk, the company’s Chairman and CEO and a 22.1% stockholder, exercised sufficient control over the company such that a Corwin defense was unavailable at motion to dismiss stage.

  - Holding that it was reasonably conceivable that the venture capital firm that was a majority stockholder, and the company’s conflicted board, had breached their duty of loyalty to the company’s stockholders by approving a sale to a third party of a warrant that provided an option to acquire the company at an allegedly unfairly low price to incentivize the buyer to also acquire and invest in other portfolio companies of the majority stockholder.
Conflict of Interest Trends

Management

- **In re El Paso Corp. S’holder Litig., 41 A.3d 432 (Del. Ch. 2012)**
  - Encouraging boards to identify all possible conflicts early and to avoid CEO being the sole negotiator where the court suggested the board may have structured negotiations differently in the context of a sale transaction negotiated entirely by the company’s CEO who failed to disclose a potential interest in pursuing a management buyout

  - Finding business judgment rule does not apply in a transaction that was largely negotiated by acquired company’s CEO who had been advised that his position could be terminated imminently and that was approved by a board where more than half were perpetuating themselves in office for five years

Advisors

  - Finding third party advisors to a board can be liable for aiding and abetting where the third party knows the board is breaching its duty of care and participates in the breach by misleading the board or creating an informational vacuum
  - Board’s consent to a conflict does not grant the advisor a “free pass” to act to the detriment of its client or the advisor’s self-interest
Appraisal Trends

- No “one size fits all” when it comes to appraisal
- Deal price often is the most reliable indicator of value
  - *Dell Inc. v. Magnetar Global Event Driven Master Fund Ltd.*, 177 A.3d 1 (Del. 2017) (“There is no requirement that a company prove that the sale process is the most reliable evidence of its going concern value in order for the resulting deal price to be granted any weight.”)
  - *DFC Global Corp. v. Muirfield Value Partners*, 172 A.3d 346 (Del. 2017) (suggesting that in a robust, conflict-free, and arm’s-length sales process, transaction price often is the most reliable evidence of fair value of a company’s shares)
- Plaintiffs risk potentially unfavorable appraisal value
  - *In re Appraisal of AOL Inc.*, C.A. No. 11204-VCG, 2018 WL 1037450 (Del. Ch. 2018) (relying on discounted cash flow, resulting in a fair value approximately 2.5% below deal price)
  - *Verition Partners Master Fund Ltd. v. Aruba Networks, Inc.*, C.A. No. 11448-VCL, 2018 WL 922139 (Del. Ch. 2018) (determining most reliable indicator of fair value was unaffected market price, which was 30-day average unaffected market price that resulted in an appraised value nearly 30% below deal price)
Levels of Value

Maximum Purchase Price
- Less: Discount for Lack of Marketability
- Less: Agency Costs
- Less: Synergies

Control Value

Marketable Minority Value
- Historically Used as Appraisal Value*
- Delaware Chancery Court’s Fair Value in Aruba

Nonmarketable Minority Value
- (Illiquid Stock)

* Based on DGCL Section 262 Interpretation
CORPORATE GOVERNANCE TRENDS AND BOARD FOCUS
Engagement Is Now a Year-Round Process

Active Solicitation
- Engage to secure favorable votes, including follow-up contacts from pre-season meetings as appropriate
- File all written solicitation materials
- Monitor proxy advisory firm recommendations

Pre-Season
- Engage to educate on compensation and governance practices and changes under consideration and to learn what investors view as focus issues for upcoming proxy season
- Negotiate with proponents of any 14a-8 proposals

Annual Meeting

Finalize Proxy Statement

14a-8 Deadline

Post-Meeting
- Review voting results at company, peers and more generally
- Identify any changes in response to votes
- Engage to understand vote outcomes, discuss potential changes and obtain general input on hot topics
- Consider proactive action prior to when 14a-8 proposals start arriving
Shareholder Activism

- Activists are often successful, but the number of announced proxy fights has declined from 2016 highs

### Number of Announced Proxy Fights

<table>
<thead>
<tr>
<th>Year</th>
<th>Proxy Fights</th>
</tr>
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<tbody>
<tr>
<td>2012</td>
<td>77</td>
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<tr>
<td>2013</td>
<td>90</td>
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<tr>
<td>2014</td>
<td>92</td>
</tr>
<tr>
<td>2015</td>
<td>105</td>
</tr>
<tr>
<td>2016</td>
<td>109</td>
</tr>
<tr>
<td>2017</td>
<td>78</td>
</tr>
<tr>
<td>2018</td>
<td>62</td>
</tr>
</tbody>
</table>

### Success Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Success Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>52%</td>
</tr>
<tr>
<td>2013</td>
<td>60%</td>
</tr>
<tr>
<td>2014</td>
<td>73%</td>
</tr>
<tr>
<td>2015</td>
<td>58%</td>
</tr>
<tr>
<td>2016</td>
<td>55%</td>
</tr>
<tr>
<td>2017</td>
<td>53%</td>
</tr>
<tr>
<td>2018</td>
<td>81%</td>
</tr>
</tbody>
</table>

### Campaign Type

- Compromise and settlement frequently reached prior to launch of proxy contest or shareholder vote may diminish the number of proxy contests ultimately initiated
- Following declines in activists’ success rates in recent years, the success rate has spiked to 81% thus far in 2018
- The majority of proxy fights continue to be based on board representation
- Index fund complexes and other institutional investors have begun to aggressively make their views known

Source: SharkRepellent, as of 3/31/18.
Shareholder Priorities and Engagement – Top 2018 Shareholder Proposals

- Special meeting
  - Adopting right to call special meetings
  - Reducing ownership threshold to call special meetings
- Proxy access
  - “Please adopt” proxy access
  - “Please amend” proxy access
- Independent board chair
- Report on lobbying payments and policy
- Written consent
- Report on political contributions
- Greenhouse gas emissions
- Report on EEO/employment diversity
- Report on gender/ethnicity pay gap and pay disparity
- Reduce/eliminate supermajority voting

Source: ISS data as of May 2018
Shareholder Priorities and Engagement

– Substantive SEC Developments

- Rule 14a-8(i)(7) permits a company to exclude a proposal that relates to the company’s “ordinary business” operations UNLESS the proposal focuses on policy issues that are sufficiently significant because they transcend ordinary business and would be appropriate for a shareholder vote.

- SLB 14I provides that a company’s board may make a determination as to whether an issue is sufficiently significant.
  - Where a company’s board determines that a matter does not meet this test, the company may include a discussion of this determination and analysis in the company’s no-action request as support for taking the position that the proposal may be excluded.
  - This is intended to bolster the company’s position in close calls or where precedent has not historically gone in the company’s favor.
Shareholder Priorities and Engagement – Substantive SEC Developments (continued)

- Rule 14a-8(i)(5) enables a company to exclude a proposal that “relates to operations which account for less than 5 percent of the company’s total assets at the end its most recent fiscal year, and for less than 5 percent of its net earnings and gross sales for its most recent fiscal year, and is not otherwise significantly related to the company’s business”
  - This exclusion has been little-used historically, largely because the Staff has only rarely granted relief on this basis

- SLB 14I provides that a company’s board of directors may determine whether a proposal is “otherwise significantly related to the company’s business” and the company may include in its no-action request a discussion of the board’s analysis of the proposal’s significance to the company
Board Diversity

- Area of key focus for many institutional investors, with gender a particular focus in many instances
  - In September 2017, the New York City Comptroller launched a new phase of the Boardroom Accountability Project by calling on 151 portfolio companies to provide a standardized director skills and diversity matrix in their proxy statements
  - BlackRock expects at least two women directors on every board
  - For 2019, Glass Lewis generally will recommend voting against the nominating committee chair of a board that has no female members
  - For 2018, ISS will highlight boards with no gender diversity but make no adverse vote recommendation for a lack of gender diversity

- Approximately 90% of S&P 500 and 58% of Russell 3000 companies have at least two female directors
- Approximately 29 board diversity proposals submitted in 2018
#MeToo Movement

- Considerations from Wynn Resorts Ltd.
  - The New York Comptroller said that the public retirement fund he oversees will vote its Wynn Resorts Ltd. shares against all incumbent directors to punish them for not stopping Wynn’s behavior.

- Plaintiffs face a high pleading burden under *Caremark* to prevail on claim for breach of the duty of oversight, which requires pleading scienter.

- But, this is a developing area that could see future changes. See, *e.g.*, *City of Birmingham Ret. & Relief Sys. v. Good*, 177 A.3d 47, 65 (Del. 2017) (C.J. Strine, dissenting) (commenting on majority decision to grant motion to dismiss claims against Duke Energy directors for breach of oversight duty and suggesting Delaware courts may need to be less rigid in evaluating pleadings where egregious circumstances otherwise exist).
#MeToo Movement – Key Considerations

- Understand the potential magnitude of risk (e.g., monitoring allegations at other companies and resulting impacts)
- Consider how to provide oversight and whether sexual harassment issues should be separately considered from other “employment practices” issues depending on expected risks to the company and existing oversight structures
- Engage in a risk assessment process, which could include reviewing past experience with complaints evaluating disclosure controls and procedures, etc.
- Review existing company policies with a fresh look considering the recent #MeToo Movement
- Consider incorporating diversity and inclusion efforts into investor engagement activities
- Develop a crisis management plan in advance
Virtual Meetings

- 30 states allow virtual-only shareholder meetings, while 41 states and D.C. permit “hybrid” meetings (i.e., allow shareholders to participate in a live meeting by connecting via the internet).
- Increasing numbers of companies are moving to virtual shareholder meetings
  - 127 “virtual-only” meetings held through mid-May 2018, compared to 99 as of the same time in 2017
  - At least 300 companies planning either a virtual-only or hybrid virtual meeting in 2018, compared to 236 in 2017
- Many shareholders are concerned about this trend on the basis that virtual-only meetings deny shareholders the ability to engage with company leadership in person
  - In 2017, New York City Comptroller initiated a letter writing campaign and new proxy voting guidelines opposing virtual-only meetings
  - For 2019, Glass Lewis generally will recommend voting against governance committee members of companies that plan to hold a virtual-only shareholder meeting without providing robust disclosure assuring that shareholders will have the same rights as if an in-person meeting were held
  - ISS has indicated that it may make adverse recommendations where virtual meetings are used to impede shareholder discussions or proposals
SPEAKER BIOGRAPHIES
Stephanie Evans advises domestic and international clients on a wide range of corporate transactions, with a particular focus on mergers and acquisitions, joint ventures, strategic alliances and financings. She regularly advises boards and special committees in connection with transactions and provides advice on governance and commercial transactions. Her clients include private and public companies in a variety of industries, including financial services, defense and technology. She is active with emerging growth companies throughout their development cycle. She was previously Vice Chair of the Corporate Practice Group. Ms. Evans also worked as an associate in the Global Investment Banking Group of Deutsche Banc.

Lillian Brown is a partner in the Transactional and Securities Departments and a member of the Corporate Practice Group. Ms. Brown advises clients, including public companies and their boards, on federal securities law compliance and corporate governance matters. She has extensive experience in SEC reporting and disclosure requirements, shareholder proposal and proxy matters, the federal securities laws relevant to control-related transactions, proxy access and shareholder activism and engagement. Ms. Brown regularly counsels public company clients on new and evolving disclosure and governance requirements and practices, including under the Dodd-Frank and JOBS Acts. Ms. Brown works with a diverse range of companies, from Fortune 500 to private companies, spanning multiple industries including financial services, technology, entertainment, consumer products, security, biotechnology and retail.

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Andrew Stull is a Managing Director in Houlihan Lokey’s Atlanta office. He is senior member of the firm’s Board and Special Committee Advisory practice. Mr. Stull’s investment banking experience includes mergers and acquisitions advisory, management/employee buyouts, recapitalizations, debt and mezzanine financings, and advising boards and special committees on fairness and solvency opinions. He has completed over 100 fairness, solvency and other transactional opinion and general advisory assignments related to buyside and sellside mergers and acquisitions, going-private transactions, debt and equity offerings, spin-offs, stock repurchases and asset sales.

Mr. Stull has been involved in a wide range of industries including media, automotive, consumer products, telecommunications, healthcare, basic industries and financial services. He has testified in complex transaction related matters in Delaware Chancery Court, Georgia and New York. Mr. Stull joined Houlihan Lokey in 1993 as an associate after spending four years as an analyst with a national consulting firm.