CONTENTS

Introduction ix
Foreword xi
About the Editor xiii
A Word about Scope and Sources xv
Acknowledgements xvii

SECTION ONE: BOARD DUTIES, ROLES, AND STRUCTURE 1
1.1 The Legal Duties of Corporate Board Members 3
1.2 Deciding Whether to Serve on a Board 7
1.3 Board Composition and Recruiting 11
1.4 Differentiating Board and Management Roles 15
1.5 The Board’s Role in Strategy Development 19
1.6 Board Communication—Balancing Collegiality and Candor 23
1.7 Dealing with Activism in the Boardroom 27
1.8 Managing the Board’s Agenda and Calendar 31
1.9 Common Standing Board Committees 35
1.10 Special Board Committees 39
1.11 Director Resignation Issues 45
1.12 Business Sustainability 49

SECTION TWO: SELECTED GOVERNANCE POLICY MATTERS 55
2.1 Corporate Governance Policies and Charters 57
2.2 Independent Chairs and Lead Directors 65
2.3 Board Member Independence 69
2.4 Classified or Staggered Boards 73
2.5 Board Evaluation Programs 77
2.6 Removing an Unproductive Director 81
2.7 Director Misconduct 85
SECTION THREE: PROTECTING THE BOARD  
3.1 Structural Indemnity and Exculpation Provisions  
3.2 Directors and Officers Liability Insurance and Other Risk Management Considerations  
3.3 Reliance on Management and Expert Opinions  
3.4 Retention of Specific Board or Committee Counsel  

SECTION FOUR: OVERSIGHT OF MANAGEMENT  
4.1 Selecting a CEO  
4.2 Evaluating CEO Performance  
4.3 Management Succession Planning  
4.4 The Board’s Role in Corporate Culture  
4.5 Managing the Founder  
4.6 Managing Reputational Risk  
4.7 Governing the Multinational Corporation  
4.8 Dealing with the General Counsel  

SECTION FIVE: SHAREHOLDER ENGAGEMENT AND COMMUNICATIONS  
5.1 The Director’s Role in Shareholder Communication  
5.2 The Annual Shareholders Meeting  
5.3 Majority Voting  
5.4 The Proxy Process  
5.5 Understanding the Role of Proxy Advisors  
5.6 Dealing with Activist Shareholders  
5.7 SEC Regulation FD  
5.8 Reviewing Corporate Press Releases  
5.9 Proxy Access  
5.10 Shareholder Proposals  

SECTION SIX: MANAGEMENT AND OVERSIGHT OF TRANSACTIONS  
6.1 Management and Oversight of Transactions  
6.2 The Board’s Role in Acquisitions and Business Combinations  
6.3 Deciding Whether to Sell the Company  
6.4 Presiding over the Sale of a Company  
6.5 Basic M&A Concepts  
6.6 Indemnity in the M&A Context  
6.7 Managing a Failed Business Combination  
6.8 Related Party Transactions  
6.9 Loan Agreements and Financing Transactions  

SECTION SEVEN: COMPENSATION MATTERS  
7.1 The Role of the Compensation Committee  
7.2 Compensation Committee Composition
## Contents

7.3 Retaining an Independent Compensation Consultant 257  
7.4 Structuring Executive Compensation Plans 263  
7.5 Setting the Board’s Compensation 267  
7.6 Compensation for Special Committee Service 271  
7.7 Executive Employment Agreements 275  
7.8 Compensation Clawbacks and Forfeitures 281  
7.9 Disclosure Considerations in Structuring Executive Compensation 285  
7.10 Loans to Directors and Executive Officers 289

### SECTION EIGHT: AUDIT COMMITTEE MATTERS  293

8.1 The Role of the Audit Committee 295  
8.2 Audit Committee Composition 305  
8.3 Retaining and Changing an Audit Firm 313  
8.4 Managing the Company’s Relationship with Its Auditors 317  
8.5 Critical Accounting Policies 321  
8.6 Internal Controls 325  
8.7 Deficiencies and Material Weaknesses in Internal Controls 329  
8.8 Management Representation Letters 333  
8.9 Accounting Restatements 337  
8.10 Enterprise Risk Management 341  
8.11 Going Concern Qualifications 345

### SECTION NINE: SELECTED LEGAL MATTERS  351

9.1 Reviewing Securities Filings 353  
9.2 The Director’s Role in Corporate Ethics and Compliance Programs 359  
9.3 Code of Conduct Waivers 363  
9.4 Federal Sentencing Guidelines and Their Implications 367  
9.5 Board Oversight of Government Investigations 371  
9.6 Internal Investigations 381  
9.7 Shareholder Derivative Litigation and Serving on a Special Litigation Committee 387  
9.8 Managing Significant Litigation 393  
9.9 Dealing with a Whistleblower 397  
9.10 Practical Issues Concerning the Attorney–Client Privilege 401

### SECTION TEN: TAKEOVER PREPAREDNESS  405

10.1 General Takeover Planning 407  
10.2 Shareholder Rights Plans 413  
10.3 Change of Control Severance Arrangements 419  
10.4 Dealing with an Unsolicited Acquisition Proposal 425  
10.5 Engaging an Investment Banker in a Business Combination 429  
10.6 Dealing with Investment Banker Conflicts of Interest 433  
10.7 Fairness Opinions 437
SECTION ELEVEN: TRANSACTIONS IN COMPANY SECURITIES  441
  11.1 Stock Buy-Back Programs  443
  11.2 Selling Company Securities to the Public  447
  11.3 Board and Management Stock Ownership Guidelines  451
  11.4 The SEC’s Beneficial Ownership Reporting Regime  457
  11.5 Insider Trading Policies and Protections  463
  11.6 “Short-Swing” Trading  467
  11.7 Basics about 10b5-1 Plans  475

SECTION TWELVE: THE TROUBLED COMPANY  483
  12.1 The Board’s Fiduciary Duties in an Insolvent (or Nearly
       Insolvent) Corporation  485
  12.2 Oversight of a Distressed or Insolvent Corporation  489
  12.3 The Board’s Role in Crisis Management  495
  12.4 Developing a Crisis Management Plan  501
  12.5 Deregistration and Stock Exchange Delisting, or “Going Dark”  505
  12.6 Filing for Bankruptcy  509

INDEX  513