

ANGIODYNAMICS INC  
Form 8-K  
June 06, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 8-K

CURRENT REPORT  
Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): June 3, 2008

AngioDynamics, Inc.  
(Exact Name of Registrant as Specified in Charter)

Delaware	000-50761	11-3146460
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

603 Queensbury Avenue, Queensbury, New York	12804
(Address of Principal Executive Offices)	(Zip Code)

(518) 798-1215

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

- o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2 (b))
  
  - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4 (c))
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Item 8.01 – Other Events.

On June 3, 2008, AngioDynamics, Inc. (the “Company”) announced that the United States Bankruptcy Court for the District of Massachusetts, Western Division, granted an order approving the Company’s purchase of certain United States assets of Diomed Holdings and its wholly-owned subsidiary, Diomed, Inc. pursuant to the previously disclosed asset purchase agreements between the Company and Diomed Holdings, Inc., Diomed, Inc and Diomed Limited for the acquisition of certain Diomed assets in the United States and United Kingdom (the “Asset Purchase Agreements”).

Copies of the Asset Purchase Agreements will be filed with the Company’s Annual Report on Form 10-K and the description below is qualified in its entirety by reference thereto. Pursuant to the Asset Purchase Agreements, the Company agreed to pay \$8 million in cash for certain United States assets of Diomed Holdings and \$3 million in cash for certain United Kingdom assets of Diomed Limited. Each transaction is subject to, among other things, customary closing conditions set forth in the Asset Purchase Agreements.

The Asset Purchase Agreements do not provide for the acquisition of any interest in Diomed's legal judgment against Vascular Solutions, and the Company is not assuming any potential liability with respect to Diomed's litigation with VNUS.

A copy of the press release issued by the Company on June 3, 2008, announcing the order is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

Forward-Looking Statements

This document and its attachments include "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Investors can identify these statements by the fact that they do not relate strictly to historical or current facts. These statements contain words such as "expect," "reaffirm," "anticipate," "plan," "believe," "estimate," "may," "will," "predict," "project," "might," "intend," "potential," "could," "would," "should," "estimate," "seek," "continue," "pursue," or "our future success depends," or the negative or other variations thereof or comparable terminology, are intended to identify such forward-looking statements. In particular, they include statements relating to, among other things, future actions, strategies, future performance, future financial results of the Company. These forward-looking statements are based on current expectations and projections about future events.

Investors are cautioned that forward-looking statements are not guarantees of future performance or results and involve risks and uncertainties that cannot be predicted or quantified and, consequently, the actual performance or results of the Company may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to, the factors described from time to time in the Company's reports filed with the SEC, including the Company's Form 10-K for the fiscal year ended June 2, 2007 and Form 10-Q for the period ended February 29, 2008, financial community and rating agency perceptions of the Company; the effects

of economic, credit and capital market conditions on the economy in general, and on medical device companies in particular; domestic and foreign health care reforms and governmental laws and regulations; third-party relations and approvals, technological advances and patents attained by competitors; and challenges inherent in new product development, including obtaining regulatory approvals. In addition to the matters described above, the ability of the Company to consummate the purchase of the Diomed businesses described above, the ability of the Company to develop its products, future actions by the FDA or other regulatory agencies, results of pending or future clinical trials, the outcome of pending patent litigation, overall economic conditions, general market conditions, market acceptance, foreign currency exchange rate fluctuations, and the effects on pricing from group purchasing organizations and competition, may affect the actual results achieved by the Company.

Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made. The Company disclaims any obligation to update the forward-looking statements. Investors are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date stated, or if no date is stated, as of the date of this document.

Item 9.01 – Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description
99.1	Press Release dated June 3, 2008.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ANGIODYNAMICS, INC.  
(Registrant)

Date: June 5, 2008

By: /s/ D. Joseph Gersuk

D. Joseph Gersuk  
Chief Financial Officer

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EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release dated June 3, 2008.

nd-color:#eaeaeb;border-bottom:solid #686C72 1.0pt;">

All other fees

\$ \$

- (1) Audit-related fees pertain to the audit of the financial statements of certain employee benefit plans.
- (2) Tax fees consist of tax return preparation and other tax matters.

**Pre-Approval of Services by the Independent Registered Public Accounting Firm**

The Audit Committee is responsible for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. In accordance with its charter and written policy, the Audit Committee approves, in advance, all audit and permissible non-audit services to be performed by the independent registered public accounting firm, or such services can be performed in accordance with the Audit Committee's written pre-approval policy. Such approval process ensures that the external auditor does not provide any non-audit services to us that are prohibited by law or regulation.

During each of the years ended December 31, 2017 and 2016, 100% of the fees paid to Moss Adams LLP were either approved, in advance, by the Audit Committee, or pre-approved under the Audit Committee's written pre-approval policy.

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## Proposal 3 Advisory (Nonbinding) Vote on Executive Compensation

Based upon a board determination that considered the advice of stockholders at our 2017 Annual Meeting of Stockholders, stockholders are annually being given the opportunity to vote on an advisory (nonbinding) resolution to approve the compensation of our "Named Executive Officers," as described in this proxy statement under "Compensation Discussion and Analysis" and the compensation tables and narrative disclosure. This proposal, commonly known as a "say-on-pay" proposal, gives stockholders the opportunity to endorse or not endorse the Company's executive pay program.

The purpose of our compensation policies and procedures is to attract and retain experienced, highly qualified executives critical to the Company's long-term success and enhancement of stockholder value. The Board of Directors believes the Company's compensation policies and procedures achieve this objective, and therefore recommend stockholders vote "**FOR**" the proposal. Specifically, stockholders are being asked to approve the following resolution:

"**RESOLVED**, that the compensation paid to the Company's Named Executive Officers, as disclosed in this proxy statement pursuant to Item 402 of Securities and Exchange Commission Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby **APPROVED**."

Although nonbinding, the Board of Directors and the Compensation Committee value constructive dialogue on executive compensation and other important governance topics with our stockholders and encourage all stockholders to vote their shares on this matter. The Board of Directors and the Compensation Committee will review the voting results and take them into consideration when making future decisions regarding our executive compensation programs.

**Unless otherwise instructed, validly executed proxies will be voted "FOR" this resolution.**

**The Board of Directors unanimously recommends that you vote "FOR" the resolution set forth in Proposal 3.**

## Audit Committee Report

The Company's management is responsible for the Company's internal controls and financial reporting process. The Company's independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements, issuing an opinion on the conformity of those financial statements with generally accepted accounting principles, and issuing a report on internal control over financial reporting. The Audit Committee oversees the Company's internal controls and financial reporting process on behalf of the Board of Directors.

In this context, the Audit Committee has met and held discussions with management and the independent registered public accounting firm. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent registered public accounting firm. The Audit Committee discussed with the independent registered public accounting firm the matters related to the results of the audit in accordance with Public Company Accounting Oversight Board ("PCAOB") Standard 1301, *Communications with Audit Committees*.

In addition, the Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by Rule 3520 of the PCAOB Auditing Standards and has discussed with the independent registered public accounting firm the firm's independence from the Company and its management. In concluding that the registered public accounting firm is independent, the Audit Committee

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considered, among other factors, whether the non-audit services provided by the firm were compatible with its independence.

The Audit Committee discussed with the Company's independent registered public accounting firm the overall scope and plans for their audit. The Audit Committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of their audit, their evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting.

In performing all of these functions, the Audit Committee acts only in an oversight capacity. In its oversight role, the Audit Committee relies on the work and assurances of the Company's management, which has the primary responsibility for financial statements and reports, and of the independent registered public accounting firm who, in their report, express an opinion on the conformity of the Company's financial statements to generally accepted accounting principles. The Audit Committee's oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions with management and the independent registered public accounting firm do not assure that the Company's financial statements are presented in accordance with generally accepted accounting principles, that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards, or that the Company's independent registered public accounting firm is in fact "independent."

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, for filing with the Securities and Exchange Commission. The Audit Committee also has approved, subject to stockholder ratification, the selection of Moss Adams LLP as the Company's independent registered public accounting firm for the year ending December 31, 2018.

**Audit Committee of the Board of Directors of  
Territorial Bancorp Inc.**

Howard Y. Ikeda (Chairman)  
David S. Murakami  
Richard I. Murakami  
Francis E. Tanaka

## Information about Executive Officers

The following provides information regarding our executive officers who are not directors of the Company.

**Vernon Hirata** has served as Territorial Savings Bank's Vice Chairman, Co-Chief Operating Officer, General Counsel and Corporate Secretary since 2007. Mr. Hirata joined Territorial Savings Bank in 1986 as Senior Vice President/General Counsel, and was named Executive Vice President/General Counsel and Corporate Secretary in 1987. Previously, Mr. Hirata was employed at American Savings and Loan Association from 1978 to 1986, including service as Senior Vice President and Staff Attorney.

**Ralph Y. Nakatsuka** joined Territorial Savings Bank in 2007 as Vice Chairman and Co-Chief Operating Officer, and was employed at American Savings Bank from 1980 to 2007, including service as Executive Vice President of Lending and Chief Lending Officer from 1997 to 2007 and Chief Financial Officer from 1987 to 1997. Mr. Nakatsuka is a Certified Public Accountant.

**Karen J. Cox** has served as Senior Vice President of Administration of Territorial Savings Bank since 1984, and has been employed by Territorial Savings Bank since 1968. Ms. Cox is in charge of various areas, including



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human resources, information technology, and branch development and maintenance. Ms. Cox previously worked with other financial institutions in the State of Hawaii beginning in 1964.

**Richard K.C. Lau** has served as Senior Vice President and Chief Lending Officer of Territorial Savings Bank since 1985. Mr. Lau was employed at other financial institutions in the State of Hawaii beginning in 1970.

**Melvin M. Miyamoto** was named Chief Financial Officer in June 2015, having served as Senior Vice President and Treasurer of Territorial Savings Bank since 1986, and has been employed by Territorial Savings Bank since 1984. Mr. Miyamoto is a Certified Public Accountant.

## Executive Compensation

### Director Fees

Each of Territorial Savings Bank's outside directors receives an annual retainer for board meetings of \$32,650 per year and an annual retainer for committee meetings of \$2,450 per year. Each of Territorial Bancorp Inc.'s outside directors receives an annual retainer for board meetings of \$5,100 per year and an annual retainer for committee meetings of \$615 per year. The retainer fees are increased to the following amounts for the following committees: the Chairman of Territorial Savings Bank's Audit Committee receives a committee retainer of \$2,650 and the Chairman of Territorial Bancorp Inc.'s Audit Committee receives a committee retainer of \$8,570; the Chairman of Territorial Savings Bank's Compensation Committee receives a committee retainer of \$4,900; and the Chairman of Territorial Bancorp Inc.'s Compensation Committee receives a committee retainer of \$1,225. Receipt of full retainer payments is based upon a director attending at least 75% of board or committee meetings, as applicable, with reductions for the failure to attend such number of board or committee meetings.

The following table sets forth for the year ended December 31, 2017, certain information as to the total remuneration we paid to our directors. Mr. Kitagawa does not receive separate fees for service as a director.

David S. Murakami	44,213	44,213
Richard I. Murakami	44,213	44,213
Howard Y. Ikeda	53,040	53,040
Kirk W. Caldwell	47,528	47,528
Francis E. Tanaka	44,213	44,213

At December 31, 2017, Directors David Murakami, Ikeda, and Caldwell had 31,275, 31,275 and 41,275 vested but unexercised stock options, respectively, each with an exercise price of \$17.36 per option. Director Tanaka had 3,085 vested but unexercised stock options with an exercise price of \$23.62 per option.

The Company has no stock ownership guidelines for directors. However, for previous grants under our 2010 Equity incentive Plan each director must retain an amount equal to 50% of each restricted stock or stock option award (net of taxes) until their service on the Board ends.



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## Compensation Discussion and Analysis

The following Compensation Discussion and Analysis, or CD&A, describes our 2017 executive compensation program, including several significant changes that we made based on stockholder feedback. Our compensation program and practices are designed to reward our executives based on our performance against our short- and long-term goals in a risk appropriate manner that enhances the long-term value of the Company. The following pages explain the process, objectives, and structure of the executive compensation decisions undertaken by our Compensation Committee and our Board of Directors during 2017, as well as provide some historical perspective on our evolving pay program. This CD&A is intended to be read in conjunction with the tables included elsewhere in this proxy statement, which provide detailed compensation information for our "Named Executive Officers," or NEOs, described below.

For 2017, our Named Executive Officers are:

Allan S. Kitagawa	Chairman of the Board, President, and Chief Executive Officer
Melvin M. Miyamoto	Senior Vice President, Treasurer and Chief Financial Officer
Vernon Hirata	Vice Chairman, Co-Chief Operating Officer, General Counsel, and Corporate Secretary
Ralph Y. Nakatsuka	Vice Chairman and Co-Chief Operating Officer
Richard K.C. Lau	Senior Vice President and Chief Lending Officer

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## I. Executive Summary

### **Company Background and Performance Highlights**

Territorial Savings Bank has been serving customers in our Hawaii market for nearly one hundred years. It is a traditional thrift institution that focuses on retail customers, including originating long-term, fixed-rate residential mortgage loans. Well over half of Territorial Savings Bank's deposits are savings deposits (as opposed to certificate of deposits or checking accounts), and well over 90% of its loans are fixed-rate residential mortgage loans.

In 2009, Territorial Savings Bank converted from a mutual savings bank by forming Territorial Bancorp as its holding company and conducting its initial public offering. As a mutual organization, our ability to raise capital was limited. The additional capital raised in the public offering allowed us to better compete in our highly competitive market place while strengthening our regulatory capital position. In 2014, we converted to a Hawaii state-chartered savings bank and became a member bank of the Federal Reserve Bank of San Francisco to provide greater operating flexibility.

Since going public, we have tried to provide key banking services at a reasonable price to our customers while growing organically. We also recognize our responsibility to provide a reasonable return to our shareholders.

In 2017, we paid two special dividends in addition to our quarterly dividends. The total dividends paid for the year were \$1.20 per share.

Since going public, we have paid 33 consecutive quarterly dividends.

Total assets grew by 6.72% in 2017 and exceeded \$2.0 billion at December 31, 2017.

We experienced our sixth consecutive year of double digit loan growth.

We opened our 29<sup>th</sup> branch in the deposit rich Kapiolani Boulevard area of Honolulu.

We paid all our eligible rank and file employees a special \$1,000 year-end bonus. This was in addition to our usual bonus program for those employees, who also received a \$250 year-end bonus. We also increased our minimum starting pay to \$15.00 per hour.

Our executive compensation program has evolved following our conversion from a mutual ownership structure to a more mature publicly traded institution. Highlights include:

In 2010, as part of our conversion to public company status, we provided stock options and restricted stock awards consistent with regulations issued by the Office of Thrift Supervision. These grants followed practices of other converted thrifts and were intended to create meaningful alignment between our executives and stockholders. These initial awards vested over a six-year period, and became fully vested in 2016.

In 2014, we introduced a cash-based long-term incentive plan to reward long-term performance based on our return on equity and total shareholder return. A cash-based program was used to reinforce a performance orientation since the equity award plan focused on stock and we had limited shares available for grant under the equity award plan.

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In 2016, based on feedback from stockholders, we sought stockholder approval to add a modest number of additional shares to our equity award plan to allow us to provide equity-based performance incentives going forward.

In 2017, we converted our cash-based long-term incentive program to performance shares, an equity-based program aligned with our stockholder preferences. We also increased our TSR metric to

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measure a three-year period, from a two-year period, and we enhanced our annual incentive program metrics to provide more balance from a performance and risk perspective.

#### **Our financial results consistently exceed the performance of our market peers:**

As illustrated below, our profitability, reflected by our return on average equity ("ROAE"), return on average assets ("ROAA") and non-performing assets (i.e. asset quality measured by NPA/Assets) has consistently tracked above the median of our market peers, and historically over the 75<sup>th</sup> percentile.

ROAA  
TBNK vs Peer Group

ROAE  
TBNK vs Peer Group

NPAs/Assets  
TBNK vs Peer Group

#### **Stockholder Engagement and Changes Resulting from our Say on Pay Results**

We have actively engaged with stockholders since 2013. Each year we reach out to our largest investors (representing approximately 35% to 40% of our outstanding shares) to request feedback on our executive compensation programs. While a significant number of institutional stockholders do not feel the need to engage with us, we appreciate the feedback from those that do participate. All feedback received is summarized by the Director of Investor Relations and shared with the Compensation Committee and the Board of Directors. As a result, our corporate governance and compensation programs have evolved over the years, in part in direct response to this feedback. We have made many changes to our executive compensation program over the last several years in response to suggestions by institutional investors and feedback from proxy advisory firms. Significant changes were made in 2016 and 2017. In 2018, institutional investors provided positive affirmation of our previous compensation program changes.

The formal stockholder advisory votes on pay ("Say-on-Pay") provides a valuable barometer for how our programs are perceived by the full spectrum of our investors. We take this advisory vote seriously and work diligently to understand the stockholder and proxy advisory firm perspectives. Based on the changes we made during 2016 and 2017, over 95% of the votes cast by stockholders were cast in favor of our Say-on-Pay vote in 2017. We will continue to consider feedback from our stockholders.



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To further improve the executive compensation program, the Compensation Committee decided to bring in a fresh point of view by engaging Meridian Compensation Partners, LLC ("Meridian") at year-end 2016 to serve as the new independent compensation consultant.

Below is a high-level summary of some of the major changes we have made over the last several years based on stockholder feedback:

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As a result of our changes, we have continued to evolve toward a best practices program that will ensure our executives are motivated and rewarded for continuing to sustain our strong performance results and enhancing stockholder value. Below is a summary of our compensation and governance practices.

## What We Do:

### ***Pay for Performance:***

*Provide annual and long-term incentive plans that focus on delivering specific performance results.*

### ***Balanced Approach to Total Compensation:***

*We use a mix of performance metrics across both short- and long-term performance periods, consider both absolute and relative performance in assessing our performance and provide payouts in cash and equity.*

### ***Annual Say on Pay Vote:***

*We conduct an annual Say-on-Pay advisory vote.*

### ***Independent Compensation Consultant:***

*The Compensation Committee engages its own independent compensation consultant to review the Company's executive compensation program and practices.*

### ***Robust Stock Ownership and Holding Requirements:***

*We have stock ownership guidelines requiring our executives to hold significant equity ownership. In addition, our shares issued in 2010 through our equity incentive plan require executives and directors to hold an amount of stock equal to 50% of granted stock, net of stock sold to pay for taxes, until separation from the Company.*

### ***Clawback Policy:***

*Our incentive plans are subject to clawback/recoupment in the event of an accounting restatement due to covered misconduct.*

### ***Double Trigger Severance and Equity Vesting Provisions:***

*We require both a change in control and loss of position before severance is paid. We require the same before equity can vest on change in control.*

***Stockholder Engagement:***

*As part of the Company's stockholder outreach program, members of the Compensation Committee and members of management welcome engagement with stockholders to better understand their perceptions and views on our executive compensation program.*

***Mitigate Inappropriate Risk Taking:***

*Our compensation programs include features intended to discourage employees from taking unnecessary and excessive risk including balanced performance metrics, emphasis on long-term stockholder value creation, and clawback provisions.*

## **What We Don't Do:**

***Gross-ups for Excise Taxes:***

*We don't provide change-in-control tax gross-ups to individuals promoted or hired after 2014 (only three legacy agreements are still in place).*

***No Repricing of Stock Options:***

*We prohibit repricing of stock options without stockholder approval.*

***Hedging and Pledging:***

*We prohibit hedging and pledging as part of our Insider Trading Policy.*

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**2017 Compensation Program Summary**

For 2017, a significant portion of our NEOs' pay was provided in the form of performance-based incentives. For the NEOs, our long-term incentive program represented 55% of total variable pay based on long-term performance and 45% based on annual performance objectives. This mix was designed to support our focus on long-term profitability results. Our performance metrics are designed to reward profitability and return to our stockholders that preserves our focus on strong credit portfolio. Below is a summary of the measures and weights for our annual and long-term incentive programs.

**Annual Incentive Plan  
(cash)**

Net Income	60%
ROAA	20%
Non-Performing Assets/Total Assets	10%
Loan Production	10%

**Long-Term Incentive Program  
(equity)**

Return on Equity	80%
Total Shareholder Return	20%

**2017 Compensation**

The total compensation for 2017 set forth in the Summary Compensation Table for our NEOs includes grants of restricted stock units under the 2017 long-term incentive program and payouts of the outstanding long-term cash awards under two different legacy programs that were replaced by the new equity-based LTIP program introduced in 2017.

The following represents changes in our compensation program that took effect in 2017 and were based on feedback from our stockholders.

**Our Long-Term Incentive Program ("LTIP") has shifted from cash awards to being awarded as performance-based restricted stock units** 50% is granted as performance units that vest based on pre-defined three-year performance goals and 50% is granted as time-vested units that vest over a three-year period. This means that our cash-based LTIP awards will phase out by the end of 2018 as the performance periods end.

Our LTIP continues to use the same performance metrics (ROAE and TSR as in 2016), but **performance is now measured relative to an objective industry index** (i.e. SNL Thrift Index) as opposed to our smaller custom peer group. We believe this is a better representation of our investors' view of our performance and eliminates the challenges of industry consolidation on the size of the peer group three years later.

Our LTIP performance measure of **Total Shareholder Return is now measured over a three-year period rather than a two-year period**. Going forward all of our LTIP components will be on a three-year basis. We are also **using the same relative performance scale for all LTIP components**.

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Our Annual Incentive Plan ("AIP") has switched from relative performance goals compared to a selected peer group to **absolute performance goals based on our budget** and pre-approved by

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the Compensation Committee. **We added two measures, net income and loan production** to our existing measures of ROAA and asset quality (non-performing assets/assets) to provide a more balanced view of performance.

**All NEOs are now on the same AIP and LTIP program beginning in 2017.** Prior to this change, some NEOs participated in a separate discretionary cash bonus program, which was not preferred by some stockholders.

**Our 2016 Program Compared to the New 2017 Program (Target Pay Opportunities)**

Below we illustrate the key changes to the incentive programs, highlighting the shift from cash to equity and the alignment of the time horizon for the long-term incentive plan to a consistent 3-year performance period.



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## II. Compensation Decision Process

### **Our Compensation Philosophy and Program Components**

Our Compensation Committee is responsible for establishing and monitoring our compensation philosophy and programs. In this role, the Compensation Committee has sought to design a compensation structure that attracts and retains qualified and experienced officers, recognizes our unique position in the Hawaii market, and at the same time, is reasonable and competitive, taking into account both short- and long-term incentives.

Key Objectives of our Compensation Program include:

Rewarding executives for sustained high performance that delivers long-term value to our stockholders.

Ensuring our executives have a significant equity interest in the Company through robust equity ownership and retention guidelines.

Achieving the proper balance between incentive compensation and maintaining an appropriate risk profile.

Retaining a seasoned management team who have been through the various real estate cycles in Hawaii.

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**Elements of Our Executive Compensation Program**

The following table outlines the major elements of 2017 total compensation for our Named Executive Officers:

Base Salary	Fixed component of pay to recognize each NEO's role, contribution and performance; reflects component that mitigates risk taking; helps attract and retain executives
Annual Incentive Plan	Encourages achievement of financial performance metrics that create stockholder value through the use of one-year performance measures tied to our business goals and objectives
Long Term Incentive Plan	Encourages financial performance over a multi-year period that is aligned with stockholder value
Defined Benefit and Defined Contribution Retirement Plans	Provides market-competitive income security into retirement and creates a retention incentive through use of multi-year vesting
	Pension Plan frozen
	401(k) Match
	ESOP
	Supplemental ESOP
	(Kitagawa, Hirata, Nakatsuka only)
	SERP
	(Kitagawa, Hirata, Nakatsuka only)
Benefits and Perquisites	Includes health and welfare benefits under employer-wide programs and modest executive perquisites





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## III. Compensation Decisions for 2017

**Benchmarking and Peer Group**

The Compensation Committee approved a peer group at the beginning of 2016, which consisted of institutions similar in size and business structure as Territorial Bancorp. These financial institutions represent thrifts with assets between \$750 million and \$5 billion, and which have become public institutions since 2008. The Company was positioned at the 59<sup>th</sup> percentile based on assets at the time the peer group was approved. Subsequent to the approval of the peer group, ASB Bancorp, Inc., Cape Bancorp, Inc., Fox Chase Bancorp, Inc. and Ocean Shore Holding Co. were acquired by merger.

Oritani Financial Corp.	ORIT
Meridian Bancorp, Inc.	EBSB
Northfield Bancorp, Inc.	NFBK
HomeTrust Bancshares, Inc.	HTBI
First Connecticut Bancorp, Inc.	FBNK
Blue Hills Bancorp, Inc.	BHBK
Waterstone Financial, Inc.	WSBF
BSB Bancorp, Inc.	BLMT
SI Financial Group, Inc.	SIFI
Home Bancorp, Inc.	HBCP
Clifton Bancorp, Inc.	CSBK
Charter Financial Corp.	CHFV
ASB Bancorp, Inc.	ASBB
Cape Bancorp, Inc.	CBNJ
Fox Chase Bancorp, Inc.	FXCB
Ocean Shore Holding Co.	OSHC

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**2017 Base Salary Decisions**

The Compensation Committee reviews base salaries annually and adjusts them from time to time to align with competitive market levels, as well as individual responsibilities, performance, and experience.

During its 2017 review of base salaries for executives, the Compensation Committee primarily considered:

Market data for peer institutions, direct competitors, and publicly held businesses located in Hawaii, as the cost of living in Hawaii is significantly higher than in the continental United States.

Internal review of the executive's compensation, both individual and relative to others.

Performance of the executive.

Contributions, qualifications and experience of the executive.

Our financial condition and results of operations.

Budget used for company-wide salary increases.

The Compensation Committee considers the recommendation of Mr. Kitagawa (for all executives other than himself) in making base salary adjustments. The base salary for Mr. Kitagawa is recommended by the Compensation Committee and approved by the full Board of Directors.

Based on the Compensation Committee's review, the following base salaries were approved and effective January 1, 2017. Salary increases were 2% for all NEOs except for Mr. Miyamoto who received a 3% increase (equal to the company-wide increase), and except for Mr. Kitagawa who requested again that he not receive an increase in salary.

Base salaries for each of the Named Executive Officers are shown in the tables below.

Allan S. Kitagawa	851,124	851,124	0%
Melvin M. Miyamoto	149,568	154,056	3%
Vernon Hirata	315,084	321,385	2%
Ralph Y. Nakatsuka	315,084	321,385	2%
Richard K.C. Lau	175,492	179,002	2%

In early 2018, salaries were again reviewed by the Compensation Committee with the following increases approved and effective January 2018. Again, for the fifth consecutive year, no increase was made to Mr. Kitagawa's base salary.

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Allan S. Kitagawa	851,124	0%
Melvin M. Miyamoto	161,758	5%
Vernon Hirata	337,454	5%
Ralph Y. Nakatsuka	337,454	5%
Richard K.C. Lau	184,371	3%

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Table of Contents**2017 Annual Incentive Plan Payouts**

**Annual Incentive Plan.** The AIP was redesigned in 2017 based on feedback from stockholders and the Compensation Committee's independent compensation consultant. Prior to 2017, the AIP used two performance goals measured on a relative comparison to our peer group. In response to stockholder feedback and market practice, the Compensation Committee added two new measures (net income and loan production) to the current two measures (ROAA and non-performing assets) to provide a more balanced view of performance. In addition, the Compensation Committee changed from measuring annual performance on a relative basis to setting specific pre-approved performance goals.

The AIP is designed to motivate senior executives to attain superior annual performance in key areas that we believe create long-term value to us and our stockholders. Awards under the AIP are now determined based upon absolute performance metrics contained in the business plan adopted by the Board of Directors for 2017 and selected by the Compensation Committee, after consultation with both management and the independent compensation consultant.

All NEOs had a threshold, target and stretch opportunity as shown below. Target opportunities are intentionally targeted to be conservative relative to market median in light of the desire to place more focus on long-term compensation.

Allan S. Kitagawa	15%	30%	45%
Melvin M. Miyamoto	6.75%	13.50%	20.25%
Vernon Hirata	15%	30%	45%
Ralph Y. Nakatsuka	15%	30%	45%
Richard K.C. Lau	6.75%	13.50%	20.25%

**Performance Metrics**

The Compensation Committee selected Net Income, ROAA, Non-Performing Assets/Assets and Loan Production as the quantitative corporate performance factors for the 2017 AIP. ROAA is a profitability measure while the Non-Performing Asset ("NPA") ratio reinforces the Company's goal of maintaining strong credit quality. A lower NPA ratio mitigates the risk of lowering loan underwriting standards to increase loan production through increased residential mortgage loan volume.

The table below provides the performance required for payouts at the threshold, target and maximum levels:

Net Income (thousands)	60%	\$	14,824	\$	16,471	\$	18,118
ROAA	20%		0.77%		0.86%		0.95%
Non-performing assets/total assets(1)	10%		0.36%		0.30%		0.24%
Loan production (millions)	10%	\$	288	\$	320	\$	352

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Current Payout Range (% of target)	100%	50%	100%	150%
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(1) Lower levels of non-performing assets/total assets represent better performance.

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#### **AIP Payouts:**

Performance for 2017 resulted in the following payouts:

Net Income (thousands)	60%	\$	17,017(1)	117%
ROAA	20%		0.88%	111%
Non-performing assets/total assets	10%		0.21%	150%
Loan Production (millions)	10%	\$	354	150%
Total	100%			122%

(1) Amount reflects adjustment for \$2.05 million write-down of deferred tax assets as a result of the Tax Cuts and Jobs Act of 2017. GAAP reported net income was \$14.962 million and GAAP reported ROAA was 0.77%.

Performance on these measures resulted in payments to the NEOs in the following amounts under the AIP.

Allan S. Kitagawa	20.98%	6.67%	4.50%	4.50%	36.65%
Vernon Hirata	20.98%	6.67%	4.50%	4.50%	36.65%
Ralph Y. Nakatsuka	20.98%	6.67%	4.50%	4.50%	36.65%
Melvin Miyamoto	9.44%	3.00%	2.03%	2.03%	16.50%
Richard K.C. Lau	9.44%	3.00%	2.03%	2.03%	16.50%

#### **2017 LTIP Program**

In 2017, the Compensation Committee changed its LTIP from cash to equity in response to stockholder feedback and best practices. The new program now consists of performance-based restricted stock units and time-vested restricted stock units. All NEOs participate in the new LTIP program.

Each participant has an annual target award opportunity (defined as a percentage of base salary at the start of the grant cycle) that reflects a competitive total compensation package for their role.

CEO	18.3%	36.6%	55%
Vice-Chair	18.3%	36.6%	55%
SVPs	8.25%	16.5%	24.75%

LTIP awards are allocated as follows:

**Performance-vested Restricted Stock Units** PRSUs (50% of target award value) are intended to reward future performance; awards will vest based on achievement of pre-defined performance goals. Grants are earned and cliff vest after three years based on actual performance. PRSUs will vest



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within 120 days after the end of each performance period (once performance can be calculated and reviewed and approved by the Committee).

**Time-vested Restricted Stock Units** TRSUs (50% of target awards) reinforce retention and share ownership/alignment with shareholders as well as provide reward for contributions /performance. Grants vest ratably over three years.

PRSUs are granted at the start of each performance period. The first performance period runs from January 1, 2017 to December 31, 2019. The vesting (i.e. earning) of the award is contingent on actual performance of pre-defined measures at the end of the performance period (i.e. third year).

In order for PRSUs to be vested/earned, performance must be at or above the threshold performance set by the Committee. Actual vesting after three years will be interpolated on a straight-line basis between threshold, target and stretch to reward incremental performance. Vesting will range from 50% of target for achieving threshold performance and 150% of target for achieving stretch performance.

The table below reflects the performance metrics selected for the PRSUs for the 2017 to 2019 performance cycle. Performance will be measured based on our performance relative to the SNL US Thrifts with assets between \$1 billion and \$10 billion.

3-year TSR	Relative to index	20%	35 <sup>th</sup> Percentile	55 <sup>th</sup> Percentile	75 <sup>th</sup> Percentile
3-year Avg. Return on Average Equity	Relative to index	80%	35 <sup>th</sup> Percentile	55 <sup>th</sup> Percentile	75 <sup>th</sup> Percentile
Payout Range (% of Target)		100%	50%	100%	150%

Actual vesting will be assessed in 2020 following the three-year performance period.

### **Legacy Long-Term Incentive Program (LTIP) Payouts in 2017 (under 2015 and 2016 LTIP cycles)**

**Long-Term Incentive Plan.** The Company historically awarded cash bonuses to executives prior to converting to a stock institution, with a small portion based on long-term (three-year) results. Following the public offering, the Company implemented its equity plan in 2010. Selected officers and the members of the Board were awarded restricted stock and stock options that vested over six years. Since 2010, no other stock or options had been awarded.

A formal cash LTIP was initially approved in 2014 by the Compensation Committee to reallocate the existing total incentive opportunity (annual and long-term) such that a larger percentage of incentive compensation would be paid based on long-term results. At this time, we had no remaining shares under the 2010 equity plan, so ongoing long-term incentive compensation was paid in cash. The Compensation Committee used long-term metrics that compared the performance of the Company against a selected peer group of similar public institutions. Outstanding long-term incentives from these outstanding performance periods will continue to be paid in cash until the last performance period ends in 2018 (i.e. 2016 to 2018).

The Compensation Committee has made changes to the LTIP (and the AIP) over the years in order to ensure we continue to have a strong link between pay and long-term performance. Starting in 2017, the long-term incentive program shifted to provide awards in equity, rather than cash.

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The graphics below show the long-term incentive structure, metrics and vesting period for the outstanding and current performance periods. The 2017 LTIP is paid in stock, while the 2015 LTIP and the 2016 LTIP are paid in cash.

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**LTIP Payouts in 2017**

Payouts of 80% of the 2015 LTIP were based on relative 3-year average ROAE and 20% of the 2016 LTIP were based on 2-year TSR. These payments were approved by the Committee after reviewing and certifying performance in March 2018. Below we summarize the performance and payouts for these outstanding cycles.

**2015 LTIP Payout**

As noted above, 80% of the 2015 LTIP was paid out based on 3-year average ROAE relative to the 2015 peer group. The Company ranked at the 73rd percentile and paid out 76% of target for this component.

Relative ROAE	80%	2015 - 2017	35th Percentile	75th Percentile	85th Percentile	73 <sup>rd</sup> Percentile
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**2016 LTIP Payout**

As noted above, 20% of the 2016 LTIP was based solely on 2-year TSR relative to the 2016 peer group. The Company ranked at the 23rd percentile which resulted in no payout.

Relative 2-year TSR	20%	2016 - 2017	25th Percentile	50th Percentile	75th Percentile	23 <sup>rd</sup> Percentile
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The 2015 LTIP and 2016 LTIP awards were paid out in cash as follows:

Allan S. Kitagawa	0.0%	27.5%	55.0%	\$	0	\$	177,885
Vernon Hirata	0.0%	27.5%	55.0%	\$	0	\$	67,170
Ralph Y. Nakatsuka	0.0%	27.5%	55.0%	\$	0	\$	67,170

**Outstanding 2016 LTIP Program**

80% of the 2016 LTIP rewards performance relative to the 2016 peer group for 3-year average Return on Average Equity (ROAE). Only our top-three paid NEOs participated in the program.

The payout for the outstanding 2016 LTIP will be determined in the first quarter of 2019 after the Committee reviews and certifies performance results. The payout will be made in cash.

Relative ROAE                      80%                      2016 - 2018                      35<sup>th</sup> Percentile                      75<sup>th</sup> Percentile                      85<sup>th</sup> Percentile

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**Roles of the Compensation Committee, Management and Independent Consultant**

**Role of the Compensation Committee**

Compensation for the Named Executive Officers was determined under programs adopted by the Compensation Committee and approved by the Board of Directors. The Compensation Committee established our executive compensation philosophy, policy, elements and strategy and reviewed executive compensation proposals for approval by the Board of Directors. Specifically, the Compensation Committee:

approves salary adjustments for Named Executive Officers;

determines the Named Executive Officers eligible to participate in the Annual Incentive Plan and the Long-Term Incentive Program;

assesses corporate performance results and evaluates the Chief Executive Officer's performance;

reviews the assessment of individual performance results to determine award payouts for our Named Executive Officers;

oversees the benefit plans and perquisites for Named Executive Officers; and

assesses and monitors the performance, design, function and potential risk components of our compensation programs for our Named Executive Officers.

The Compensation Committee adopts any changes to existing plans or adopts any new plans and their design, as well as renews or extends any employment agreements for our Chief Executive Officer and selected Named Executive Officers and determines and oversees executive benefits, retirement plans and perquisites.

**Role of Management**

Mr. Kitagawa, our Chief Executive Officer, provides recommendations to the Compensation Committee on matters of compensation philosophy, plan design and the general guidelines for employee compensation. These recommendations are then considered by the Compensation Committee, consistent with our Compensation Committee Charter. However, Mr. Kitagawa does not vote on and is not present for any discussion of his own compensation. Certain members of our management team participate in the Compensation Committee meetings to provide information to the committee on an as-needed basis.

In 2017, the Chief Executive Officer:

recommended base salaries and cash incentive targets for Named Executive Officers other than the Chief Executive Officer;

engaged in discussions with our compensation consultant on changes to the AIP and LTIP; and

suggested incentive metrics and performance levels for the incentive plans, which were considered by our compensation consultant. Final selection was left to the Compensation Committee. The Compensation Committee has held executive sessions with the compensation consultant, without any of the Named Executive Officers, including Mr. Kitagawa, being present during committee meetings when appropriate.

**Role of the Independent Compensation Consultant**

In December 2016, the Compensation Committee completed an independent search as part of its governance process and selected Meridian to serve as its independent advisor for 2017. Meridian reported directly to the Compensation Committee, which retains sole authority to select, retain, terminate, and approve the fees and other retention terms of its relationship with the consultant.

The Compensation Committee reviewed the independence of Meridian, considering all relevant factors, including those set forth in Rule 10C-1(b)(4)(i) through (vi) under the Securities Exchange Act of 1934, and the Compensation Committee did not believe Meridian has a conflict of interest.

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## IV. Equity, Benefits and other Compensation-Related Policies

### Executive Benefits

We offer various benefits to all of our employees, including medical, dental, vision, group life, accidental death and dismemberment and long-term disability insurance. We provide individual coverage to employees, with the employee being responsible for a portion of the premium. In addition, for some of our Named Executive Officers, we pay for a transportation allowance or furnish transportation services, parking, club dues, long-term care insurance, spousal travel, and up to \$5,000 in personal tax and financial planning assistance (up to \$6,000 for Mr. Kitagawa) annually. The Compensation Committee believes these benefits are appropriate and assist these officers in fulfilling their employment obligations. A summary of our benefits is provided below:

**401(k) Plan.** We provide all of our employees, including our Named Executive Officers, with tax-qualified retirement benefits through our 401(k) plan. All employees who meet the age and service requirements may participate in the 401(k) plan on a nondiscriminatory basis. We provide a 401(k) match equal to at least 5% of a participant's salary deferral and we may exercise our discretion to increase the amount of the match.

**Employee Stock Ownership Plan.** In connection with our initial public stock offering, Territorial Savings Bank implemented an employee stock ownership plan ("ESOP"), using the proceeds of a loan from the Company to purchase our common stock pursuant to applicable regulatory guidelines. The ESOP provides our employees with additional retirement savings in the form of our common stock and encourages employee ownership. See "Executive Officer Compensation Tax-Qualified Benefit Plans Employee Stock Ownership Plan" for further description of the terms of the ESOP.

**Supplemental Employee Stock Ownership Plan.** Territorial Savings Bank adopted a Supplemental Employee Stock Ownership Plan ("Supplemental ESOP") effective January 1, 2009, to provide certain executives with benefits that they would otherwise be entitled to under the tax-qualified ESOP, but for limitations imposed by the Internal Revenue Code. See "Nonqualified Deferred Compensation Plans Supplemental Employee Stock Ownership Plan" for further information about the Supplemental ESOP.

**Supplemental Executive Retirement Agreement.** We provide supplemental executive retirement benefits for Messrs. Kitagawa, Hirata, and Nakatsuka. We provide these retirement benefits in order to remain competitive and to attract and retain these executive officers. See "Pension Benefits Supplemental Executive Retirement Agreements" for further description of the terms of the agreements.

**Pension Plan.** In 2008, we froze our tax-qualified defined benefit plan such that no further benefit accruals are earned after December 31, 2008; however, participants will continue to earn vesting credit. We made this change because many of our peer banks have also frozen or terminated their defined benefit pension plans, and we have found that a 401(k) plan and ESOP are more attractive retirement vehicles in recruiting and retaining employees at less and more predictable cost than a defined benefit pension plan.

### Executive Agreements

We maintain employment agreements with Messrs. Kitagawa, Hirata and Nakatsuka, which provide severance payments in the event of involuntary or good reason termination of employment or termination following a change in control. The rationale for providing these payments is to provide security for our key executives and stability among our senior management team. For a discussion of these agreements and the payments





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that would be received by the Named Executive Officers under certain scenarios with respect to those agreements, see " Executive Officer Compensation Employment Agreements" below.

**Other Policies and Practices**

**Tax Deductibility of Compensation.** For 2017, Section 162(m) of the Internal Revenue Code generally provided that no deduction is allowed for compensation in excess of \$1 million paid by a public company to its chief executive officer or any of its other three most highly paid executive officers (other than the chief financial officer). Compensation that qualifies as "performance-based" compensation is not subject to the deductibility limit. The Compensation Committee attempted to maximize the deductibility of compensation under Section 162(m) to the extent doing so was reasonable and consistent with our strategies and goals. To that end, in 2012 and 2017, we received stockholder approval related to the Annual Incentive Plan, and at our 2017 annual meeting, we received stockholder approval to re-approve the performance goals under the 2010 Equity Plan so that awards would continue to qualify as performance-based compensation under Section 162(m) of the Code. This allowed us to continue to maximize the deductibility of our executive compensation programs. The Tax Cuts and Jobs Act eliminated the ability to deduct "performance-based" compensation. Accordingly, the Committee recognizes that paying certain compensation that is not tax- deductible may sometimes be in our best interest, and to that end we do not have a policy requiring that all compensation must be deductible.

**Annual Risk Review of Compensation Policies and Procedures**

The Compensation Committee is responsible for the oversight of employee compensation policies and procedures, including the determination of whether any material risk arises from our compensation policies and procedures. The Compensation Committee has reviewed our compensation policies and procedures, including those related to the payment of commissions and bonuses to any of our employees, and believes that any risks arising from our compensation policies and practices are not reasonably likely to have a material adverse effect on Territorial Bancorp Inc. and Territorial Savings Bank. The Committee has evaluated the risks of its incentive compensation arrangements in accordance with published bank regulatory guidance on safety and soundness of incentive compensation. The Committee also works with an independent compensation consultant when designing the compensation of our Named Executive Officers.

**Stock Ownership Guidelines**

The Board of Directors adopted the following stock ownership guidelines for Named Executive Officers. The Chief Executive Officer is required to own stock of at least five times (5x) his base salary. The two Co-Chairs are required to own stock of at least two times (2x) their base salary. The other two Named Executive Officers are required to own one times their salary. As of December 31, 2017, all executives met their ownership goals.

**Hedging and Pledging Policies**

Our Insider Trading Policy prohibits the hedging of stock and pledging of stock, which further encourages the retention of grants of restricted stock and shares acquired on the exercise of stock options.

**Clawback/Recoupment Policies**

The Company has a clawback policy that is posted on its website. If there is material noncompliance with any financial reporting requirement under the federal securities laws that requires the Company to prepare an accounting restatement, the Compensation Committee will consider whether any performance awards paid during any three-year period prior to the accounting restatement should be clawed back.



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## Executive Officer Compensation

**Summary Compensation Table.** The table below summarizes the total compensation paid to or earned by our Named Executive Officers for the years ended December 31, 2017, 2016, and 2015, as calculated under Securities and Exchange Commission rules. Cash compensation earned for the applicable year is reported in the "Salary," "Bonus," "Nonequity Incentive Plan Compensation" and the "All Other Compensation" columns. The "Change in Pension Value and Nonqualified Deferred Compensation Earnings" column sets forth certain earnings on supplemental executive retirement benefits, as well as the change in value of pension and supplemental executive retirement benefits, which can fluctuate significantly from year-to-year based on changes in discount rates and other actuarial assumptions and does not necessarily reflect the benefit to be received by the executive. "Total Without Change in Pension Value" shows total compensation as determined under Securities and Exchange Commission rules minus the change in pension value.

Itagawa of the	2017	851,124			489,822	2,285	228,417(5)	1,857,920
	2016	851,124		288,557	509,057	122,352	350,714	1,710,895
nd Chief Officer	2015	851,124			677,920	62,449	257,125	1,786,169
	2017	154,056		23,537	25,419	42,336	26,654(6)	229,666
e	2016	149,568	29,914			15,553	48,494	227,926
nd Chief fficer nancial	2015	146,636	29,327				43,057	219,020
rata	2017	321,385		108,947	184,957	143,122	153,089(7)	820,026
Co-Chief Officer, ounsel, ate	2016	315,084			188,451	82,847	162,427	665,962
	2015	308,905			246,043	88,926	138,557	693,505
	2017	321,385		108,947	184,957	158,233	92,827(8)	863,837
man and perating	2016	315,084			188,451	156,213	158,642	662,177
	2015	308,905			246,043	160,095	130,229	685,177

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C. Lau	2017	179,002		27,368		29,535		38,404(9)	274,309
	2016	175,492	35,098					54,724	265,314
ending	2015	172,051	34,410					49,414	255,875

(1)

The amounts in this column represent discretionary cash bonuses.

(2)

Reflects the aggregate grant date fair value of restricted stock units, half of which have performance-based vesting and half of which have time-based vesting, with such awards calculated at the "Target" level. The assumptions used in the valuation of these awards are included in Note 19 to our audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission. At the "Maximum" level, the aggregate grant date fair value was \$359,424, \$29,310, \$135,692, \$135,692 and \$34,083 for Messrs. Kitagawa, Miyamoto, Hirata, Nakatsuka and Lau, respectively.

(3)

The amounts in this column represent the dollar value of the cash incentives earned under the Annual Incentive Plan, the 2015 Long-Term Incentive Plan and the TSR portion of the 2016 Long-Term Incentive Plan.

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- (4) The amounts in this column depend heavily on changes in actuarial assumptions, such as discount rates. For 2017, the amount in this column for Mr. Kitagawa represents a change in value for the pension plan, the amount in this column for Mr. Hirata represents a change in value of \$86,474 for the pension plan, \$49,435 for the supplemental executive retirement agreement and \$7,213 for above-market earnings (defined for these purposes as the difference between 7%, which is the annual amount of interest paid on the deferred account balances, and 5.64%, which is 120% of the applicable federal long-term rate for December 2004 (the rate at the time the interest rate was established)), and for Mr. Nakatsuka a change in value of \$2,512 for the pension plan and \$155,721 for the supplemental executive retirement agreement. Mr. Miyamoto had a change in value for the pension plan of \$42,336 for 2017. Pursuant to Securities and Exchange Commission regulations, reductions in value for the pension plan are not reflected in this column.
- (5) Includes \$911 for 401(k) plan matching contributions, \$1,778 for long-term care premiums, \$1,942 for personal use of company automobile, \$1,790 for parking, \$11,564 for club dues and fees, \$21,846 for ESOP allocations, \$185,162 for non-qualified supplemental ESOP allocations and \$3,424 for life insurance.
- (6) Includes \$911 for 401(k) plan matching contributions, \$898 for long-term care premiums, \$7,200 for automobile allowance, \$1,790 for parking, \$14,419 for ESOP allocations and \$1,436 for life insurance.
- (7) Includes \$911 for 401(k) plan matching contributions, \$1,382 for long-term care premiums, \$3,737 for personal use of company automobile, \$1,790 for parking, \$5,541 for club dues and fees, \$21,846 for ESOP allocations, \$106,804 for non-qualified supplemental ESOP allocations, \$3,693 for life insurance \$5,000 for financial and tax planning reimbursement and \$2,385 for spousal travel.
- (8) Includes \$911 for 401(k) plan matching contributions, \$1,433 for long-term care premiums, \$1,308 for personal use of company automobile, \$1,790 for parking, \$6,318 for club dues and fees, \$21,846 for ESOP allocations, \$58,098 for non-qualified supplemental ESOP allocations and \$1,123 for life insurance.
- (9) Includes \$911 for 401(k) plan matching contributions, \$1,373 for long-term care premiums, \$7,200 for automobile allowance, \$1,790 for parking, \$1,817 for club dues and fees, \$22,233 for ESOP allocations and \$3,080 for life insurance.

**Plan-Based Awards.** The following table sets forth for the year ended December 31, 2017 certain information as to grants of plan-based awards for the Named Executive Officers.

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Allan S. Kitagawa	5/23/17	127,669	255,337	383,006	2,486	4,971	7,457	4,972	288,557
Melvin M. Miyamoto	5/23/17	10,399	20,797	31,196	203	405	608	406	23,537
Vernon Hirata	5/23/17	48,208	96,416	144,623	938	1,876	2,814	1,878	108,947
Ralph Y. Nakatsuka	5/23/17	48,208	96,416	144,623	938	1,876	2,814	1,878	108,947
Richard K.C. Lau	5/23/17	12,083	24,165	36,248	236	471	707	472	27,368

For the year ended December 31, 2017, cash payments under our Annual Incentive Plan were paid in March 2018 in the amounts listed in the "Summary Compensation Table." For a discussion of this plan, see "Compensation Discussion and Analysis 2017 Annual Incentive Plan Payouts."

For the year ended December 31, 2017, equity awards were made under the 2017 LTIP Program, and consisted of performance-vested restricted stock units and time-vested restricted stock units. For a discussion of this plan, see "Compensation Discussion and Analysis 2017 LTIP Program."

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**Outstanding Equity Awards at Year End.** The following table sets forth information with respect to outstanding equity awards as of December 31, 2017 for the Named Executive Officers.

Allan S. Kitagawa	50,000	17.36	08/19/2020	4,972	153,486	4,971	153,455
Melvin M. Miyamoto	19,524	17.36	08/19/2020	406	12,533	405	12,502
Vernon Hirata	72,410	17.36	08/19/2020	1,878	57,974	1,876	57,912
Ralph Y. Nakatsuka	116,430	17.36	08/19/2020	1,878	57,974	1,876	57,912
Richard K.C. Lau		17.36	08/19/2020	472	14,571	471	14,540

- (1) Time-vested restricted stock units vest May 25, 2018, 2019 and 2020 as follows: Mr. Kitagawa, 1,657 shares, 1,657 shares and 1,658 shares; Mr. Miyamoto, 135 shares, 135 shares and 136 shares; Messrs. Hirata and Nakatsuka, 626 shares on each date; and Mr. Lau, 157 shares, 157 shares and 158 shares.
- (2) Computed using the fair market value of the shares based on the Company's closing stock price of \$30.87 on December 29, 2017.
- (3) The performance-based restricted stock units vest within 120 days from the performance period ends upon the achievement of performance goals, as measured over a three-year period (2017 to 2019).

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*Option Exercises and Stock Vested.* The following table sets forth information with respect to option exercises during the year ended December 31, 2017 for the Named Executive Officers. No stock awards vested during the year ended December 31, 2017.

Allan S. Kitagawa	76,419	1,144,750
Melvin M. Miyamoto		
Vernon Hirata	75,760	1,084,085
Ralph Y. Nakatsuka	30,070	452,400
Richard K.C. Lau	19,524	277,436

Equity awards set forth in the tables above were granted pursuant to the Territorial Bancorp Inc. 2010 Equity Incentive Plan. Time-based stock options that were granted in 2010 have fully vested. For all of the 2010 grants, an amount equal to 50% of the total awards (net of taxes) must be retained by the grantee until termination of employment. The long vesting period, no automatic vesting upon retirement, and the



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mandatory holding requirement for 50% of each award, are all intended to ensure that the grants are viewed as long-term incentive compensation. For the year ended December 31, 2017, equity awards were made under the 2017 LTIP Program, and consisted of performance-vested restricted stock units and time-vested restricted stock units. For awards made in 2017, there is no stock retention period; executive officers remain subject to our stock ownership guidelines.

Stock option grants are intended to be incentive stock options to the extent permissible under applicable law. Stock options are generally exercisable for three months after termination of employment and for one year following death or disability. Restricted stock granted pursuant to a restricted stock award is entitled to vote and to receive dividends, even while the award is unvested. The rate of dividends paid on shares of restricted stock is not preferential.

**Employment Agreements.** Territorial Savings Bank has entered into separate employment agreements with Messrs. Kitagawa, Hirata, and Nakatsuka (referred to below as the "executives" or "executive"). Territorial Bancorp Inc. has entered into separate employment agreements with each executive, which have essentially identical provisions as the Territorial Savings Bank agreements, except that the employment agreements will provide that Territorial Bancorp Inc. will make any payments not made by Territorial Savings Bank under its agreements with the executives and that the executives will not receive any duplicate payments. Our continued success depends to a significant degree on the skills and competence of these officers, and the employment agreements are intended to ensure that we maintain a stable management base following the offering.

The employment agreements each provide for three-year terms, subject to annual renewal by the Board of Directors for an additional year beyond the then-current expiration date. The current base salaries under the employment agreements are \$851,124 for Mr. Kitagawa, \$337,454 for Mr. Hirata, and \$337,454 for Mr. Nakatsuka. The agreements also provide for participation in employee benefit plans and programs maintained for the benefit of senior management personnel, including discretionary bonuses, participation in stock-based benefit plans, and certain fringe benefits as described in the agreements.

Upon termination of an executive's employment for cause, as defined in each of the agreements, the executive will receive no further compensation or benefits under the agreement. If we terminate the executive for reasons other than for cause or if the executive terminates voluntarily under specified circumstances that constitute constructive termination, the executive will receive an amount equal to the base salary and cash bonus and employer contributions to benefit plans that would have been payable for the remaining term of the agreement. We will also continue to pay for each executive's life, health, and dental coverage for up to three years, with the executive responsible for his share of the employee premium.

If the executive terminates employment for any reason other than for cause within 12 months following a change in control, the executive will receive the greater of (a) the amount he would have received if we terminated the executive for a reason other than for cause or if the executive voluntarily terminated under specified circumstances that constitute constructive termination (as described in the immediately preceding paragraph), or (b) three times his prior five-year average of taxable compensation less one dollar. We will also continue to pay for each executive's life, health, and dental coverage for up to three years, with the executive responsible for his share of the employee premium.

Upon termination of employment (other than a termination in connection with a change in control), each executive will be required to adhere to a one-year noncompetition provision. The executive will be required to release us from any and all claims in order to receive any payments and benefits under his agreement. We will agree to pay all reasonable costs and legal fees of the executives in relation to the enforcement of the employment agreements, provided the executives succeed on the merits in a legal judgment, arbitration proceeding, or settlement. The employment agreements also provide for indemnification of the executives to the fullest extent legally permissible.

Mr. Miyamoto and Mr. Lau do not have employment agreements. However, they participate in the separation pay plan described below.

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**Separation Pay Plan.** The Territorial Savings Bank Separation Pay Plan provides severance benefits to eligible employees whose employment is involuntarily terminated within 24 months after a change in control of Territorial Bancorp Inc. All regular employees who do not receive severance pay under an employment or change in control agreement are participants in this plan. Terminated employees will receive a severance payment of one month of base compensation for each year of service, up to a maximum of 24 months of base compensation, and employees who are at the level of Senior Vice President or above will receive a minimum severance payment of 12 months of base compensation. In addition, terminated employees who are at the level of Senior Vice President and above will also be eligible to continue to participate in our health insurance plan for up to one year, with the employee responsible for their share of the employee premium.

**Pension Benefits**

The following table sets forth the actuarial present value of each named executive officer's accumulated benefit under our pension plan, along with the number of years of credited service, and for Messrs. Kitagawa, Hirata, and Nakatsuka, the value of their benefits in each of their supplemental executive retirement agreements.

Allan S. Kitagawa	Pension Plan	23	1,356,085	\$	127,735
	Supplemental Executive Retirement Agreement	N/A	6,349,107		
Melvin M. Miyamoto	Pension Plan	25	452,865		
Vernon Hirata	Pension Plan	23	763,518		
	Supplemental Executive Retirement Agreement	N/A	1,316,393		
Ralph Y. Nakatsuka	Pension Plan	1	24,167		
	Supplemental Executive Retirement Agreement	N/A	1,430,590		
Richard K.C. Lau	Pension Plan	27	889,837		91,364

(1) Present value of accumulated benefits under the pension plan and the supplemental executive retirement agreement as of December 31, 2017, determined using interest rate and mortality rate assumptions consistent with those used for our financial reporting purposes, assuming that the executive's normal retirement age is his retirement date. The valuation method and all material assumptions applied in quantifying the present value of the current accrued benefit are set forth in the footnotes to the consolidated financial statements.

**Pension Plan.** Territorial Savings Bank sponsors the Territorial Savings Bank Employee Retirement Plan, a defined benefit pension plan that covers substantially all of our employees. Employees become eligible for participation in the pension plan on the first day of the calendar month on or after completing one year of service and attaining age 21. Effective December 31, 2008, the pension plan was frozen, such that no further

benefit accruals will be earned after that date; however, participants will continue to earn vesting credit.

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Participants in the pension plan become fully vested in their retirement benefits upon completion of five years of service. They also become 100% vested upon attaining age 65 or upon death. A participant who terminates employment on or after reaching age 65 is entitled to the full retirement benefit. A participant's normal retirement benefit is generally based on a formula that takes into account the amount credited under the pension plan for service before January 1, 1984, and the amount credited under the pension plan for service from 1984 to 1998 and the amount credited from 1998 to 2008, as well as salary and certain other compensation. The plan does not grant additional years of service for any purpose.

The pension plan permits early retirement at age 55. Participants who retire after age 65 will be entitled to the full amount of their benefit, generally calculated through their late retirement date. Eligible participants who elect an early retirement benefit will receive a reduced normal retirement benefit. As of December 31, 2017, Messrs. Nakatsuka and Miyamoto were each eligible for early retirement, and Messrs. Kitagawa, Hirata and Lau were each eligible for normal retirement.

The normal form of retirement for participants who are not married is a single life annuity. The normal form of retirement benefit for participants who are married is a 50% joint and survivor annuity. Other optional forms of benefit are available, such as an early retirement benefit, and all optional forms of benefit are the actuarial equivalent of the normal form (e.g., a participant does not receive more or less by selecting an optional form of benefit). In the event of the participant's death, benefits normally will be paid to the participant's spouse unless the spouse consents to an alternative beneficiary in writing. In the event of death any time after a participant is vested or eligible for a pension benefit, provided the participant has been married for at least one year and provided that benefits have not commenced at the time of death, the participant's spouse may either receive the full benefit when the participant would have reached age 65 or receive a reduced benefit anytime after the deceased participant would have attained age 55.

For the 2017 plan year, we did not make a contribution to the pension plan.

**Supplemental Executive Retirement Agreements.** We provide supplemental executive retirement benefits to each of Messrs. Kitagawa, Hirata, and Nakatsuka. Under Mr. Kitagawa's agreement, he is entitled to receive an amount equal to the present value of \$600,000 per year for 15 years payable in a lump sum on the first day of the month upon retirement after attaining age 66. Under the agreements with Messrs. Hirata and Nakatsuka, each executive will receive an annual benefit upon retirement after age 66 equal to 65% of the average of his compensation for the three years immediately preceding his termination of employment reduced by the sum of the benefits payable under the pension plan and Social Security benefits. Mr. Hirata's benefits will be paid in monthly installments for 15 years and Mr. Nakatsuka will receive a lump sum equal to the present value of installments over 15 years.

Each executive may also retire early, before attaining age 66, and receive a reduced benefit. Mr. Kitagawa will receive the amount accrued for accounting purposes as of the end of the calendar year before his termination of employment, payable in a lump sum. Messrs. Hirata's and Nakatsuka's benefits are reduced by a fraction, the numerator of which is completed years of service and the denominator of which is the executive's potential years of service if he had remained employed until age 66, with such benefits paid by lump sum for Mr. Nakatsuka and in installments for Mr. Hirata over 15 years.

For Mr. Kitagawa, if his employment is terminated within three years following a change in control, he will receive his normal retirement benefit. Messrs. Hirata and Nakatsuka will each receive 65% of their final average compensation projected to age 66, without any reduction for amounts payable under the pension plan or Social Security. All amounts are paid as a lump sum, except Mr. Hirata will receive installments for 15 years. The agreements contain change of control "tax gross up" provisions such that if a payment to any of the three executives exceeds the limit on such payments pursuant to Internal Revenue Code Section 280G, and thereby imposes an excise tax on the officer, Territorial Savings Bank, or its successor, will pay such executive additional amounts to compensate for the excise tax.

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In the event of disability or death, Messrs. Hirata and Nakatsuka will receive the same benefit as if they had terminated employment following a change in control. Upon death, Mr. Kitagawa's designee will receive a lump-sum payment equal to the present value of his projected normal retirement benefit and upon disability Mr. Kitagawa will receive a lump sum equal to the amount accrued for accounting purposes under the plan.

No benefits are payable in the event of a termination for cause.

**Non-Qualified Deferred Compensation Plans**

The following table provides information with respect to each non-qualified deferred compensation plan in which the Named Executive Officers participated in 2017.

Vernon Hirata	Executive Deferred Incentive Agreement	36,374	548,440
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- (1) The amount in this column includes above-market earnings for the executive deferred incentive agreement in the amount of \$7,213, which have been reported as compensation for the year ended December 31, 2017 in the Summary Compensation Table. The account balance accrues interest at the rate of 7% per year. We ceased making contributions to the agreements for calendar years beginning after 2006 (other than the interest crediting).
- (2) Amounts attributed to above-market earnings have been reported as compensation for the years ended December 31, 2017, 2016 and 2015 in the Summary Compensation Table.

**Executive Deferred Incentive Agreement.** We provide executive deferred incentive benefits to Mr. Hirata, whose agreement was frozen effective August 29, 2007. Before the agreement was frozen, it provided for the grant of annual cash awards equal to a specified percentage of base salary, based on the attainment of established criteria. Payment of all awards is deferred until the earlier of:

- normal retirement age,
- early termination,
- separation from service within three years following a change in control,
- termination due to disability, or
- death, in which case the benefit will be paid in a lump sum.

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**Supplemental Employee Stock Ownership Plan.** Territorial Savings Bank adopted the Supplemental Employee Stock Ownership Plan ("Supplemental ESOP") effective January 1, 2009, to provide certain executives with benefits that they otherwise would be entitled to under the tax-qualified Employee Stock Ownership Plan ("ESOP"), but for limitations imposed by the Internal Revenue Code. During 2017, three employees participated in the Supplemental ESOP. The Compensation Committee of the Board of Directors of Territorial Savings Bank administers the Supplemental ESOP. Each year, participants in the Supplemental ESOP are credited with a dollar amount equal to the difference between the value of the shares of our common stock that would have been allocated to the participant under the tax-qualified ESOP, but for the limitations imposed by the Internal Revenue Code, and the actual value of shares of our common stock allocated to the participant under the ESOP for the relevant plan year. Participants in the Supplemental ESOP may direct the investment of their Supplemental ESOP accounts among a select group of broadly diversified

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mutual funds selected by the Compensation Committee. Benefits are generally payable in a cash lump sum within 90 days of the first to occur of: (i) the participant's separation from service; (ii) the participant's death; (iii) the participant's disability; or (iv) a change in control of Territorial Savings Bank or Territorial Bancorp Inc., but, in order to comply with Section 409A of the Internal Revenue Code, payments will be delayed for six months for any "specified employee" (as defined in Section 409A of the Internal Revenue Code).

### **Potential Payments on Termination or Change in Control**

Assuming that each of our Named Executive Officers terminated employment as of December 31, 2017, they would have been entitled to certain payments and benefits, as set forth in the following tables. Information with respect to Messrs. Kitagawa, Hirata and Nakatsuka is based upon their employment agreements. No other named executive officer was a party to an employment agreement as of December 31, 2017. There are no payments or benefits payable solely on account of a change in control.

#### **Allan S. Kitagawa**

Cash Severance	\$	\$	2,467,293(1)\$	7,536,185(2)\$	141,854(3)\$	\$	
Prorata Bonus Payment(4)					517,071	517,071	517,071
Retirement Benefit Enhancement(5)							
Welfare Benefit Values(6)			22,491	22,491			
Equity Awards Vesting Acceleration(13)			72,813	196,454	196,454	196,454	42,968
Excise tax and Gross-Up							
Total	\$	\$	2,562,597	\$ 7,755,130	\$ 855,379	\$ 713,525	\$ 560,039

#### **Melvin M. Miyamoto**

Cash Severance(7)	\$	\$	\$	308,112	\$	\$	\$
Prorata Bonus Payment(12)					25,408		25,408
Retirement Benefit Enhancement							
Healthcare Benefit Values(8)				5,148			
Equity Awards Vesting Acceleration(13)			5,937	16,033	16,033		16,033
Excise tax and Gross-Up							
Total	\$	\$	5,937	329,293	\$	41,441	\$



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**Vernon Hirata**

Cash Severance	\$	\$	1,139,064(1)\$	3,261,755(2)\$	53,564(3)\$	\$	
Prorata Bonus Payment					255,664	255,664	255,664
Retirement Benefit Enhancement				1,045,587	2,250,448	1,045,587	
Welfare Benefit Values			22,491(6)	22,491(6)			
Equity Awards Vesting Acceleration(13)			27,489	74,191	74,191	74,191	16,216
Excise tax and Gross-Up(11)				530,406			
Total	\$	\$	1,189,044	\$ 4,934,430	\$ 2,633,867	\$ 1,375,442	\$ 271,880

**Ralph Y. Nakatsuka**

Cash Severance(1)	\$	\$	1,259,023(1)\$	3,038,555(2)\$	53,564(3)\$	270,735(9)	\$
Prorata Bonus Payment(2)					255,664	255,664	

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Retirement Benefit Enhancement			829,122	1,963,337	829,122					
Welfare Benefit Values	22,893(6)		22,893(6)		21,770(10)					
Equity Awards Vesting Acceleration(13)	27,489		74,191	74,191	74,191					
Excise Tax and Gross-Up(11)			416,044							
Total	\$	\$	1,309,405	\$	4,380,805	\$	2,346,756	\$	1,451,482	\$

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**Richard K.C. Lau**

Cash Severance(7)	\$	\$	\$	358,004	\$	\$	
Prorata Bonus Payment(12)					29,522	29,522	29,522
Retirement Benefit Enhancement							
Healthcare Benefit Values(8)				7,248			
Equity Awards Vesting Acceleration(13)			6,905	18,643	18,643	18,643	4,072
Excise Tax and Gross-Up							
Total	\$	\$	6,905	\$ 383,895	\$ 48,165	\$ 48,165	\$ 33,594

- (1) Represents a lump-sum payment equal to the base salary and retirement benefits (e.g., 401K and ESOP contributions) the executive would have received for the remaining term of his employment agreement (25 months as of December 31, 2017) and annual bonus actually earned in the calendar year preceding the year of termination.
- (2) Represents a lump-sum payment equals to three times the executive's prior five-year average of taxable compensation less one dollar.
- (3) Represents a lump-sum payment equal to the executive's current base salary for 60 days.
- (4) The annual incentive plan provides a pro-rata payout for outstanding awards based on actual performance after the performance period ends. The actual earned amounts are included for the awards of which the performance period ended on December 31, 2017 (2017 short-term, 2015 to 2017 LTIP based on three-year ROAE performance and 2016 to 2017 LTIP based on two-year Total Shareholder Return). The pro-rata target amounts are included for the awards with a pending performance period (2016 to 2018 LTIP based on three-year ROAE performance).
- (5) Mr. Kitagawa has already attained the retirement eligible age, age 66, under his Supplemental Executive Retirement Agreement ("SERP"). Therefore, no retirement benefit enhancement will be provided upon termination.
- (6)

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Represents the estimated cost of continuing welfare benefit (medical, dental, vision and life insurance) for three years.

- (7) Amount listed represents a lump-sum payment equals to two times the executive's annual salary.
- (8) Amount listed represents the estimated cost of continuing healthcare benefit (medical, dental and vision) for one year.
- (9) Represents a lump-sum payment equals to  $\frac{3}{4}$  monthly salary (excluding long-term disability insurance benefit) until retirement and the annual bonus received in the calendar year preceding the year of termination.
- (10) Represents the estimated cost of continuing welfare benefits until the normal retirement age of 65.
- (11) SERP arrangement provides excise tax gross-up for SERP payment only.
- (12) The annual incentive plan provides a pro-rata payout for the termination year based on actual performance after the performance period ends. The actual incentive is included for the year ended December 31, 2017.
- (13) Time-vested restricted stock units ("TRSUs") vest immediately upon death, disability and termination upon a change in control. The pro-rata portion of TRSUs that will vest upon Termination without Cause or Resignation for Good Reason is based on the number of months served during the vesting period. The pro-rata portion of performance-based restricted stock units ("PRSUs") that vest after the performance period ends is based on actual performance and the number of months served during the performance period for Termination without Cause or Resignation for Good Reason, Death, Disability and Retirement. For Termination without Cause or for Good Reason Following a Change-in-Control of the Company, the pro-rata portion of performance-based RSUs that vest immediately is based on actual performance measured on the most recently completed fiscal quarter and the number of months served during the performance period.
- (14) The individual has past the normal retirement age and is eligible for retirement treatment for certain incentives (2017 short-term incentive, cash LTIPs and pro-rata vesting of PRSUs).

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**Tax-Qualified Benefit Plans**

**Territorial Savings Bank 401(k) Plan.** We sponsor the Territorial Savings Bank 401(k) Plan, a tax-qualified defined contribution plan, for all employees who have satisfied the plan's eligibility requirements. Employees may begin deferring their compensation and are eligible to receive matching contributions and profit-sharing contributions as of the first day of the month following the completion of 12 months of employment during which they worked at least 1,000 hours. All contributions are 100% vested.

**Employee Stock Ownership Plan.** Effective January 1, 2009, Territorial Savings Bank adopted an employee stock ownership plan for eligible employees. Eligible employees who have attained age 21 generally begin participation in the ESOP on the later of the effective date of the ESOP on or after the eligible employee's completion of 1,000 hours of service during a continuous 12-month period.

The ESOP trustee purchased, on behalf of the ESOP, 978,650 shares of our common stock issued in the offering. The ESOP funded its stock purchase with a loan from us equal to the aggregate purchase price of the common stock. The loan will be repaid principally through Territorial Savings Bank's contribution to the ESOP and dividends payable on common stock held by the ESOP over the anticipated 20-year term of the loan. The interest rate for the ESOP loan is an adjustable rate equal to the prime rate, as published in *The Wall Street Journal*, which adjusts annually.

The trustee holds the shares purchased by the ESOP in an unallocated suspense account, and shares will be released from the suspense account on a pro-rata basis as we repay the loan. The trustee will allocate the shares released among participants on the basis of each participant's proportional share of compensation relative to all participants. Participants become 100% vested upon the completion of three years of service. Participants who were employed by Territorial Savings Bank immediately prior to the offering received credit for vesting purposes for years of service prior to adoption of the ESOP. Participants also will become fully vested automatically upon normal retirement, death, or disability, a change in control, or termination of the ESOP. Generally, participants will receive distributions from the ESOP upon separation from service. The ESOP reallocates any unvested shares forfeited upon termination of employment among the remaining participants.

The ESOP permits participants to direct the trustee as to how to vote the shares of common stock allocated to their accounts. The trustee votes unallocated shares and allocated shares for which participants do not provide instructions on any matter in the same ratio as those shares for which participants provide instructions, subject to fulfillment of the trustee's fiduciary responsibilities.

Under applicable accounting requirements, Territorial Savings Bank records compensation expense for the ESOP at the fair market value of the shares as they are committed to be released from the unallocated suspense account to participants' accounts. The compensation expense resulting from the release of the common stock from the suspense account and allocation to plan participants results in a corresponding reduction in our earnings.

## CEO Pay Ratio

As mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Securities and Exchange Commission adopted a rule requiring annual disclosure of the annual total compensation for both the median employee and chief executive officer (the "CEO") along with the ratio of the median employee's annual total compensation to the CEO's annual total compensation.

We identified the median employee by using the total taxable wages as reported in Box 1 of the Internal Revenue Service Form W-2 and adding back to pay deductions under Internal Revenue Code Sections 125 or 401(k). This list included all employees, as of December 31, 2017, with the exception of our CEO. No

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adjustments were made for part-time employees, and we did not annualize the compensation of full-time employees who were employed on December 31, 2017 but who were not employed for the full year.

Total compensation for this median employee was determined in the same manner as the "Total Compensation" shown for our CEO in the Summary Compensation Table. The Company's contribution to the company-wide employee health and insurance plans were also added.

Summary Compensation Table Amount	\$1,860,205	\$47,187
Company Contributions To Health and Insurance Plans	\$8,344	\$6,773
Total Pay	\$1,868,549	\$53,960

CEO Pay Ratio 35 to 1

## Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis that is required by the rules established by the Securities and Exchange Commission. Based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy report.

**Compensation Committee of the Board of Directors of  
Territorial Bancorp Inc.**

Kirk W. Caldwell (Chairman)  
Howard Y. Ikeda  
Richard I. Murakami

## Compensation Committee Interlocks and Insider Participation

Our Compensation Committee determines the salaries to be paid each year to the Chief Executive Officer and those executive officers who report directly to the Chief Executive Officer. The Compensation Committee consists of Directors Caldwell, who serves as Chairman; Ikeda; and Richard Murakami. None of these individuals was an officer or employee of Territorial Bancorp Inc. during the year ended December 31, 2017, or is a former officer of Territorial Bancorp Inc. For the year ended December 31, 2017, none of the members of the Compensation Committee had any relationship requiring disclosure under "Transactions with Certain Related Persons."

During the year ended December 31, 2017, (i) no executive officer of Territorial Bancorp Inc. served as a member of the Compensation Committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire Board of Directors) of another entity, one of whose executive officers served on the Compensation Committee of Territorial Bancorp Inc.; (ii) no executive officer of Territorial Bancorp Inc. served as a director of another entity, one of whose executive officers served on the Compensation Committee of Territorial Bancorp Inc.; and (iii) no executive officer of Territorial Bancorp Inc. served as a member of the Compensation Committee (or other board committee performing equivalent functions or, in the absence of any such committee, the entire Board of Directors) of another entity, one of whose executive officers served as a director of Territorial Bancorp Inc.

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## Section 16(a) Beneficial Ownership Reporting Compliance

Our executive officers and directors, and beneficial owners of greater than 10% of our outstanding shares of common stock are required to file reports with the Securities and Exchange Commission disclosing beneficial ownership and changes in beneficial ownership of our common stock. Securities and Exchange Commission rules require disclosure if an executive officer, director, or 10% beneficial owner fails to file these reports on a timely basis.

Based solely on the review of copies of the reports we have received and written representations provided to us from the individuals required to file the reports, Vice Chairman, Co-Chief Operating Officer, General Counsel and Corporate Secretary Vernon Hirata filed a late Form 4 to report the exercise of stock options, and we believe that each of our executive officers and directors otherwise complied with applicable reporting requirements for transactions in Territorial Bancorp Inc. common stock during the year ended December 31, 2017.

## Transactions with Certain Related Persons

The Sarbanes-Oxley Act of 2002 generally prohibits us from making loans to our executive officers and directors, but it contains a specific exemption from such prohibition for loans made by Territorial Savings Bank to our executive officers and directors in compliance with federal banking regulations.

At December 31, 2017, all of our loans to directors and executive officers were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to Territorial Savings Bank, and did not involve more than the normal risk of collectability or present other unfavorable features. These loans were performing according to their original terms at December 31, 2017, and were made in compliance with federal banking regulations.

The brother of Director Francis Tanaka is a non-executive employee of Territorial Savings Bank. For the year ended December 31, 2017, Mr. Tanaka's brother was paid \$187,486 in total compensation by Territorial Savings Bank.

Pursuant to Territorial Bancorp Inc.'s Policy and Procedures for Approval of Related Person Transactions, the Audit Committee periodically reviews, no less frequently than once a year, a summary of transactions in excess of \$50,000 with our directors, executive officers, and their family members, for the purpose of determining whether the transactions are within our policies and should be ratified and approved. Additionally, pursuant to our Code of Ethics and Business Conduct, all of our executive officers and directors must disclose any existing or emerging conflicts of interest to our Chairman of the Board and Chief Executive Officer. Such potential conflicts of interest include, but are not limited to, the following: (i) our conducting business with or competing against an organization in which a family member of an executive officer or director has an ownership or employment interest; and (ii) the ownership of more than 1% of the outstanding securities or 5% of total assets of any business entity that does business with or is in competition with us.

## Nominating and Corporate Governance Committee Procedures

### General

It is the policy of the Nominating and Corporate Governance Committee of the Board of Directors of the Company to consider director candidates recommended by stockholders who appear to be qualified to serve on the Company's Board of Directors. The Nominating and Corporate Governance Committee, which is comprised solely of nonemployee directors, all of whom the Board has determined are independent in accordance with the listing standards of the NASDAQ Stock Market, Inc., may choose not to consider an

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unsolicited recommendation if no vacancy exists on the Board of Directors and the Nominating and Corporate Governance Committee does not perceive a need to increase the size of the Board of Directors. To avoid the unnecessary use of the Nominating and Corporate Governance Committee's resources, the Nominating and Corporate Governance Committee will consider only those director candidates recommended in accordance with the procedures set forth below.

**Diversity Considerations**

In identifying candidates for Director, the Nominating and Corporate Governance Committee and the Board of Directors take into account (1) the comments and recommendations of Board members regarding the qualifications and effectiveness of the existing Board of Directors or additional qualifications that may be required when selecting new Board members, (2) the requisite expertise and diversity of the Board of Directors' overall membership composition, (3) the independence of outside Directors and other possible conflicts of interest of existing and potential members of the Board of Directors, and (4) all other factors it considers appropriate, including the extent to which the candidate helps the Board of Directors reflect the gender and diversity of our stockholders, employees, customers and communities.

**Procedures to be Followed by Stockholders**

To submit a recommendation of a director candidate to the Nominating and Corporate Governance Committee, a stockholder should submit the following information in writing to the main office of the Company, addressed to the Chairman of the Nominating and Corporate Governance Committee, care of the Corporate Secretary, Territorial Bancorp Inc., P.O. Box 135040, Honolulu, Hawaii 96801:

- (1) a statement that the writer is a stockholder and is proposing a candidate for consideration by the Committee;
- (2) the name and address of the stockholder as they appear on the Company's books, and number of shares of the Company's common stock that are owned beneficially by the stockholder (if the stockholder is not a holder of record, appropriate evidence of the stockholder's ownership will be required);
- (3) the name, address, and contact information for the candidate, and the number of shares of common stock of the Company that are owned by the candidate (if the candidate is not a holder of record, appropriate evidence of the candidate's share ownership should be provided);
- (4) a statement of the candidate's business and educational experience;
- (5) such other information regarding the candidate as would be required to be included in the proxy statement pursuant to Securities and Exchange Commission Regulation 14A;
- (6) a statement detailing any relationship between the candidate and any customer, supplier, or competitor of the Company;
- (7) detailed information about any relationship or understanding between the proposing stockholder and the candidate; and
- (8) a statement that the candidate is willing to be considered and willing to serve as a director if nominated and elected.

To be timely, the submission of a candidate for director by a stockholder must be received by the Corporate Secretary at least 180 days prior to the anniversary date of the proxy statement relating to the preceding year's annual meeting of stockholders.





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### Process for Identifying and Evaluating Nominees

The process that the Nominating and Corporate Governance Committee follows to identify and evaluate individuals to be nominated for election to the Board of Directors is as follows.

**Identification.** For purposes of identifying nominees for the Board of Directors, the Nominating and Corporate Governance Committee relies on personal contacts of the committee members and other members of the Board of Directors, as well as its knowledge of members of the communities served by Territorial Savings Bank. The Nominating and Corporate Governance Committee will also consider director candidates recommended by stockholders in accordance with the policy and procedures set forth above. The Nominating and Corporate Governance Committee has not previously used an independent search firm to identify nominees.

**Evaluation.** In evaluating potential nominees, the Nominating and Corporate Governance Committee determines whether the candidate is eligible and qualified for service on the Board of Directors by evaluating the candidate under certain criteria, which are described below. If such individual fulfills these criteria, the Nominating and Corporate Governance Committee will conduct a check of the individual's background and interview the candidate to further assess the qualities of the prospective nominee and the contributions he or she would make to the Board of Directors.

### Qualifications

The Nominating and Corporate Governance Committee has adopted a set of criteria that it considers when it selects individuals to be nominated for election to the Board of Directors. A candidate must meet the eligibility requirements set forth in the Company's Bylaws, which include the following.

A person is not qualified to serve as director if he or she: (1) is under indictment for, or has ever been convicted of, a criminal offense involving dishonesty or breach of trust and the penalty for such offense could be imprisonment for more than one year, (2) is a person against whom a banking agency has, within the past ten years, issued a cease and desist order for conduct involving dishonesty or breach of trust and that order is final and not subject to appeal, or (3) has been found either by a regulatory agency whose decision is final and not subject to appeal or by a court to have (i) breached a fiduciary duty involving personal profit, or (ii) committed a willful violation of any law, rule, or regulation governing banking, securities, commodities, or insurance, or any final cease and desist order issued by a banking, securities, commodities, or insurance regulatory agency.

No person may serve on the Board of Directors and at the same time be a director or officer of another cooperative bank, credit union, savings bank, savings and loan association, trust company, bank holding company, or banking association (in each case whether chartered by a state, the federal government, or any other jurisdiction) that engages in business activities in the same market area as the Company or any of its subsidiaries.

A candidate also must meet any qualification requirements set forth in any Board or Committee governing documents.

### Selection Considerations

If the candidate is deemed eligible for election to the Board of Directors, the Committee will consider the following criteria in selecting nominees, as described in more detail in the Committee's Criteria for Director Nominees (which is available on our website):

contribution to board;



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experience;

familiarity with and participation in local community;

integrity;

stockholder interests and dedication; and

independence.

The Committee will also consider any other factors it deems relevant to a candidate's nomination, including the extent to which the candidate helps the Board of Directors reflect the diversity of the Company's stockholders, employees, customers and communities. The Committee also may consider the current composition and size of the Board of Directors, the balance of management and independent directors, and the need for audit committee expertise.

The Committee may weight the foregoing criteria differently in different situations, depending on the composition of the Board of Directors at the time. The Committee will maintain at least one director who meets the definition of "audit committee financial expert" under Securities and Exchange Commission regulations.

With respect to nominating an existing director for reelection to the Board of Directors, the Nominating and Corporate Governance Committee will consider and review an existing director's board and committee attendance and performance; length of board service; experience, skills, and contributions that the existing director brings to the board; and independence.

**Majority Voting Policy**

The Board of Directors has adopted a majority voting policy (the "Policy"), which shall be utilized for the election of any director at any meeting of stockholders for uncontested elections and shall not be applicable for contested elections. For the purpose of the Policy, an "uncontested election" shall mean an election of directors where the only director nominees are those individuals recommended by the Board of Directors of the Company.

Pursuant to the Policy, any incumbent director nominee in an uncontested election who receives a greater number of votes "WITHHELD" than votes cast "FOR" at the stockholders meeting shall promptly tender his or her proposed resignation following certification of the stockholder vote.

The Nominating and Corporate Governance Committee will promptly consider the resignation and will recommend to the Board of Directors whether to accept the resignation or to take other action, including rejecting the resignation and addressing any apparent underlying causes of the failure of the director to obtain a majority of votes "FOR" such nominee. When considering the resignation and making its recommendation, the Nominating and Corporate Governance Committee will consider all factors deemed relevant by its members including, without limitation, the underlying reasons for the stockholder's WITHHELD votes for the director (to the extent ascertainable), the length of service and qualifications of the director, the director's contributions to the Company, whether the acceptance or rejection of the resignation will have any adverse affect on the Company's compliance with any applicable law, rule, regulation or governing document, to determine whether the acceptance of the resignation is in the best interests of the Company and its stockholders.

The Board of Directors will act on the Nominating and Corporate Governance Committee's recommendation no later than at its first regularly scheduled meeting following certification of the stockholder vote, but in any case, no later than 90 days following the certification of the stockholder vote.



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If a majority of the members of the Nominating and Corporate Governance Committee are required to tender a resignation at the same election, then the other independent directors will appoint a special board committee amongst themselves solely for the purpose of considering the resignations and will recommend to the Board whether to accept, reject or take other action as to the resignations.

## Submission of Business Proposals and Stockholder Nominations

The Company must receive proposals that stockholders seek to include in the proxy statement for the Company's next annual meeting no later than December 18, 2018. If next year's annual meeting is held on a date more than 30 calendar days from May 17, 2019, a stockholder proposal must be received by a reasonable time before the Company begins to print and mail its proxy solicitation for such annual meeting. Any stockholder proposals will be subject to the requirements of the proxy rules adopted by the Securities and Exchange Commission.

The Company's Bylaws generally provide that any stockholder desiring to make a proposal for new business at an annual meeting of stockholders or to nominate one or more candidates for election as directors must submit written notice filed with the Secretary of the Company not less than 80 days nor more than 90 days prior to any such annual meeting; provided, however, that if less than 90 days notice or prior public disclosure of the date of the annual meeting is given to stockholders, such written notice shall be delivered or mailed to and received by the Secretary of the Corporation at the principal executive office of the Corporation not later than the tenth day following the day on which notice of the meeting was mailed to stockholders or such public disclosure was made. The 2019 annual meeting of stockholders is expected to be held May 16, 2019. For the 2019 annual meeting of stockholders, the notice would have to be received between February 15, 2019 and February 25, 2019. The stockholder must also provide certain information in the notice, as set forth in the Company's Bylaws. Failure to comply with these advance notice requirements will preclude such nominations or new business from being considered at the meeting.

Nothing in this proxy statement or our Bylaws shall be deemed to require us to include in our proxy statement and proxy relating to an annual meeting any stockholder proposal that does not meet all of the requirements for inclusion established by the Securities and Exchange Commission in effect at the time such proposal is received.

## Stockholder Communications

The Company encourages stockholder communications to the Board of Directors and/or individual directors. All communications from stockholders should be addressed to: Board of Directors, Territorial Bancorp Inc., P.O. Box 135040, Honolulu, Hawaii 96801. Communications to individual directors should be sent to such director at the Company's address. The letter should indicate that the author is a stockholder and, if shares are not held of record, should include appropriate evidence of stock ownership. Depending on the subject matter, the Corporate Secretary will:

forward the communication to the director or directors to whom it is addressed;

attempt to handle the inquiry directly (for example, where it is a request for information about the Company or a stock-related matter); or

not forward the communication if it is primarily commercial in nature, relates to an improper or irrelevant topic, or is unduly hostile, threatening, illegal, or otherwise inappropriate.

At each Board meeting, the Corporate Secretary will present a summary of all communications received since the last meeting that were not forwarded and make those communications available to the directors.

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## Miscellaneous

The Company will pay the cost of this proxy solicitation. The Company will reimburse brokerage firms and other custodians, nominees, and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of the Company. Additionally, directors, officers, and other employees of the Company may solicit proxies personally or by telephone without receiving additional compensation. The Company has retained Laurel Hill Advisory Group, LLC to assist the Company in soliciting proxies, and has agreed to pay Laurel Hill Advisory Group, LLC a fee of \$7,500.00 plus out-of-pocket expenses and charges for telephone calls made and received in connection with the solicitation.

The Company's Annual Report to Stockholders has been included with this proxy statement. Any stockholder who has not received a copy of the Annual Report may obtain a copy by writing to the Corporate Secretary of the Company. The Annual Report is not to be treated as part of the proxy solicitation material or as having been incorporated by reference into this proxy statement.

If you and others who share your address own your shares in "street name," your broker or other holder of record may be sending only one annual report and proxy statement to your address. This practice, known as "householding," is designed to reduce our printing and postage costs. However, if a stockholder residing at such an address wishes to receive a separate annual report or proxy statement in the future, he or she should contact the broker or other holder of record. If you own your shares in "street name" and are receiving multiple copies of our annual report and proxy statement, you can request householding by contacting your broker or other holder of record.

Whether or not you plan to attend the annual meeting, please vote by marking, signing, dating, and promptly returning the enclosed proxy card in the enclosed envelope.

## Important Notice Regarding the Availability of Proxy Materials

The Company's Proxy Statement, the Notice of the Annual Meeting of Stockholders, and the 2017 Annual Report to Stockholders are each available on the Internet at [www.proxyvote.com](http://www.proxyvote.com).

BY ORDER OF THE BOARD OF DIRECTORS

Vernon Hirata  
*Corporate Secretary*

Honolulu, Hawaii  
April 17, 2018

**1132 Bishop Street, Suite 2200  
Honolulu, Hawaii 96813  
808.946.1400**

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**TERRITORIAL BANCORP INC.**

**ATTN: WALTER IDA**

**P.O. BOX 135040**

**HONOLULU, HI 96801-5040**

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information. Vote by 11:59 p.m. Eastern Time on May 16, 2018. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions. Vote by 11:59 p.m. Eastern Time on May 16, 2018. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

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TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

E45054-P07815

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY  
THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

**TERRITORIAL BANCORP INC.**

The Board of Directors recommends  
you vote FOR the following:

**For All**   **Withhold All**   **For All Except**

To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.

1. Election of Directors                                                                 

**Nominees:**

- 01) Allan S. Kitagawa
  
- 02) Richard I. Murakami

The Board of Directors recommends you vote FOR proposals 2 and 3.

**For      Against      Abstain**

2. The ratification of the appointment of Moss Adams LLP as our independent registered public accounting firm for the year ending December 31, 2018;                                                                 

3. An advisory (non-binding) resolution to approve our executive compensation as described in the proxy statement; and                                                                 

To transact such other business as may properly come before the meeting and any adjournment or postponement thereof. The Board of Directors is not aware of any such other business at this time.

**Yes                      No**

Please indicate if you plan to attend this meeting.                                           

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally, but only one signature is required. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

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Signature [PLEASE SIGN  
WITHIN BOX]

Date

Signature (Joint  
Owners)

Date

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**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:**

The Notice and Proxy Statement and Annual Report to Stockholders are available at [www.proxyvote.com](http://www.proxyvote.com).

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<b>TERRITORIAL BANCORP INC.</b>

<b>Annual Meeting of Stockholders</b>		
<b>May 17, 2018 8:30 A.M.</b>		
<b>This proxy is solicited by the Board of Directors</b>		
<p>The undersigned hereby appoints the members of the official proxy committee of Territorial Bancorp Inc., or any of them, with full power of substitution in each, to act as proxy for the undersigned, and to vote all shares of common stock of the Company which the undersigned is entitled to vote only at the Annual Meeting of Stockholders to be held at 8:30 a.m. local time on May 17, 2018, at 1132 Bishop Street, Suite 611, Honolulu, Hawaii 96813, and any adjournment or postponement thereof.</p>		
<p><b>This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations.</b></p>		
	<b>Continued and to be signed on reverse side</b>	