An Examination of the Incentives to Issue Spring-Loaded Equity Awards

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ABSTRACT

A spring-loaded equity award is an award granted to an employee while the firm possesses non-public, positive information that is released shortly after the equity award is granted. Generally, shareholders oppose these awards, but firms see them as valid rewards for executives. In my study, I examine factors associated with the issuance of spring-loaded awards. I identify potential spring-loaded awards (SLAs) issued to Chief Executive Officers (CEOs) by examining returns shortly following the grant date of equity awards to CEOs. I assign awards to differing levels of potential to be spring-loaded based on these returns. I find that firms are more likely to issue a higher-potential SLA when cost saving is relatively more important and when there is more pressure to do so within their industry. I find that high-potential SLAs are associated with significantly lower grant date fair values, further supporting my finding that higher-potential SLAs are a cost-saving mechanism. However, contrary to shareholder concerns, I find very little evidence that potential SLAs are associated with future firm performance in an additional analysis. My findings help to inform the debate among firms, shareholders, and regulators on the use of spring loading.

Data Availability: All data used is publicly available.

Keywords: corporate governance; compensation; spring loading; compensation expense; routine award; non-routine award

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Section 1: Introduction

A spring-loaded equity award (SLA) is any equity award granted while the firm is in possession of non-public, positive information that is released shortly after the equity award is granted. Spring loading is beneficial to firms because it could allow them to record the award at a lower grant date fair value than if the award were to be issued after the positive news release, which results in lower stock compensation expense and higher earnings. However, in November of 2021, the U.S. Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 120 stating that firms must account for soon-to-be-released, market-moving information when valuing equity awards, reducing the benefits of spring loading for firms.[1] Spring loading is also beneficial to the recipient because it increases the value of the equity award. Despite the benefits for the firm and the recipient, shareholders generally oppose the practice of spring loading because they believe it resembles insider trading and defeats the purpose of equity-based compensation. This opposition has resulted in shareholder lawsuits related to spring loading (e.g., In Re Tyson Foods). However, courts maintain that spring loading is not inherently illegal if it conforms to any applicable shareholder-approved compensation plan and is accurately and completely disclosed in all material respects (Avci et al. 2016). Despite the vastly different views of spring loading across stakeholders, little is known about why firms choose to spring-load an equity award. In this study, I examine why firms issue SLAs.

I identify two hypotheses that could explain the issuance of an SLA. Each hypothesis is guided by stakeholder perspectives on spring loading. The first hypothesis holds that SLAs serve as a mechanism to reward and retain well-performing and talented CEOs. Firms generally

[1] Further regulations intended to discourage spring loading were announced by the SEC in December of 2022. These regulations will not take effect until the 2025 proxy season. The full set of regulations can be found here: https://www.sec.gov/rules/final/2022/33-11138.pdf.

support this hypothesis, arguing SLAs are a valid reward mechanism for well-performing executives. Finding support for this hypothesis would counter shareholder concerns and suggest that SLAs are a useful tool to reward CEOs for good performance.

The second hypothesis holds that SLAs serve as a mechanism used to reduce stock compensation expense when cutting costs is relatively more important, such as when the firm performs poorly. Regulators generally support this hypothesis, as evidenced by their concern over the accounting treatment of spring-loaded awards. Equity awards are generally recorded as an expense (following any vesting period) equal to the fair value of the award on the grant date. One determinant of the equity award's grant date fair value is the firm's stock price on the grant date. If firms issue an equity grant before the release of positive news (i.e., they spring-load the award), they could record the equity award at a lower fair value than if they issue the equity award after the release of positive news due to the change in stock price. This could allow the firm to reduce the total stock compensation expense it recognizes in relation to the award. Finding support for this hypothesis would support regulator concerns and suggest that firms are using SLAs to take advantage of the timing of the award to record it at a lower fair value.

In addition to the two hypotheses guided by stakeholder perspectives on spring loading, I also investigate whether additional factors influence a firm's decision to issue an SLA. Specifically, I investigate whether industry peer effects, CEO ability, and CEO demographic characteristics are associated with the issuance of an SLA. Firms operating in industries in which other firms issue SLAs to their CEOs at a high rate could feel more pressure to issue an SLA to retain their CEO and enjoy the same benefits on the income statement. Additionally, firms could choose to reward higher-ability CEOs with an SLA. However, it could also be the case that firms issue SLAs to lower-ability CEOs to reduce the reported compensation to the CEO to avoid scrutiny without reducing the value of the compensation to the executive. Next, prior literature has shown CEOs of different ages and genders have different risk profiles (Byrnes et al. 1999; Martin et al. 2009; Albert and Duffy 2012; Serfling 2014; Dadanlar and Abebe 2020; Malm et al. 2021). Because SLAs could be perceived as a riskier form of compensation for the firm due to increased litigation risk but less risky for the recipient due to the increased value of the award, this could lead to differences in the likelihood of the firm issuing an SLA based on the CEO's age and gender.

I identify potential SLAs by using Execucomp to identify all equity awards to CEOs from 2006 through 2019.[2] I then calculate the firm's market-adjusted return (MAR) in the 10 trading days following the grant date of an equity award to the CEO [+1,+10].[3] Next, I compare the 10-day MAR following the grant date to all 10-day MAR windows for that firm in the year prior to the grant date. If the firm's 10-day MAR following the grant date would have been in the top decile of all 10-day MAR windows in the year prior to the grant date, the award is classified as a high-potential SLA (*High_Potential_SLA*). Therefore, high-potential SLAs are the awards with the largest returns immediately following the grant date. However, awards with smaller (but still positive returns) could also be intended to be spring-loaded. To account for this, if the firm's 10-day MAR following the grant date would have been in the 9th (8th) [7th] decile of all 10-day MAR windows in the year prior to the grant date, the award is classified as a *Med_Potential_SLA* (*Low_Potential_SLA*) [*V_Low_Potential_SLA*]. All other observations are left to the intercept.

Next, I use data from Compustat, Execucomp, BoardEx, CRSP, and the Thomson Reuters 13-F database to examine what firm characteristics are associated with the issuance of higher-

[2] The Sarbanes-Oxley Act of 2002 greatly reduced firms' ability to backdate stock options. Beginning my sample period in 2006 should mitigate any impact of stock option backdating on my results.
[3] The choice of 10 trading days aligns with the longest window identified in a successful lawsuit related to spring loading.

potential SLAs. I find that poorer-performing firms, firms with more growth opportunities, firms with lower-ability CEOs, and firms operating in industries in which higher-potential SLAs were issued in the prior year are more likely to issue higher-potential SLAs. These results are important because they demonstrate that firms are more likely to issue higher-potential SLAs when cost saving may be relatively more important (i.e. firm and CEO performance is poor), supporting the second hypothesis. Finding support for this hypothesis suggests firms issuing potential SLAs may be using spring loading to take advantage of accounting regulations to reduce stock compensation expense. In addition, the results suggest firms issue higher-potential SLAs when industry peer effects are present. I find no evidence to support the first hypothesis, on average.

The SEC states that SLAs that are non-routine in nature "merit particular scrutiny", indicating their concern about the advantageous timing of the equity award itself relative to the positive news release. However, spring loading can also be achieved by advantageously timing the release of positive news relative to a routine equity grant. Therefore, I examine whether my results differ for routine and non-routine awards. Given the SEC's concern, I would expect my results to be concentrated in the subsample of non-routine awards. However, for both routine and non-routine awards, I find evidence that firms issue higher-potential SLAs when cost saving is relatively more important and industry peer effects are present. Additionally, lower managerial ability is associated with higher-potential SLAs in the non-routine subsample. These results support the SEC's concern related to non-routine awards but also shed light on the use of routine awards in spring loading.

Because I find that firms are more likely to issue potential SLAs when cost saving is relatively more important, I next examine whether firms realize any cost savings through stock compensation expense by issuing a potential SLA. Specifically, I examine whether the issuance of a potential SLA is associated with the award's grant date fair value after controlling for economic determinants of the fair value of the award. I find evidence of a negative and significant association between the issuance of a high-potential SLA and the grant date fair value of the award. The results indicate the magnitude of the effect of spring loading on the grant date fair value, on average, is about 23.2 percent. In addition, this effect is concentrated in the subsample of routine awards, indicating that firms strategically timing the disclosure of positive news relative to routine equity grants are more likely to take advantage of spring loading to record the award at a lower grant date fair value. I find no such evidence in the sample of non-routine awards; however, this could be due to a small sample size. This contrasts with the SEC's concern that non-routine awards merit particular scrutiny and demonstrates the effect of disclosure timing manipulation.

Overall, my evidence supports the second hypothesis. Firms issue higher-potential SLAs when cost saving is relatively more important, and high-potential SLAs translate into economically significant cost savings for firms. In addition, firms are more likely to pursue these cost savings when there is more pressure to do so within their industry. These results highlight the SEC's concern that firms are taking advantage of spring loading to record awards at a lower fair value.

My study contributes to the literature that examines the strategic timing of equity awards and the strategic timing of news around equity awards. Early papers in this literature stream document pervasive stock option backdating (Lie 2005; Heron and Lie 2007). However, more recent literature finds this backdating behavior has substantially subsided following Sarbanes-Oxley (Guthrie and Stannard 2020). More recent papers document a more nuanced spring-loading approach to strategically timing equity grants and disclosures, including firms making equity grants before stock splits (Devos et al. 2015) and patent grants (Carter et al. 2023). Though prior studies document behavior consistent with spring loading, they only examine very specific events in which spring loading occurs. My contribution to this literature is two-fold. First, I propose a novel method of broadly identifying potential SLAs. Second, prior studies do not examine *why* firms choose to spring-load equity awards. I contribute to the literature by examining what factors are associated with a firm's decision to spring-load equity awards to CEOs and documenting the effect of these awards on fair value.

My findings should also be of interest to the debate on the uses of spring loading amongst firms, shareholders, and regulators. The issuance of SAB 120 indicates that the SEC is concerned that firms are utilizing spring loading to unjustly lower stock compensation expense. My finding that firms are more likely to issue higher-potential SLAs when cost saving is relatively more important and that high-potential SLAs are associated with significantly lower grant date fair values supports this concern expressed by the SEC.

The rest of the paper proceeds as follows. Chapter 2 details the background related to spring-loading. Chapter 3 details my sample selection and identification of potential SLAs. In Chapter 4, I discuss what factors are associated with the issuance of higher-potential SLAs. Chapter 5 discusses the association between potential SLAs and the grant date fair value of the award. Chapter 6 conducts cross-sectional and robustness tests. Chapter 7 discusses the association between potential SLAs and future performance. Chapter 8 concludes.

Section 2: Background & Hypothesis

Section 2.1: Background on Spring-loaded Awards

The United States Securities and Exchange Commission (SEC) defines a spring-loaded award (SLA) as a share-based compensation arrangement where a firm grants stock options or other awards shortly before announcing market-moving information. This market-moving information could include the announcement of better-than-expected earnings or a significant transaction. For example, on December 1, 2010, Sunrise Senior Living granted their Chief Executive Officer (CEO) the option to purchase 1,000,000 shares of stock at $3.94, the closing price on December 1st. Six days later on December 7th, 2010, Sunrise Senior Living filed an 8-K announcing the sale of a joint venture for $41.5 million. This caused the firm's stock price to rise to $5.43 by December 10th.[4]

This is just one example of spring loading. I have included 10 other randomly selected examples of spring loading behavior in my sample in Appendix B. In each of these examples, a firm makes a grant and subsequently makes a filing disclosing information that results in a rise in stock price. Firms can spring-load an equity award with many different types of filings, so long as the filing contains information the market reacts positively to. In Appendix B, some firms file an annual report following a grant to the CEO. This could contain positive information in the financial statements, footnotes, or MD&A. Other firms make filings disclosing information about share repurchases, dividend changes, and material transactions that the market reacts positively to. However, the most common filing made following a grant in Appendix B is an earnings

[4] I cannot say with absolute certainty that this award, or any award, was *intentionally* spring-loaded because it is impossible to know the firm's intentions. However, the timing of the grant and the announcement of the news fits the description of spring loading. Therefore, I refer to these awards as *potential* SLAs throughout the paper.

announcement, which could contain positive earnings news the market is seeing for the first time.

Spring loading is advantageous to the recipient because the award can be very profitable. For example, Sunrise Senior Living's stock price rose 37.8 percent in just 10 days following the award to the CEO, possibly allowing the CEO to recognize large profits related to the options granted on December 1st. In addition, spring loading is advantageous to the firm because it could allow it to take advantage of accounting regulations to recognize lower stock compensation expense in relation to the award. Generally, equity awards are recorded as an expense equal to the grant date fair value of the award. If the firm grants an equity award before releasing market-moving, positive news, the grant date fair value of the award will be lower than if the equity award is granted after the news is released. This could allow the firm to reduce stock compensation expense. However, in November of 2021, the SEC released Staff Accounting Bulletin (SAB) 120, which clarifies that firms must consider positive news that will be released soon after an equity award is granted when valuing equity awards for accounting purposes. This reduces the impact of spring loading on the income statement and mitigates firm incentives to issue SLAs. However, in this study, I use a sample period prior to the issuance of SAB 120 in which the accounting treatment of SLAs is more unclear.

Though SLAs have advantages for CEOs and firms, many external stakeholders oppose SLAs. Legal scholars have argued that spring loading is similar to insider trading because recipients profit off of non-public information (Orso 2008). Additionally, shareholders have filed litigation related to potential SLAs.

One shareholder spring-loading lawsuit was brought against Tyson Foods in 2007 (*In Re Tyson Foods 2007*). In this lawsuit, shareholders alleged that Tyson Foods intentionally issued spring-loaded equity awards to executives on four occasions. The first occasion was in 1999 when executives were issued options one day before the company announced the sale of a subsidiary to Smithfield. The second occasion occurred in 2001 when executives were awarded options one day before announcing the cancellation of an acquisition. Later in 2001, executives were awarded options two weeks before announcing earnings that were double the earnings forecasted by analysts. Lastly, in 2003, the company awarded options to executives four days before announcing earnings well above expectations.

In this case, the court ruled that Tyson's directors violated their fiduciary duty of loyalty to shareholders. Specifically, the directors violated their duty of candor by failing to disclose details of the awards to shareholders. The court stated that the directors acted with "disloyalty that could not have arisen from a good faith business decision." Though Tyson shareholders were successful in raising these claims involving a breach of the directors' fiduciary duties, most lawsuits related to potential SLAs are dismissed because granting SLAs is not inherently illegal, so long as the award is made in accordance with any applicable shareholder-approved compensation plan and is accurately and completely disclosed in all material respects (Avci et al. 2016).

In summary, firms and recipients of SLAs argue that spring loading is beneficial, but regulators are concerned about the accounting treatment of the awards and shareholders are concerned about director compliance with applicable fiduciary duties. Although it is not unlawful for a board of directors to grant SLAs, shareholders continue to file litigation related to potential cases of spring loading, suggesting that firms may be concealing the spring-loaded nature or details of the awards. If firms truly believe spring loading is a beneficial practice for the firm, it is unclear why any details of the award should not be accurately and completely disclosed.

Section 2.2: Prior Literature

There is a long line of literature that examines the strategic timing of both equity grants and the disclosure of news around equity grants. Yermack (1997) is one of the first studies to empirically document favorable stock price movement around equity grants made to executives. Aboody and Kasznik (2000) document that CEOs make opportunistic voluntary disclosures around routine equity grants. Additionally, Rogers and Stocken (2005) find evidence of opportunistic forecasting behavior ahead of option grants when the market will be unlikely to detect the opportunistic behavior. However, results in these studies use a sample period that occurs prior to the Sarbanes-Oxley Act of 2002 (SOX), meaning any results found are likely influenced by stock option backdating.

Stock option backdating is the practice in which firms falsely disclose the grant date of stock options to be the date with the lowest possible price. Like spring loading, this made the option awards more valuable to executives. In the 1990s and early 2000s, stock option backdating was prevalent because regulations at the time allowed firms up to 45 days after the grant date to report the equity award to the SEC. This meant that oftentimes, firms chose the day with the lowest stock price in the previous 45 days as the grant date. However, SOX mitigated the risk of any backdating by requiring firms to report equity grants to the SEC within two days of the actual grant date. Therefore, the maximum number of days a firm can backdate an equity award in today's regulatory environment is two days. Additionally, Guthrie and Stannard (2020) find that strategic backdating has been reduced further since the backdating scandal became widely publicized and investigated in 2006.

Despite the mitigated possibility of backdating, more recent studies continue to find evidence of strategic timing of equity grants and news around equity grants, likely due to spring-loading behavior. Devos et al. (2015) find that firms are significantly more likely to make equity grants to the CEO before the announcement of a stock split than after. Daines et al. (2018) find that CEOs continue to speed up bad news and delay good news around routine option grants.[5] Carter et al. (2023) use the patent granting process to identify narrow windows when firms are likely to have a private information advantage about the likelihood of receiving a patent grant. The paper aims to examine whether firms attempt to spring-load equity awards while they have this advantage and find that this is the case. However, this private information advantage has since been neutralized by subsequent regulation, diminishing the opportunity to spring load. In contrast to Carter et al. (2023), I do not examine *whether* spring-loading behavior occurs in a certain situation. I examine *why* spring-loading behavior occurs in a broad sample of firms.

Though these studies document behavior consistent with spring loading, very little is known about the factors that lead to a firm issuing a spring-loaded award. My study contributes to this literature by examining *why* firms choose to spring-load awards to the CEO. Identifying what firms and in what situations firms are more likely to issue SLAs is important because it will allow stakeholders to better assess the probability that a given firm will spring-load equity awards to executives. In addition, many current studies examine spring-loading behavior in very specific situations. I contribute to this literature by proposing a method of broadly identifying potential SLAs.

Section 2.3: Hypotheses

I have identified two hypotheses that could explain the issuance of an SLA. These hypotheses are grounded in perspectives on spring loading by different stakeholders.

[5] Though these studies document spring loading behavior, none of them refer to the behavior they document as "spring loading". The term "spring loading" is sparsely used in the current empirical literature. Chen et al. (2016) examines spring-loading firm performance in the M&A setting. The paper does not examine the spring-loading of equity awards.

H1: *Firms issue SLAs to the CEO as a reward mechanism for good overall performance.*

This hypothesis is most prevalent among firms, who argue SLAs are a valid reward mechanism for well-performing executives. If this is the case, I would expect SLAs to be more likely to be issued when the firm has better financial performance and better market performance. Additionally, if this is the case, I would expect SLAs to be associated with greater grant date fair values as more talented and well-performing CEOs are rewarded with more valuable compensation. If I find support for this hypothesis, this suggests that spring loading is a good business practice used to reward and retain well-performing CEOs. This would provide justification for the issuance of these awards by firms and contrast shareholder and regulator concerns related to spring loading.

H2: *Firms issue SLAs to the CEO as a cost-saving mechanism to reduce the impact of stock compensation expense on net income.*

This hypothesis is most prevalent among regulators, who are concerned firms are using the timing of the award relative to a disclosure to take advantage of the accounting treatment of SLAs. If this is the case, I would expect SLAs to be more likely to be issued when cost saving is relatively more important to the firm, such as when the firm has worse financial performance and worse market performance. Additionally, if this is the case, I would expect SLAs to be associated with lower grant date fair values as the firm takes advantage of accounting regulations to record SLAs at a lower value and, thus, recognize less stock compensation expense. If I find support for this hypothesis, this suggests that spring loading could be a good business practice used to reduce losses. However, it also suggests the issuance of SLAs could be nefarious because this loss mitigation is achieved by taking advantage of accounting regulations.

In addition to the hypotheses presented above, other factors currently not identified by stakeholders could influence the issuance of an SLA as well. First, firms operating in industries in which issuing SLAs is more common could be more likely to issue an SLA in an effort to keep up with their peers. Next, CEO demographic characteristics could influence the decision to influence an SLA. Prior literature shows that older CEOs and female CEOs are generally more risk-averse. To the extent spring loading is viewed as risky for the firm, firms with an older or female CEO may be less likely to issue an SLA. However, SLAs are a *less* risky form of compensation for the recipient. To the extent the CEO perceives this reduction in risk to outweigh the additional risk to the firm, firms with an older or female CEO may be more likely to issue an SLA.

Section 3: Identification & Sample Selection

Section 3.1: Identifying Spring-loaded Awards

To identify potential spring-loaded awards, I begin by identifying all equity awards granted to CEOs in Execucomp's Plan-Based Awards dataset. To identify equity awards in which the firm releases positive information shortly after the grant date, I calculate the firm's market-adjusted returns (MAR) in the 10 trading days following the grant date [+1, +10] using Eventus (*MAR10*). Because the spring loading lawsuit against Tyson Foods is one of the few successful instances of litigation related to spring loading, I base my choice of 10 trading days on the longest window between an equity grant and a news release identified by shareholders in this lawsuit. I then calculate the 10-day MAR for all rolling 10-day windows for the firm in the year leading up to the grant date where the last window ends the day before the grant date.[6] I then divide the set of 10-day windows in the previous year into deciles and compare the deciles to the returns in the 10-day window following the grant date. If the firm's 10-day MAR following the grant date would have been in the top decile of all 10-day MAR windows in the year prior to the grant date, I call this a high-potential SLA and set *High_Potential_SLA* equal to one and zero otherwise. These are the observations with the largest returns following the grant date.

Importantly, firms could still intend to spring-load an award that would not have been in the top decile of all 10-day MAR windows in the year prior. The firm may not realize the returns it expects or hopes for following the grant date. Therefore, observations that would not have been

[6] I require each observation to have at least 200 calculable rolling 10-day MARs in the previous year. This ensures that the 10-day MAR following the grant date is compared to a sample of 10-day MAR windows that is sufficiently large. Having a sufficiently large comparison sample also guides my choice to use overlapping, rolling windows instead of non-overlapping windows. If I were to use non-overlapping windows in the previous year, each 10-day MAR following the grant date would only be compared to between 20 and 25 10-day MAR windows in the previous year. However, this choice remains unlikely to affect inferences. Additionally, when using overlapping return windows in a dependent variable, this can create bias that needs to be controlled for (Taylor and Fang 2018). However, the overlapping windows I create are only used for classification purposes and not as a dependent variable.

in the top decile could still be intended to be spring-loaded. However, observations falling in lower deciles are *less* likely to be intentionally spring-loaded. Therefore, if the firm's 10-day MAR following the grant date would have been in the 9^{th} (8^{th}) [7^{th}] decile of all 10-day MAR windows in the year prior to the grant date, I set *Med_Potential_SLA*(*Low_Potential_SLA*) [*V_Low_Potential_SLA*] equal to one and zero otherwise.[7] Importantly, it is possible that some of the awards assigned a level of potential are not intended to be spring-loaded when issued. To remain agnostic of the firm's intentions, I call these awards *potential* SLAs throughout the paper.

In Table 1, I list the descriptive statistics for *MAR10* by decile. All tables are listed in Appendix D. Observations that would have been in the top decile of all 10-day MAR windows in the year prior (i.e. *High_Potential_SLA*) have an average *MAR10* of 13.4 percent. Therefore, these observations are the most likely to be intentionally spring-loaded by the firm. Observations that would have been in the 9^{th} decile of all 10-day MAR windows in the year prior (i.e. *Med_Potential_SLA*) have an average *MAR10* of 5.9 percent. Therefore, these observations still represent significant positive returns following the grant date and warrant potential. Observations that would have been in the 8^{th} decile of all 10-day MAR windows in the year prior (i.e. *Low_Potential_SLA*) have an average *MAR10* of 3.6 percent. Importantly, the minimum 10-day return for this set of observations is almost exactly zero, meaning these observations represent a group of low but positive returns. Therefore, these awards are less likely to be intentionally spring-loaded than observations that would have been in the top two deciles, but the intention could still be present. Observations that would have been in the 7^{th} decile of all 10-day MAR

[7] Additionally, I require the firm to make at least one filing in the 10-day window following the equity grant date for *High_Potential_SLA*, *Med_Potential_SLA*, *Low_Potential_SLA*, or *V_Low_Potential_SLA* to equal one, else they equal zero. This ensures the firm is actively disclosing news to the market. The filing must be a filing that is not be Forms 3, 3/A, 4, 4/A, 5, 5/A, 13 D/A, 13G, or 13 G/A. These filings are unlikely to be indicative of an attempt to spring load.

windows in the year prior (i.e. *V_Low_Potential_SLA*) have an average *MAR10* of 2.0 percent. Though the minimum 10-day return for this set of observations is just below zero, untabulated, I find that only 9 observations have a 10-day return following the grant date below zero. This means the vast majority of these observations represent a group of lower but positive returns. Therefore, these awards are further less likely to be spring-loaded than observations that would have been in the top three deciles, but because the 10-day returns remain largely positive, intention could be present. Observations that would have been in the 6th decile of all 10-day MAR windows in the year prior have an average *MAR10* of 0.7% and the vast majority of observations in this group have returns around zero. Therefore, I leave all observations that would have been in the 6th or lower decile to the intercept.

To further validate my measure, I apply my methodology to the three equity grant dates identified in the shareholder lawsuit against Tyson Foods.[8] These three dates are September 28th, 1999, March 29th, 2001, and September 19th, 2003. For all three awards, the 10-day MAR following the grant date would have been in the top decile of all 10-day MAR windows in the year prior to the grant date. Therefore, all three awards would fall in the *High_Potential_SLA* category. This provides validation that my methodology to identify potential SLAs is accurately classifying the awards.

Ceteris paribus, I would expect *High_Potential_SLA*, *Med_Potential_SLA*, *Low_Potential_SLA*, and *V_Low_Potential_SLA* to equal one for about 10 percent of all observations. However, in my sample, *High_Potential_SLA* is equal to one for 12.3 percent of all observations. This is significantly higher than the expected value of 10 percent (t = 3.39, p = 0.001). This indicates that there are significantly more firms with highly positive returns

[8] The exact grant date for the fourth equity award in the lawsuit is unavailable.

following equity grant dates than would be expected, providing evidence of prevalent high-potential spring loading on a market-wide basis. I find that *Med_Potential_SLA*, *Low_Potential_SLA*, and *V_Low_Potential_SLA* have an insignificantly different number of observations than expected ($p > 0.10$).

Next, I examine whether the spring-loading behavior I document is driven by routine or non-routine equity awards. Firms can spring-load an award by either strategically timing the disclosure of positive news after an equity grant or strategically timing an equity grant to occur before the disclosure of positive news. Routine awards that are spring-loaded are more likely to be the result of strategically timing the disclosure of positive news after the equity grant because the grant occurs around the same date each year. In contrast, non-routine awards are more likely to be the result of strategically timing the equity grant. In SAB 120, the SEC notes that non-routine awards merit particular scrutiny due to their unique timing. This indicates the SEC is concerned that firms are strategically timing the equity award grant relative to the disclosure. Following Daines et al. (2018), I identify an award to be routine in nature if it is granted to the firm's CEO within 7 days of an award granted to the firm's CEO in the previous year or the following year. Additionally, I define an award to be non-routine if the award is not granted within 15 days of any award granted to the firm's CEO in the previous year or the following year. Awards fitting neither of these criteria are classified as neither routine nor non-routine.

When limiting the sample to routine awards, I find that *High_Potential_SLA* is equal to one for 12.3 percent of all observations. This is significantly higher than 10 percent ($t = 2.90$, $p = 0.004$). Similarly, when I limit the sample to only non-routine awards, I find that *High_Potential_SLA* is equal to one for 13.8 percent of all observations. This is significantly higher than 10 percent ($t = 2.05$, $p = 0.038$). Therefore, the spring-loading behavior I document seems to be driven by both routine and non-routine awards. This provides initial evidence to support the SEC's concern related to non-routine awards but also shows routine awards may merit more scrutiny.

Section 3.2: Sample Selection

I begin my sample selection with the 9,292 equity grants made to CEOs from Execucomp's Plan Based Awards dataset. The coverage of the Plan Based Awards dataset begins in 2006, forming the start of my sample period.[9] Beginning my sample period in 2006 is advantageous because it limits the possibility that any results I document are driven by stock option backdating. This practice was prevalent in the 1990s and early 2000s. However, the Sarbanes-Oxley Act of 2002 (SOX) greatly limited the ability of firms to backdate stock options by requiring firms to report stock option grants within two days of the grant date. Guthrie and Stennard (2020) find that backdating since SOX has been far less prevalent. Additionally, beginning my sample selection with Execucomp data limits my sample to S&P 1500 firms.

I require data from Compustat, Execucomp's AnnComp dataset, BoardEx, CRSP, Thomson Reuters 13F Holdings, and managerial ability data from Demerjian et al. (2012) for variables included in my multivariate analyses. The managerial ability data from Demerjian et al. (2012) is not available for financial or utilities firms, removing them from my sample. If a firm makes more than one grant to the CEO in a given fiscal year, I keep only the grant that has the highest 10-day MAR following the grant date.

This process yields a final sample of 2,287 observations from 2006 through 2019. The full sample selection process can be found in Table 2.

[9] There are a handful of observations with a grant date in 2005 or earlier, but I eliminate these observations.

Section 4: Factors Associated with Higher-Potential SLAs

Section 4.1: Model Specification

To examine the characteristics of firms and CEOs associated with the issuance of a higher-potential SLA, I regress *SLA_Scale* on variables capturing different dimensions of financial, governance, and CEO characteristics in the following ordered logit regression:

$$\begin{aligned} SLA\_Scale_{it} = {} & \beta_0 + \beta_1 BTM_{it} + \beta_2 Lag\_ROA_{it-1} + \beta_3 Lag\_TSR_{it-1} + \beta_4 Industry\_SLAs_{it} \\ & + \beta_5 CEO\_Ability_{it} + \beta_6 CEO\_Age_{it} + \beta_7 CEO\_Male_{it} + \beta_8 Size_{it} \\ & + \beta_9 Num\_Grants_{it} + Year\ FE \end{aligned} \tag{1}$$

SLA_Scale is equal to one if *V_Low_Potential_SLA* is equal to one, two if *Low_Potential_SLA* is equal to one, three if *Med_Potential_SLA*is equal to one, four if *High_Potential_SLA* is equal to one, and zero otherwise. Therefore, *SLA_Scale* ranges from zero to four with zero being no potential of spring loading and four being high potential of spring loading. Using an ordered logit model does not require me to assume a linear relation between the differing levels of the dependent variable. I include year-fixed effects to eliminate any time effects and control for firm size (*Size*). I do not include firm fixed effects because my sample averages 2.99 observations per firm. Including fixed effects when there are fewer than five observations per group increases the probability that bias will impact the regression results (McNeish and Stapleton 2016). Therefore, my estimation examines associations within a cross-section. Standard errors are heteroskedasticity robust and clustered by firm, and all independent continuous variables are winsorized at the 1^{st} and 99^{th} percentiles.

To examine H1 and H2, I examine the association between the issuance of a higher-potential SLA and three variables capturing firm performance and one variables capturing CEO value. *Lag_ROA* is the firm's income before extraordinary items divided by total assets in the previous year. This measure captures firm financial performance. *Lag_TSR* is the firm's stock price at the end of the year minus the stock price at the beginning of the year plus any common dividends per share divided by price at the beginning of the year. This measure captures market performance. Firms with better performance could be more likely to grant a higher-potential SLA, consistent with the H1. If this is the case, I expect firm performance to be positively related to *SLA_Scale*. However, firms with poorer performance may be more likely to issue a higher-potential SLA to reduce compensation expense, consistent with the H2. If this is the case, I expect firm performance to be negatively related to *SLA_Scale*. *BTM* is a proxy for possible firm growth and is measured as the firm's book value of equity divided by the market capitalization. Lower values of *BTM* indicate a more efficient use of resources by managers and more firm growth possibilities (Lenox et al. 2010). Firms with fewer growth possibilities may be more likely to issue higher-potential SLAs as a more cost-efficient form of compensation. If this is the case, I expect *BTM* to be positively related to *SLA_Scale*, consistent with the H2. However, a negative coefficient would be more difficult to interpret. Firms with more growth possibilities may be more likely to issue higher-potential SLAs for two reasons. First, higher-potential SLAs could be issued to retain current executives who have helped achieve growth possibilities and efficiency. This would be consistent with the H1. Second, higher-potential SLAs could be issued to reduce costs and achieve the growth possibility the firm possesses. This would be consistent with the H2. In either of these cases, I expect *BTM* to be negatively related to *SLA_Scale*; however, due to the competing reasons that could drive this result, it would be difficult to assign to one hypothesis.

Next, I examine whether peers influence the issuance of an SLA at the focal firm. *Industry_SLAs* is the number of *High_Potential_SLAs* issued by other firms within the same Fama-French 12 industry in the previous year. Firms generally use industry peers as benchmarks for CEO compensation (Faulkender and Yang 2010). If industry peers are issuing high-potential SLAs to their CEOs, the focal firm may feel more obligated to issue a higher-potential SLA to their CEO to (1) retain the firm's CEO and/or (2) reduce compensation expense in a manner similar to their peers. If this is the case, I expect that when high-potential SLAs are issued by other firms in the same industry in the same industry in the previous year, the focal firm will be more likely to issue a higher-potential SLA in the current year. If this is the case, I expect *Industry_SLAs* to be positively related to *SLA_Scale*.

Next, I examine whether a CEO's ability affects the issuance of a potential SLA. *CEO_Ability* is equal to the CEO ability measure formed by Demerjian et al. (2012).[10] If firms view SLAs as a valid reward mechanism for talented CEOs, higher-ability CEOs may be more likely to receive a higher-potential SLA. If this is the case, I expect *CEO_Ability* to be positively related to *SLA_Scale*. However, given recent criticism of CEO pay, firms could be more likely to issue higher-potential SLAs to lower-ability managers in an effort to reduce the reported compensation expense attributable to a poor manager while still giving the manager valuable compensation. If this is the case, I expect *CEO_Ability* to be negatively related to *SLA_Scale*.

Lastly, I examine whether CEO demographic characteristics influence the issuance of a higher-potential SLA. *CEO_Male* is an indicator equal to one if the CEO is listed as a female in Execucomp and zero otherwise. *CEO_Age* is the *CEO's* age as provided by Execucomp. Prior literature has found firms led by a female CEO or an older CEO are generally more risk-averse (Martin et al. 2009; Serfling et al. 2014) and face fewer lawsuits (Dadanlar and Abebe 2020; Malm et al. 2021). Therefore, firms with a female CEO or an older CEO may be less likely to issue a higher-potential SLA, which could be viewed as a risky form of compensation that

[10] This measure is the residual from a regression of firm efficiency on observable firm level determinants of efficiency outside of the CEO's control.

exposes the company to lawsuits. If this is the case, I expect *CEO_Male* and *CEO_Age* to be negatively related to *SLA_Scale*. However, though SLAs may expose the firm to more litigation risk, SLAs are less risky than other forms of equity compensation for the recipient because of the immediate increase in value of the equity award. Because females and older individuals are generally more risk averse outside of the office as well (Byrnes et al. 1999; Albert and Duffy 2012), female CEOs and older CEOs may wish to receive an SLA instead of standard equity-based compensation. If this is the case, I expect *CEO_Male* and *CEO_Age* to be positively related to *SLA_Scale*.

Section 4.2: Descriptive Results

Table 3 presents the descriptive statistics for the variables in equation (1) for the full sample. The average firm in the sample is also relatively profitable with an average *Lag_ROA* of 4.40 percent. The average age of CEOs in the sample is 54.768 years old and 5.50 percent of CEOs in my sample are female. The analogous descriptive statistics are presented for the subsamples of non-routine and routine awards in Tables 4 and 5.[11]

Table 6 presents the Pearson pairwise correlations for each variable in equation (1). Firms issuing high-potential SLAs are less profitable but have more growth possibility. In addition, firms issuing high-potential SLAs have lower-ability CEOs and more high-potential SLAs issued within their industry in the previous year. However, I caution against drawing inferences from these univariate tests. I present multivariate results below.

Section 4.3: Multivariate Results

Column 1 of Table 7 presents the results of equation (1). *Lag_TSR* is negatively and significantly associated with *SLA_Scale* ($p < 0.01$). This provides evidence supporting H2, as

[11] The total number of non-routine plus routine awards does not equal the total number of awards in the sample as shown in Table 3. This is because some awards are neither non-routine nor routine.

poorer-performing firms are more likely to issue higher-potential SLAs. *BTM* is negatively and significantly associated with *SLA_Scale* ($p < 0.01$). Two possible mechanisms could drive this result. One of these mechanisms would provide further evidence that firms view spring loading as a cost-saving mechanism. However, I cannot make this assertion with certainty. *Industry_SLAs* is positively and significantly associated with *SLA_Scale* ($p < 0.01$). This provides evidence that firms are more likely to issue higher-potential SLAs when more of their peers are doing so. Columns 2 and 3 of Table 7 present the results of equation (1) when limiting the sample to only non-routine and routine awards. *CEO_Ability* is negatively and significantly associated with *SLA_Scale* ($p < 0.01$) in the non-routine subsample. This suggests firms are more likely to issue higher potential SLAs to lower-ability CEOs. This could be an effort to reduce the reported compensation to a poorly performing CEO without actually reducing the value of the compensation. Otherwise, the results between the two samples are substantially similar. This further supports the H2.

In summary, poorer-performing firms, firms with more growth opportunities, firms with lower-ability CEOs, and firms in industries that issue more SLAs are more likely to issue a higher-potential SLA. These results generally support the H2 and suggest that the issuance of SLAs occurs when peer effects are present. In addition, there is no evidence to support the H1. Overall, results provide evidence that supports the hypothesis that firms issue higher-potential SLAs as a cost-saving mechanism, supporting regulatory concerns about the issuance of SLAs. In Section 5, I examine whether higher-potential SLAs are associated with a significantly lower grant date fair value to provide further support for my conclusion that SLAs primarily serve as a cost-saving mechanism.

Section 5: Potential SLAs and Grant Date Fair Value

Equity awards to executives are recognized as stock compensation expense equal to the total fair value of the award on the grant date. This expense is recognized over any vesting period that may exist or immediately if there is no vesting period. The grant date fair value of any equity award will be lower when the firm's stock price is lower. This makes issuing potential SLAs advantageous to firms because the grant date fair value of the award will be lower before any positive news is released, which means the resulting grant date fair value would be lower than if the award were to be granted after the positive news release. However, in November of 2021, the SEC issued SAB 120, which clarified that firms must also consider not-yet-public information if the information's release will materially impact the value of the equity award. This clarification reduces the value of spring loading for firms. Importantly, prior to SAB 120, guidelines for accounting for SLAs allowed firms to record SLAs at a lower grant date fair value than if the award was not spring loaded. In this section, I investigate whether potential SLAs are associated with lower grant date fair values.[12]

First, I descriptively examine the effect of the timing of equity awards on their grant date fair value. I begin by calculating the grant date fair value of each award in my sample, agnostic of any news that occurs following the grant date. For all option awards, I calculate the fair value using the Black-Sholes non-dividend option pricing model.[13] For all other equity awards, the fair value is calculated as the stock price on the grant date multiplied by the number of shares granted. If options are issued in addition to other equity awards on the same grant date, I sum the

[12] The sample I use in all analyses throughout the paper ends in 2019, well before SAB 120 was issued in November of 2021.

[13] Following Devos et al. (2015), volatility is the standard deviation of returns over the previous year and the risk-free rate is the constant maturity 5-year treasury rate. All options are assumed to be issued at the money on the grant date. Additionally, Execucomp's Plan-Based Awards dataset does not list the expiration date for awards. Therefore, I assume the expiration date for each option to be 10 years from the grant date. Results are similar when using different expiration date assumptions.

total fair value of the awards. This is the award's *actual* grant date fair value. Next, I calculate the fair value of the award in the exact same manner, except I assume the grant date is one trading day after the actual grant date. Therefore, the calculation of the fair value of the award is based on the price one trading date after the actual grant date.[14] This represents the *assumed* grant date fair value for *TradingDay*+1. I calculate the assumed grant date fair value for the 10 trading days before and after the actual grant date.

In Appendix C, I graph the assumed grant date fair value as the percentage of the actual grant date fair value for all awards in my sample by trading days to the actual grant date. The sample is split by *High_Potential_SLA*, *Med_Potential_SLA*, *Low_Potential_SLA*, and *V_Low_Potential_SLA*. Generally, before the actual grant date, the assumed fair value of the awards is relatively close to the actual grant date fair value of the award for all five categories. However, a drastic split occurs immediately following the actual grant date. The assumed grant date fair value for *High_Potential_SLA* monotonically rises to almost 50 percent higher than the actual grant date fair value by *TradingDay*+7. In other words, if firms issuing a high potential SLA waited 7 trading days longer to issue the same award to the CEO, the firm would have to recognize stock compensation expense related to that award that is almost 50 percent higher. If the firm chooses to ignore the impact of yet-to-be-released information when valuing the award, this could result in significant stock compensation expense savings for the firm. This illustrates the *possible* magnitude of the benefit of spring loading to the firm.

Though the previous analysis paints a striking picture of the *possible* benefits of spring loading to the firm, all calculations of fair value are my own and not the firm's. To analyze

[14] All other inputs for options besides price are assumed to remain the same as they are on the actual grant date. This will bias against any results because, generally, for SLAs, volatility will increase in the days following the grant date, increasing the option's value.

whether firms *actually* benefit from issuing SLAs in practice, I analyze whether potential SLAs are associated with the grant date fair value a company recognizes in relation to an award using the following ordinary least squares regression:

$$\begin{aligned} Grant\_Date\_FV_{it} = {} & \beta_0 + \beta_1 High\_Potential\_SLA_{it} + \beta_2 Med\_Potential\_SLA_{it} \\ & + \beta_3 Low\_Potential\_SLA_{it} + \beta_4 V\_Low\_Potential\_SLA_{it} + \beta_5 Lag\_Revenue_{it-1} \\ & + \beta_6 Lag\_BTM_{it-1} + \beta_7 Lag\_ROA_{it-1} + \beta_8 Lag\_Ret_{it-1} + \beta_9 STDDEV\_ROA_{it-1} \\ & + \beta_{10} STDDEV\_Ret_{it-1} + \beta_8 NumShares_{it} + \beta_9 NumOptions_{it} + Industry\ FE \\ & + Year\ FE + \varepsilon_{it} \end{aligned} \tag{2}$$

Grant_Date_FV is the natural log of the grant date fair value of the award given to the CEO as reported by the firm. *High_Potential_SLA*, *Med_Potential_SLA*, *Low_Potential_SLA*, and *V_Low_Potential_SLA* are as previously defined. In equation (2), I include controls for the economic determinants of compensation following Core et al. (1999) and control for the number of shares of stock (*NumShares*) and options issued (*NumOptions*) in the grant to the CEO, which will mechanically increase the grant date fair value of the award. If firms are taking advantage of the timing of potential SLAs to record equity awards at a lower grant date fair value, I expect potential awards to be negatively and significantly related to *Grant_Date_FV*. All independent variables are winsorized at the 1st and 99th percentiles and standard errors are heteroskedasticity robust and clustered by firm.

Table 8 presents the results of equation (2). Columns 1 and 2 use the full sample, columns 3 and 4 use only non-routine awards, and columns 5 and 6 use only routine awards. In columns 1 and 2, the coefficient on *High_Potential_SLA* is negative and significant ($p < 0.01$). This provides evidence that firms take advantage of the timing of high-potential SLAs to reduce the compensation expense they record. The results indicate the magnitude of the effect of spring loading on the grant date fair value of the award, on average, is about 23.2 percent.[15] I find no evidence of a negative association in the subsample of non-routine awards but continue to find evidence of a strong negative association between high-potential SLAs and the grant date fair value, indicating my results are driven by routine awards. However, the lack of results in the non-routine subsample may be due to a lack of power arising from a low number of observations. The evidence in Table 8 further supports H2 and the SEC's concern that, prior to SAB 120, firms were taking advantage of the timing of equity awards to record the awards at a lower fair value. However, it refutes the SEC's belief that non-routine awards merit particular scrutiny because advantageous accounting appears to occur in the routine award subsample. This indicates firms are strategically timing disclosures relative to upcoming grant dates to spring-load awards rather than vice-versa.

[15] This is calculated as (exp(0.209) – 1)*100.

Section 6: Cross-Sectional & Robustness Tests

Section 6.1: Cross-Sectional Test - CEO Power

Next, I examine whether CEO power has a moderating effect on my results. It could be the case that more powerful CEOs exert their influence to receive higher-potential SLAs, which could be perceived as more valuable than non-spring-loaded compensation. To examine this, I split my sample by *CEO_Power*, an indicator variable equal to one if the CEO is also the chairman of the board and zero otherwise. CEOs who are also the chairman of the board are generally seen as more powerful (Horner 2010).

Table 9 presents the results of equations (1) and (2) when the sample is split by *CEO_Power*.[16] Results between the two subsamples are generally pretty similar. Both subsamples support H2 and are more likely to issue a higher potential SLA when it is more common to do so within the industry. However, there is one important difference in the results related to *CEO_Ability*. The results indicate that lower-ability CEOs are more likely to receive a high-potential SLA in the high *CEO_Power* subsample ($p < 0.10$). This indicates that less effective CEOs could be exerting their power to receive higher-potential SLAs.

Section 6.2: Cross-Sectional Test - CEO Immobility

In this section, I examine whether CEO immobility has a moderating effect on my results. It could be the case that firms issue higher-potential SLAs to more mobile CEOs in an effort to retain the executive. Alternatively, firms could be more likely to issue a higher-potential SLA to more immobile CEOs who are still trying to demonstrate their worth to the firm. Therefore, I split my sample by *CEO_Immobility*, an indicator variable equal to one if the CEO is in the first three years of their tenure and zero otherwise. Colak and Korkeamaki (2021) conjecture that

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[16] For brevity, I only tabulate the coefficient on *High_Potential_SLA* in the results for equation (2) in all of Tables 7 and 8 because this is where cost-savings are found to be realized in Table 6.

CEOs in their first three years of tenure would be reluctant to voluntarily change jobs due to the time it takes to demonstrate their abilities and improve their marketability (Gibbons and Murphy 1992), making these CEOs more immobile.

Table 10 presents the results of equations (1) and (2) when split by *CEO_Immobility*. Results related to equation (1) are generally very similar between the two subsamples. However, in the results of equation (2), I find that the cost savings found in the full sample in Table 5 are only present in the immobile CEO subsample ($p < 0.01$). This indicates firms are attempting to save costs when a newly appointed and immobile CEO is in office.

Section 6.3: Cross-Sectional Test - Firm Size

Next, I examine whether firm size moderates my results. Prior literature has shown that large firms are subject to greater external monitoring because they are generally followed by more analysts (Hong et al. 2000), have greater institutional ownership (Duggal and Millar 1999), and are more visible to the public. Large firms may be less likely to issue a higher-potential SLA due to the external monitoring they receive and the scrutiny that potential SLAs garner. However, large firms may also have greater resources to protect themselves from any potential litigation. Therefore, I split my sample at the median of *Size*.

Results for equations (1) and (2) when the sample is split by *Size* are presented in Table 11. Results between the two subsamples are generally similar with a couple of important distinctions. First, the coefficient on *CEO_Ability* is negative and significant in the subsample of smaller firms ($p < 0.05$). This indicates that lower-ability CEOs are more likely to receive a higher potential SLA than higher-ability CEOs at smaller firms. Second, I find that the cost savings found in the full sample in Table 5 are only present in the larger firm subsample ($p < 0.10$). This indicates larger firms are pursuing the cost-savings associated with spring loading.

Section 6.4: Robustness Test - Annual Reports

In my sample, there are observations for which the only filing made in the ten trading days following the grant date is an annual report. Though the annual report could contain some new information, the financial results in the 10-K are generally pre-empted by a prior earnings announcement. Therefore, it is unclear whether there is any new material information being disclosed when only an annual report is filed in the ten days following an equity grant. If no new material information is disclosed, it is impossible that the firm intended to spring-load the award. To test whether my results are sensitive to the inclusion of these observations, I run a robustness test in which these observations are removed from my sample.

Results for the robustness test are presented in Table 12. All inferences made in my primary analyses remain unchanged when removing observations for which the only filing made in the ten trading days following the grant date is an annual report.

Section 7: Additional Analysis: Potential SLAs and Future Performance

The numerous shareholder lawsuits claiming boards have breached their fiduciary duty by issuing SLAs suggest that shareholders believe SLAs have negative consequences for the firm and, ultimately, the shareholders. In this section, I investigate whether potential SLAs are associated with an important consequence for shareholders: future firm performance. I examine the association between firm performance and the issuance of a potential SLA in the following ordinary least squares models:

$$Lead\_ROA_{it+1-t+3} = \beta_0 + \beta_1 High\_Potential\_SLA_{it} + \beta_2 Med\_Potential\_SLA_{it} + \beta_3 Low\_Potential\_SLA_{it} + \beta_4 V\_Low\_Potential\_SLA_{it} + \beta_5 Revenue_{it} + \beta_6 STDDEV\_ROA_{it} + Industry\ FE + Year\ FE + \varepsilon_{it} \quad (3)$$

$$Lead\_TSR_{it+1-t+3} = \beta_0 + \beta_1 High\_Potential\_SLA_{it} + \beta_2 Med\_Potential\_SLA_{it} + \beta_3 Low\_Potential\_SLA_{it} + \beta_4 V\_Low\_Potential\_SLA_{it} + \beta_5 MVE_{it} + \beta_6 STDDEV\_Ret_{it} + Industry\ FE + Year\ FE + \varepsilon_{it} \quad (4)$$

Lead_ROA is the firm's ROA in either *t*+1, *t*+2, or *t*+3. *TSR* is a measure of market performance and is calculated as the firm's stock price at the end of the year less the stock price at the beginning of the year plus common dividends per share divided by the stock price at the beginning of the year. *Lead_TSR* is the firm's TSR in either *t*+1, *t*+2, or *t*+3. *High_Potential_SLA*, *Med_Potential_SLA*, *Low_Potential_SLA*, and *V_Low_Potential_SLA* are as previously defined. If the issuance of a potential SLA has a negative (positive) effect on future performance, I would expect the coefficients on *High_Potential_SLA*, *Med_Potential_SLA*, *Low_Potential_SLA*, and *V_Low_Potential_SLA* to be negative (positive) and significant. However, given that the effect in Table 8 is concentrated in the *High_Potential_SLA* group, I would expect any results related to performance to be concentrated in this group as well. Following Collins et al. (2010), I control for current period revenue (*Revenue*) and the standard deviation of ROA over the previous five years (*STDDEV_ROA*) when examining *Lead_ROA* and the market value of equity (*MVE*) and the standard deviation of returns over the previous five years (*STDDEV_Ret*) when examining *Lead_TSR*. I also include industry and year-fixed effects. All independent variables are winsorized at the 1st and 99th percentiles and standard errors are heteroskedasticity robust and clustered by firm.[17]

The results for equation (3) are presented in Tables 13 through 15 and the results of equation (4) are presented in Tables 16 through 18. Tables 13 and 16 present the results using the full sample, Tables 14 and 17 present the results using only non-routine awards, and Tables 15 and 18 present the results when using only routine awards. This means I examine the association between potential awards and future performance in 18 different analyses (2 performance measures in 3 periods in 3 samples). The relation between high-potential awards and future performance is insignificant in 17 out of 18 results. Only one result indicates there is any significant relation between potential awards Results for medium-, low-, and very low-potential SLAs are insignificant in 52 out of 54 estimations. Therefore, the results in Tables 13 through 18 further refute shareholder concerns related to spring loading and indicate that there is no association between spring loading and future firm performance.

[17] Observations for which the CEO leaves the firm before or during the year of performance being examined are not included in the analysis.

Section 8: Conclusion

Given the ongoing debate between firms, shareholders, scholars, and regulators on the benefits and consequences of spring-loaded equity awards, I examine *why* firms choose to issue SLAs. In support of regulatory concerns about spring loading, I find evidence that higher-potential SLAs are issued as a cost-saving mechanism and are associated with significant stock compensation expense savings. However, I fail to find that potential SLAs have any negative consequences for shareholders in the form of firm performance.

My study is important because it is the first to document *why* firms choose to spring-load equity awards to the CEO. My results provide support for the SEC's concern about the accounting treatment of SLAs. In addition, my study is the first to propose a method of broadly identifying potential SLAs. My research also informs the debate amongst firms, shareholders, and regulators on the practice of spring loading.

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Appendices

Appendix A
Variable Definitions

Dependent Variables		**Source**
SLA_Scale	= four if *High_Potential_SLA* is equal to one, three if *Med_Potential_SLA*is equal to one, two if *Low_Potential_SLA* is equal to one, one if *V_Low_Potential_SLA* is equal to one, and zero otherwise.	Execucomp, CRSP, WRDS SEC Analytics
Lead_ROA	= income before extraordinary items divided by total assets for firm *i* in year *t*+1.	Compustat
Lead_TSR	= the sum of stock price at the end of year *t*+1 for firm *i* minus stock price at the end of year *t* for firm *i* plus common dividends per share for firm *i* in year *t*+1 divided by stock price at the end of year *t* for firm *i*.	Compustat
GrantDate_FV	= the natural log of the grant date fair value of the award as reported by the firm for firm *i* in year *t*.	Execucomp

Independent Variables		**Source**
High_Potential_SLA	= one if (1) the firm *i*'s MAR in the 10 trading days following the grant date would have been in the top decile of all 10-day MAR windows in the year prior to the grant date and (2) firm *i* makes a filing in the 10 trading days following the grant date and zero otherwise.	Execucomp, CRSP, WRDS SEC Analytics
Med_Potential_SLA	= one if (1) the firm *i*'s MAR in the 10 trading days following the grant date would have been in the 9th decile of all 10-day MAR windows in the year prior to the grant date and (2) firm *i* makes a filing in the 10 trading days following the grant date and zero otherwise.	Execucomp, CRSP, WRDS SEC Analytics
Low_Potential_SLA	= one if (1) the firm *i*'s MAR in the 10 trading days following the grant date would have been in the 8th decile of all 10-day MAR windows in the year prior to the grant date and (2) firm *i* makes a filing in the 10 trading days following the grant date and zero otherwise.	Execucomp, CRSP, WRDS SEC Analytics
V_Low_Potential_SLA	= one if (1) the firm *i*'s MAR in the 10 trading days following the grant date would have been in the 7th decile of all 10-day MAR windows in the year prior to the grant date and (2) firm *i* makes a filing in the 10 trading days following the grant date and zero otherwise.	Execucomp, CRSP, WRDS SEC Analytics
BTM	= book value of equity divided by the market value of equity for firm *i* in year *t*.	Compustat
Leverage	= total long-term debt divided by total assets for firm *i* in year *t*.	Compustat
Revenue	= total sales for firm *i* in year *t*.	Compustat

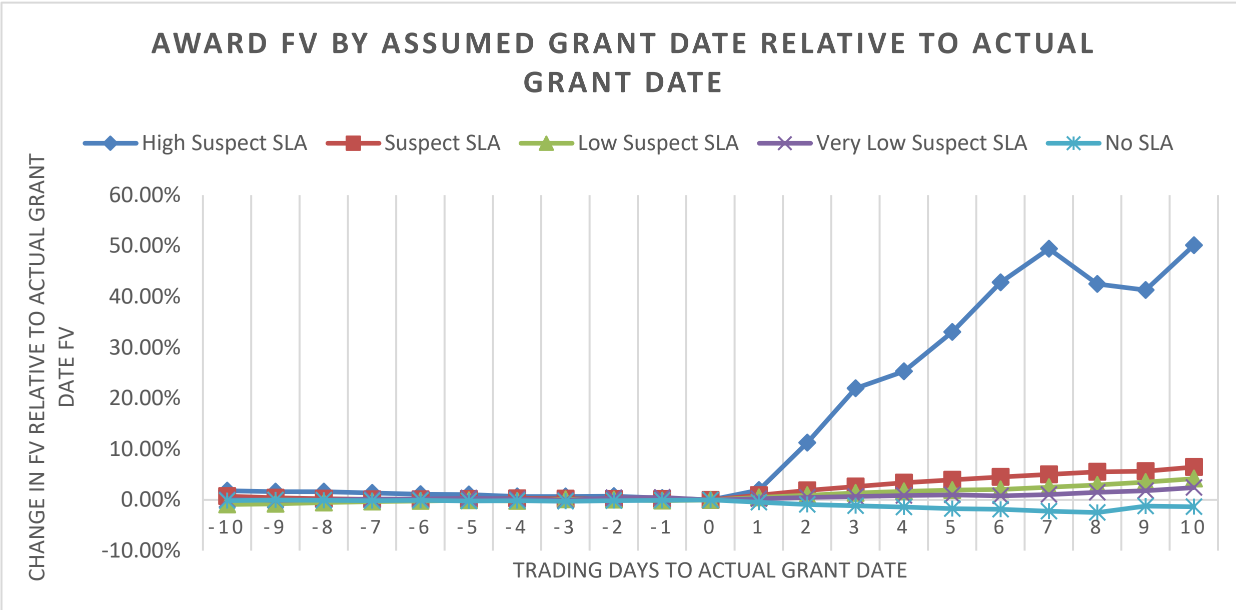
Lag_ROA	= income before extraordinary items divided by total assets for firm *i* in year *t*-1.	Compustat
STDDEV_ROA	= standard deviation of income before extraordinary items divided by total assets for firm *i* in years *t*-5 through *t*-1.	Compustat
Lag_TSR	= the sum of stock price at the end of year *t*-1 for firm *i* minus stock price at the end of year *t*-2 for firm *i* plus common dividends per share for firm *i* in year *t*-1 divided by stock price at the end of year *t*-1 for firm *i*.	Compustat
Returns	= total stock returns for firm *i* in year *t*.	Compustat
STDDEV_Returns	= the standard deviation of *Returns* for firm *i* in years *t*-5 through *t*-1.	Compustat
CEO_Male	= one if the CEO is a male for firm *i* in year *t*.	BoardEx
CEO_Age	= CEO's age for firm *i* in year *t*, zero otherwise.	Execucomp
CEO_Ability	= the CEO ability measure developed by Demerjian et al. (2012) for firm *i* in year *t*.	Demerjian et al. (2012)
CEO_Power	= one if the CEO is also the chairman of the board for firm *i* in year *t*, zero otherwise.	Execucomp
CEO_Immobility	= one if the CEO is the first three years of their tenure for firm *i* in year *t*, zero otherwise.	Execucomp
Size	= natural log of the firm *i*'s total assets in year *t*.	Compustat
Industry_SLAs	= the number of SLAs granted to CEOs of other firms in the same industry in year *t*-1.	Execucomp, CRSP, WRDS SEC Analytics
NumShares	= the total number of shares included in the grant to the CEO at firm *i* in year *t*.	Execucomp
NumOptions	= the total number of options included in the grant to the CEO at firm *i* in year *t*.	Execucomp
Num_Grants	= the total number of equity grants received by the CEO of firm *i* in year *t*.	Execucomp

Appendix B
Additional Examples of a *High_Potential_SLA*

Company	Grant Date	Grant Date Price	News Announced	Price Two Weeks Later	Two Week Price Change
Ultratech	1/31/2006	$19.20	February 3, 2006 - Entry Into Material Definitive Agreement	$22.23	15.78%
Hasbro	2/4/2010	$20.20	February 8, 2010 - Earnings Announcement and Dividend Increase	$22.89	13.32%
Capella Education	5/7/2013	$32.09	May 9, 2013 - Entered Into New Incentive Compensation Plan with Officers	$40.21	25.30%
Jabil	10/16/2014	$16.84	October 21, 2014 - Annual Report	$18.26	8.43%
Monarch Casino and Resort	10/21/2015	$17.62	October 22, 2015 - Earnings Announcement	$20.77	17.88%
Johnson & Johnson	2/13/2017	$95.32	February 27, 2017 - Annual Report	$101.62	6.61%
Prestige Consumer Healthcare	5/8/2018	$29.10	May 10, 2018 - Earnings Announcement and Reg FD Disclosure	$33.84	16.29%
Agilent Technologies	11/13/2018	$61.93	November 19, 2018 - Share Repurchase and Earnings Announcement	$66.65	7.62%
O'Reilly Automotive	1/31/2019	$344.66	February 6, 2012 - Earnings Announcement	$377.42	9.51%
Dana	2/12/2019	$15.50	February 15, 2019 - Earnings Announcement and Reg FD Disclosure	$18.58	19.87%

Appendix B lists examples of awards classified as a *High_Potential_SLA* in my sample.

Appendix C



Appendix C depicts the assumed grant date fair value as a percentage of the actual grant date fair value for all awards in my sample by trading days to the actual grant date. The sample is split by the level of SLA potential.

Appendix D

Table 1: *MAR10* Descriptive Statistics by Decile

	n	*Mean*	*Std. Dev.*	*Min*	*P25*	*Median*	*P75*	*Max*
1st Decile	278	-0.087	0.063	-0.309	-0.115	-0.076	-0.052	0.281
2nd Decile	179	-0.051	0.025	-0.143	-0.068	-0.045	-0.032	-0.016
3rd Decile	230	-0.034	0.022	-0.113	-0.045	-0.028	-0.017	0.006
4th Decile	214	-0.018	0.014	-0.075	-0.026	-0.016	-0.008	0.007
5th Decile	201	-0.005	0.012	-0.053	-0.012	-0.005	0.003	0.030
6th Decile	194	0.007	0.011	-0.026	0.000	0.005	0.013	0.044
7th Decile (*V_Low_Potential_SLA*)	238	0.020	0.015	-0.008	0.011	0.018	0.027	0.100
8th Decile (*Low_Potential_SLA*)	230	0.036	0.018	0.000	0.023	0.031	0.045	0.115
9th Decile (*Med_Potential_SLA*)	241	0.059	0.029	0.016	0.038	0.052	0.073	0.173
10th Decile (*High_Potential_SLA*)	282	0.134	0.139	0.027	0.069	0.100	0.165	1.929

Table 1 presents the descriptive statistics *MAR10* by decile. *MAR10* is the 10-day market-adjusted return beginning the day following the grant date. It is assigned a decile based on the returns for all 10-day windows during the year prior to the grant date. For example, if the observation's *MAR10* would have been in the top decile of returns for all 10-day windows in the previous year, it is assigned the 10th decile. Therefore, the deciles do not have a uniform number of observations. *MAR10* is not winsorized.

Table 2: Sample Selection

Execucomp Plan Based Equity Awards Made to CEOs from 2006 through 2019	**8,695**
Missing: Compustat data	(4,190)
Missing: Execucomp AnnComp data	(390)
Missing: BoardEx data	(339)
Missing: Managerial ability data	(1,306)
Missing: CRSP data	(183)
Final Sample	**2,287**
Non-Routine Awards	376
Routine Awards	1,779
Other Awards	132

Table 3: Descriptive Statistics for Equation (1) – Full Sample

	n	*Mean*	*Std. Dev.*	*P25*	*Median*	*P75*
High_Potential_SLA	2287	0.123	0.329	0.000	0.000	0.000
Med_Potential_SLA	2287	0.105	0.307	0.000	0.000	0.000
Low_Potential_SLA	2287	0.101	0.301	0.000	0.000	0.000
V_Low_Potential_SLA	2287	0.104	0.305	0.000	0.000	0.000
BTM	2287	0.461	0.375	0.218	0.381	0.610
Lag_ROA	2287	0.044	0.093	0.018	0.051	0.088
Lag_TSR	2287	0.140	0.444	-0.143	0.100	0.333
CEO_Male	2287	0.945	0.228	1.000	1.000	1.000
CEO_Age	2287	54.768	6.361	50.000	55.000	59.000
CEO_Ability	2287	0.011	0.154	-0.089	-0.030	0.066
Industry_SLAs	2287	3.324	2.477	1.000	3.000	5.000
Num_Grants	2287	1.816	0.924	1.000	2.000	2.000
Size	2287	7.648	1.572	6.500	7.522	8.672

Table 3 presents the descriptive stats for all variables in equation (1). All continuous variables are winsorized at the 1st and 99th percentiles. All variables are as defined in Appendix A.

Table 4: Descriptive Statistics for Equation (1) – Non-Routine Awards

	n	*Mean*	*Std. Dev.*	*P25*	*Median*	*P75*
High_Potential_SLA	376	0.138	0.346	0.000	0.000	0.000
Med_Potential_SLA	376	0.101	0.302	0.000	0.000	0.000
Low_Potential_SLA	376	0.112	0.315	0.000	0.000	0.000
V_Low_Potential_SLA	376	0.096	0.295	0.000	0.000	0.000
BTM	376	0.470	0.403	0.238	0.401	0.610
Lag_ROA	376	0.036	0.109	0.006	0.047	0.085
Lag_TSR	376	0.152	0.510	-0.163	0.097	0.324
CEO_Male	376	0.936	0.245	1.000	1.000	1.000
CEO_Age	376	53.598	6.466	49.000	53.000	58.000
CEO_Ability	376	0.015	0.145	-0.079	-0.024	0.064
Industry_SLAs	376	3.239	2.415	1.000	3.000	5.000
Num_Grants	376	1.729	1.061	1.000	1.000	2.000
Size	376	7.045	1.589	5.830	6.856	8.044

Table 4 presents descriptive statistics for all variables in equation (1) for the subsample of non-routine awards. All continuous variables are winsorized at the 1st and 99th percentiles. All variables are as defined in Appendix A.

Table 5: Descriptive Statistics for Equation (1) – Routine Awards

	n	***Mean***	***Std. Dev.***	***P25***	***Median***	***P75***
High_Potential_SLA	1779	0.123	0.328	0.000	0.000	0.000
Med_Potential_SLA	1779	0.107	0.309	0.000	0.000	0.000
Low_Potential_SLA	1779	0.098	0.298	0.000	0.000	0.000
V_Low_Potential_SLA	1779	0.105	0.306	0.000	0.000	0.000
BTM	1779	0.456	0.364	0.213	0.377	0.605
Lag_ROA	1779	0.047	0.089	0.021	0.053	0.088
Lag_TSR	1779	0.136	0.428	-0.142	0.104	0.339
CEO_Male	1779	0.947	0.225	1.000	1.000	1.000
CEO_Age	1779	55.087	6.232	51.000	55.000	59.000
CEO_Ability	1779	0.011	0.157	-0.091	-0.030	0.066
Industry_SLAs	1779	3.355	2.484	1.000	3.000	5.000
Num_Grants	1779	1.843	0.903	1.000	2.000	2.000
Size	1779	7.808	1.540	6.669	7.365	8.829

Table 5 presents the descriptive stats for all variables in equation (1) for the subsample of routine awards. All continuous variables are winsorized at the 1^{st} and 99^{th} percentiles. All variables are as defined in Appendix A.

Table 6: Correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) High_Potential_SLA	**1.00**											
(2) Med_Potential_SLA	**-0.13**	**1.00**										
(3) Low_Potential_SLA	**-0.12**	**-0.12**	**1.00**									
(4)V_Low_Potential_SLA	**-0.13**	**-0.12**	**-0.11**	1.00								
(5) BTM	**-0.04**	0.01	-0.03	0.02	**1.00**							
(6) Lag_ROA	**-0.04**	-0.00	-0.02	-0.01	**-0.17**	**1.00**						
(7) Lag_TSR	**-0.10**	**-0.04**	-0.01	-0.00	**-0.20**	**0.11**	**1.00**					
(8) CEO_Male	0.03	0.01	0.02	**-0.04**	0.01	0.01	-0.01	**1.00**				
(9) CEO_Age	0.01	0.01	0.03	-0.02	0.03	0.01	-0.02	0.02	**1.00**			
(10) CEO_Ability	**-0.08**	0.00	**0.05**	0.02	**-0.18**	**0.15**	**0.09**	**-0.04**	**0.05**	**1.00**		
(11) Industry_SLAs	**0.12**	-0.01	-0.02	-0.02	**-0.12**	0.03	0.01	**0.04**	0.03	0.03	**1.00**	
(12) Size	**-0.07**	0.02	0.02	-0.00	-0.01	**0.15**	**-0.05**	**0.04**	**0.05**	**0.28**	**0.07**	**1.00**

Table 6 presents the Pearson correlations for all variables used in equation (1). All continuous variables are winsorized at the 1st and 99th percentiles. Bolded correlations are statistically significant ($p < 0.10$). All variables are as defined in Appendix A.

Table 7: Factors Associated with Potential SLAs

	Full Sample (1)		Non-Routine Awards (2)		Routine Awards (3)	
	SLA_Scale		***SLA_Scale***		***SLA_Scale***	
BTM	**-0.325*** **	**0.009**	**-0.597** **	**0.025**	**-0.327** **	**0.021**
Lag_ROA	-0.637	0.136	0.111	0.919	-0.729	0.165
Lag_TSR	**-0.682*** **	**0.000**	**-0.581** **	**0.027**	**-0.802*** **	**0.000**
CEO_Ability	-0.337	0.247	**-2.178*** **	**0.004**	-0.115	0.733
CEO_Male	0.149	0.347	-0.119	0.714	0.170	0.352
CEO_Age	0.010	0.159	0.025	0.146	0.008	0.320
Industry_SLAs	**0.067*** **	**0.001**	**0.118** **	**0.018**	**0.047** **	**0.035**
NumGrants	**0.197*** **	**0.000**	**0.269*** **	**0.004**	**0.176*** **	**0.001**
Size	**-0.054** **	**0.054**	0.078	0.294	**-0.084*** **	**0.008**
Year FE	Yes		Yes		Yes	
Pseudo R^2	0.017		0.050		0.019	
N	2,287		376		1,779	

Table 7 presents the results of my analysis examining the factors associated with the issuance of a potential SLA. Column 1 presents the results for the full sample, column 2 presents the results when limiting the sample to non-routine awards, and column 3 presents the results when limiting the sample to routine awards. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered by firm. Bolded coefficients and p-values are statistically significant ($p < 0.10$). *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent level. All variables are as defined in Appendix A.

Table 8: Association between Grant Date Fair Value and Potential SLAs

	Full Sample				**Non-Routine Awards**				**Routine Awards**			
	(1)		(2)		(3)		(4)		(5)		(6)	
	GrantDate_FV		***GrantDate_FV***		***GrantDate_FV***		***GrantDate_FV***		***GrantDate_FV***		***GrantDate_FV***	
High_Potential_SLA	**-0.209******	**0.008**	**-0.132***	**0.066**	-0.100	0.662	-0.146	0.496	**-0.255******	**0.002**	**-0.134***	**0.077**
Med_Potential_SLA	0.095	0.258	0.111	0.145	**0.643****	**0.015**	**0.767******	**0.002**	0.069	0.429	0.056	0.483
Low_Potential_SLA	0.047	0.585	0.049	0.531	0.118	0.642	0.225	0.340	0.043	0.636	0.014	0.866
V_Low_Potential_SLA	-0.006	0.945	0.005	0.950	-0.376	0.156	-0.269	0.275	0.067	0.449	0.053	0.507
Lag_Revenue			0.000***	0.000			0.000***	0.001			0.000***	0.000
Lag_BTM			-0.577***	0.000			-0.577***	0.006			-0.581***	0.000
Lag_ROA			0.979***	0.000			1.224*	0.083			0.826***	0.008
Lag_Ret			-0.010	0.871			0.127	0.437			0.017	0.792
STDDEV_ROA			-1.720***	0.000			-1.671	0.148			-1.678***	0.001
STDDEV_Ret			0.037	0.196			0.015	0.868			0.047	0.130
NumShares			0.000***	0.000			0.000***	0.000			0.000***	0.000
NumOptions			0.001***	0.000			0.001***	0.000			0.002***	0.000
Year FE	Yes		Yes		Yes		Yes		Yes		Yes	
Industry FE	Yes		Yes		Yes		Yes		Yes		Yes	
Adj. R^2	0.134		0.289		0.117		0.255		0.152		0.313	
N	2,287		2,287		376		376		1,779		1,779	

Table 8 presents the results of my analysis examining whether potential SLAs are associated with the grant date fair value of the award. Columns 1 and 2 present the results for the full sample, columns 3 and 4 present the results when limiting the sample to non-routine awards, and columns 5 and 6 present the results when limiting the sample to routine awards. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered by firm. Bolded coefficients and p-values are statistically significant ($p < 0.10$). *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent level. All variables are as defined in Appendix A.

Table 9: Cross-Sectional Tests - CEO Power

	Low CEO Power		High CEO Power	
	(1)		(2)	
	SLA_Scale		***SLA_Scale***	
BTM	**-0.324****	**0.039**	-0.315	0.117
Lag_ROA	**-0.810***	**0.085**	-0.074	0.942
Lag_TSR	**-0.595*****	**0.000**	**-0.874*****	**0.000**
CEO_Ability	-0.084	0.825	**-0.730***	**0.087**
CEO_Male	-0.000	0.998	0.545	0.170
CEO_Age	0.010	0.281	0.008	0.479
Industry_SLAs	**0.067*****	**0.006**	**0.074****	**0.026**
NumGrants	**0.217*****	**0.000**	**0.174*****	**0.008**
Size	**-0.069***	**0.064**	-0.033	0.465
Year FE	Yes		Yes	
Pseudo R^2	0.018		0.021	
N	1,366		921	
	GrantDate_FV		***GrantDate_FV***	
High_Potential_SLA	-0.128	0.171	-0.169	0.128
Year FE	Yes		Yes	
Industry FE	Yes		Yes	
Adj. R^2	0.290		0.328	
N	1,366		921	

Table 9 presents the results of my analysis examining the factors associated with the issuance of a potential SLA and the results of the analysis examining whether potential SLAs are associated with the grant date fair value of the award when the sample is split by *CEO_Power*. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered by firm. Bolded coefficients and p-values are statistically significant ($p < 0.10$). *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent level. All variables are as defined in Appendix A.

Table 10: Cross-Sectional Tests - CEO Immobility

	Immobile CEO (1)		**Mobile CEO** (2)	
	SLA_Scale		***SLA_Scale***	
BTM	-0.308	0.128	**-0.324****	**0.031**
Lag_ROA	-0.865	0.262	-0.648	0.229
Lag_TSR	**-0.759*****	**0.000**	**-0.677*****	**0.000**
CEO_Ability	-0.064	0.896	-0.498	0.191
CEO_Male	0.174	0.442	0.134	0.606
CEO_Age	0.008	0.569	0.010	0.298
Industry_SLAs	**0.060***	**0.066**	**0.074*****	**0.005**
NumGrants	**0.227*****	**0.000**	**0.169*****	**0.002**
Size	-0.073	0.143	-0.041	0.257
Year FE	Yes		Yes	
Pseudo R^2	0.022		0.018	
N	870		1,417	
	GrantDate_FV		***GrantDate_FV***	
High_Potential_SLA	**-0.297*****	**0.006**	-0.094	0.314
Year FE	Yes		Yes	
Industry FE	Yes		Yes	
Adj. R^2	0.299		0.320	
N	870		1,417	

Table 10 presents the results of my analysis examining the factors associated with the issuance of a potential SLA and the results of the analysis examining whether potential SLAs are associated with the grant date fair value of the award when the sample is split by *CEO_Immobility*. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered by firm. Bolded coefficients and p-values are statistically significant ($p < 0.10$). *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent level. All variables are as defined in Appendix A.

Table 11: Cross-Sectional Tests - Firm Size

	Smaller Firms (1)		**Larger Firms** (2)	
	SLA_Scale		***SLA_Scale***	
BTM	**-0.441****	**0.013**	-0.254	0.148
Lag_ROA	-0.802	0.132	-1.015	0.231
Lag_TSR	**-0.707*****	**0.000**	**-0.571*****	**0.001**
CEO_Ability	**-1.035****	**0.045**	-0.042	0.917
CEO_Male	0.015	0.499	0.111	0.627
CEO_Age	0.013	0.175	0.006	0.597
Industry_SLAs	**0.058****	**0.038**	**0.074****	**0.010**
NumGrants	**0.206*****	**0.001**	**0.189*****	**0.002**
Size	0.059	0.442	-0.084	0.168
Year FE	Yes		Yes	
Pseudo R^2	0.022		0.018	
N	1,143		1,143	
	GrantDate_FV		***GrantDate_FV***	
High_Potential_SLA	0.005	0.961	**-0.164*****	**0.065**
Year FE	Yes		Yes	
Industry FE	Yes		Yes	
Adj. R^2	0.298		0.266	
N	1,143		1,143	

Table 11 presents the results of my analysis examining the factors associated with the issuance of a potential SLA and the results of the analysis examining whether potential SLAs are associated with the grant date fair value of the award when the sample is split by *Size*. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered by firm. Bolded coefficients and p-values are statistically significant ($p < 0.10$). *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent level. All variables are as defined in Appendix A.

Table 12: Robustness Test - Annual Report Observations

	(1)	
	SLA_Scale	
BTM	**-0.285****	**0.042**
Lag_ROA	**-1.141****	**0.023**
Lag_TSR	**-0.229****	**0.037**
CEO_Ability	-0.019	0.950
CEO_Male	0.138	0.399
CEO_Age	0.011	0.138
Industry_SLAs	**0.059*****	**0.003**
NumGrants	**0.183*****	**0.000**
Size	**-0.076****	**0.012**
Year FE	Yes	
Pseudo R^2	0.011	
N	2,094	
	GrantDate_FV	
High_Potential_SLA	**-0.182****	**0.017**
Year FE	Yes	
Industry FE	Yes	
Adj. R^2	0.288	
N	2,094	

Table 12 presents a robustness test when the sample is limited to observations for which more than an annual report was filed in the 10 trading days following the grant date. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered by firm. Bolded coefficients and p-values are statistically significant ($p < 0.10$). *, **, and *** indicate statistical significance at the 10 percent, 5 percent, and 1 percent level. All variables are as defined in Appendix A.

Table 13: Association between Future ROA and Potential SLAs - Full Sample

	(1)		(2)		(3)	
	Lead_ROA		***Lead2_ROA***		***Lead3_ROA***	
High_Potential_SLA	-0.009	0.227	-0.014	0.129	**-0.013***	**0.097**
Med_Potential_SLA	0.003	0.697	-0.002	0.745	0.003	0.731
Low_Potential_SLA	0.009	0.203	-0.000	0.989	0.005	0.477
V_Low_Potential_SLA	-0.004	0.501	-0.001	0.860	-0.002	0.771
Revenue	0.000*	0.068	0.000*	0.087	0.000	0.118
STDDEV_ROA	-0.386***	0.001	-0.244**	0.014	-0.247**	0.018
Year FE	Yes		Yes		Yes	
Industry FE	Yes		Yes		Yes	
Adjusted R^2	0.107		0.075		0.066	
N	2,279		2,265		2,196	

Table 13 presents the results of my analysis examining whether potential SLAs are associated with future ROA for the full sample. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered by firm. Bolded coefficients and p-values are statistically significant (p < 0.10). All variables are as defined in Appendix A.

Table 14: Association between Future ROA and Potential SLAs - Non-Routine Awards

	(1)		(2)		(3)	
	Lead_ROA		***Lead2_ROA***		***Lead3_ROA***	
High_Potential_SLA	-0.012	0.443	0.002	0.904	-0.001	0.955
Med_Potential_SLA	-0.013	0.511	0.000	0.983	-0.021	0.264
Low_Potential_SLA	0.017	0.324	0.004	0.786	-0.008	0.617
V_Low_Potential_SLA	-0.016	0.416	-0.024	0.190	**-0.033***	**0.061**
Revenue	0.000*	0.089	0.000	0.329	0.000	0.660
STDDEV_ROA	-0.288*	0.095	0.006	0.972	0.020	0.918
Year FE	Yes		Yes		Yes	
Industry FE	Yes		Yes		Yes	
Adjusted R^2	0.105		0.111		0.137	
N	373		370		361	

Table 14 presents the results of my analysis examining whether potential SLAs are associated with future ROA for the non-routine sub-sample. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered by firm. Bolded coefficients and p-values are statistically significant (p < 0.10). All variables are as defined in Appendix A.

Table 15: Association between Future ROA and Potential SLAs - Routine Awards

	(1)		(2)		(3)	
	Lead_ROA		***Lead2_ROA***		***Lead3_ROA***	
High_Potential_SLA	-0.008	0.319	-0.007	0.300	-0.009	0.274
Med_Potential_SLA	0.005	0.491	-0.003	0.700	0.003	0.723
Low_Potential_SLA	**0.012***	**0.094**	-0.001	0.942	0.007	0.356
V_Low_Potential_SLA	0.000	0.968	0.004	0.632	0.005	0.486
Revenue	0.000	0.141	0.000	0.125	0.000	0.146
STDDEV_ROA	-0.413***	0.002	-0.333***	0.002	-0.340***	0.006
Year FE	Yes		Yes		Yes	
Industry FE	Yes		Yes		Yes	
Adjusted R^2	0.124		0.115		0.089	
N	1,774		1,763		1,710	

Table 15 presents the results of my analysis examining whether potential SLAs are associated with future ROA for the routine sub-sample. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered by firm. Bolded coefficients and p-values are statistically significant ($p < 0.10$). All variables are as defined in Appendix A.

Table 16: Association between Future TSR and Potential SLAs - Full Sample

	(1)		(2)		(3)	
	Lead_TSR		***Lead2_TSR***		***Lead3_TSR***	
High_Potential_SLA	0.060	0.473	0.012	0.779	-0.054	0.605
Med_Potential_SLA	-0.037	0.200	-0.025	0.434	-0.008	0.906
Low_Potential_SLA	-0.034	0.347	-0.026	0.444	-0.186	0.200
V_Low_Potential_SLA	-0.010	0.721	0.011	0.687	-0.128	0.192
MVE	-0.036***	0.006	-0.015	0.140	-0.004	0.867
STDDEV_Ret	-0.010	0.471	0.019	0.257	-0.005	0.884
Year FE	Yes		Yes		Yes	
Industry FE	Yes		Yes		Yes	
Adjusted R^2	0.076		0.093		0.024	
N	2,279		2,265		2,196	

Table 16 presents the results of my analysis examining whether potential SLAs are associated with future TSR for the full sample. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered by firm. Bolded coefficients and p-values are statistically significant ($p < 0.10$). All variables are as defined in Appendix A.

Table 17: Association between Future TSR and Potential SLAs - Non-Routine Awards

	(1)		(2)		(3)	
	Lead_TSR		***Lead2_TSR***		***Lead3_TSR***	
High_Potential_SLA	0.007	0.955	0.117	0.499	0.402	0.217
Med_Potential_SLA	-0.115	0.323	-0.026	0.799	-0.059	0.666
Low_Potential_SLA	0.002	0.974	-0.088	0.362	0.054	0.615
V_Low_Potential_SLA	-0.103	0.267	-0.105	0.369	-0.004	0.968
MVE	-0.078*	0.077	-0.022	0.658	-0.077	0.105
STDDEV_Ret	-0.020	0.636	0.104	0.120	0.058*	0.078
Year FE	Yes		Yes		Yes	
Industry FE	Yes		Yes		Yes	
Adjusted R^2	0.156		0.137		0.165	
N	373		370		361	

Table 17 presents the results of my analysis examining whether potential SLAs are associated with future TSR for the non-routine sub-sample. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered by firm. Bolded coefficients and p-values are statistically significant (p < 0.10). All variables are as defined in Appendix A.

Table 18: Association between Future TSR and Potential SLAs - Routine Awards

	(1)		(2)		(3)	
	Lead_TSR		***Lead2_TSR***		***Lead3_TSR***	
High_Potential_SLA	0.097	0.335	0.000	0.996	-0.131	0.173
Med_Potential_SLA	-0.041	0.131	-0.030	0.371	-0.025	0.764
Low_Potential_SLA	-0.017	0.701	-0.026	0.467	-0.228	0.180
V_Low_Potential_SLA	0.010	0.746	0.018	0.510	-0.144	0.253
MVE	-0.025*	0.058	-0.011	0.229	0.004	0.872
STDDEV_Ret	-0.003	0.844	0.006	0.640	-0.023	0.620
Year FE	Yes		Yes		Yes	
Industry FE	Yes		Yes		Yes	
Adjusted R^2	0.069		0.088		0.030	
N	1,774		1,763		1,710	

Table 18 presents the results of my analysis examining whether potential SLAs are associated with future TSR for the routine sub-sample. All continuous variables are winsorized at the 1st and 99th percentiles. Standard errors are clustered by firm. Bolded coefficients and p-values are statistically significant (p < 0.10). All variables are as defined in Appendix A.

Vita

Kory Maag earned his Bachelor of Business Administration in accounting as well as a master’s degree in financial management from Texas A&M University in 2020. While at Texas A&M, he completed internships in internal audit and store operations at Academy Sports + Outdoors in Katy, Texas, as well as an assurance internship at EY in Charlotte, NC. In addition, he taught an entry-level business class to first-year students in 2016, 2017 and 2019. While at UT, he taught Intermediate Financial Accounting II. His dissertation is titled " An Examination of the Incentives to Issue Spring-Loaded Equity Awards.” His other research projects include "Shareholder Proposal Pressure and Governance Disclosures" with Lauren Cunningham and Roy Schmardebeck and "Obfuscating the Source of Director Nominations" with Cory Cassell, Linda Myers, and Roy Schmardebeck. He expects to complete the requirements of the Ph.D. program by May 2024.