

WISCONSIN ENERGY CORP  
Form DEF 14A  
March 29, 2011  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to (S) 240.14a-11(c) or (S) 240.14a-12

**Wisconsin Energy Corporation**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**Table of Contents**

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>Notice of Annual Meeting of Stockholders</u></b>	P-3
<b><u>Proxy Statement</u></b>	P-5
<u>General Information – Frequently Asked Questions</u>	P-5
<u>Corporate Governance – Frequently Asked Questions</u>	P-8
<u>Proposal 1: Election of Directors – Terms Expiring in 2012</u>	P-13
<u>Committees of the Board of Directors</u>	P-17
<u>Proposal 2: Vote to Initiate the Process to Elect Directors by Majority Vote in Uncontested Elections</u>	P-18
<u>Proposal 3: Ratification of Deloitte &amp; Touche LLP as Independent Auditors for 2011</u>	P-18
<u>Independent Auditors – Fees and Services</u>	P-19
<u>Audit and Oversight Committee Report</u>	P-20
<u>Proposal 4: Approval of Amendments to the Wisconsin Energy Corporation 1993 Omnibus Stock Incentive Plan, as Amended and Restated</u>	P-21
<u>Compensation Discussion and Analysis</u>	P-25
<u>Compensation Committee Report</u>	P-35
<u>Executive Officers – Compensation</u>	P-36
<u>Proposal 5: Advisory Vote on Compensation of the Named Executive Officers</u>	P-53
<u>Proposal 6: Advisory Vote to Establish the Frequency of the Say-On-Pay Advisory Vote</u>	P-53
<u>Director Compensation</u>	P-54
<u>Risk Analysis of Compensation Policies and Practices</u>	P-55
<u>WEC Common Stock Ownership</u>	P-56
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	P-57
<u>Certain Relationships and Related Transactions</u>	P-57
<u>Availability of Form 10-K</u>	P-57
<u>Appendix A: 1993 Omnibus Stock Incentive Plan, as Amended and Restated</u>	A-1

**Table of Contents**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

March 29, 2011

To the Stockholders of Wisconsin Energy Corporation:

You are cordially invited to attend the 2011 Annual Meeting of Stockholders. **An admission ticket will be required to enter the meeting.** Your admission ticket, which also includes a map to the meeting, is located on your proxy card. Instructions on how to obtain an admission ticket if you received your proxy materials electronically are provided on page P-7 of the proxy statement. If you are not able to attend the Annual Meeting, you may listen to a live webcast available on the Wisconsin Energy Website at: [www.wisconsinenergy.com/invest/annualmtg.htm](http://www.wisconsinenergy.com/invest/annualmtg.htm). An archive of the webcast will be available on the site for approximately 12 months following the meeting. **Regardless of whether you plan to attend, please take a moment to vote your proxy.** The meeting will be held as follows:

**WHEN:** Thursday, May 5, 2011

10:00 a.m., Central time

**WHERE:** Concordia University Wisconsin

R. John Buuck Field House

12800 North Lake Shore Drive

Mequon, Wisconsin 53097

**ITEMS OF BUSINESS:** Election of nine directors for terms expiring in 2012.

Vote to initiate the process to elect directors by majority vote in uncontested elections.

Ratification of Deloitte & Touche LLP as independent auditors for 2011.

Approval of amendments to the Wisconsin Energy Corporation 1993 Omnibus Stock Incentive Plan, as amended and restated.

Advisory vote on compensation of the named executive officers.

Advisory vote to establish the frequency of the advisory vote on the compensation of the named executive officers.

Consideration of any other matters that may properly come before the meeting.

**RECORD DATE:** March 10, 2011

**VOTING BY PROXY:** *Your vote is important.* You may vote:

using the Internet;

by telephone; or

by returning the proxy card in the envelope provided.

**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on May 5, 2011 The Proxy Statement and 2010 Annual Report are available at:**

**<http://www.wisconsinenergy.com/proxystatement>**

By Order of the Board of Directors,

Susan H. Martin

Vice President, Corporate Secretary and Associate General Counsel

Table of Contents

**This Page Intentionally Left Blank**

P-4

**Table of Contents**

**PROXY STATEMENT**

*This proxy statement is being furnished to stockholders beginning on or about March 29, 2011, in connection with the solicitation of proxies by the Wisconsin Energy Corporation ( WEC or the Company ) Board of Directors (the Board ) to be used at the Annual Meeting of Stockholders on Thursday, May 5, 2011 (the Meeting ) at 10:00 a.m., Central time, in the R. John Buuck Field House on the campus of Concordia University Wisconsin located at 12800 North Lake Shore Drive, Mequon, Wisconsin 53097, and at all adjournments or postponements of the Meeting, for the purposes listed in the preceding Notice of Annual Meeting of Stockholders.*

**GENERAL INFORMATION FREQUENTLY ASKED QUESTIONS**

What am I voting on?

**Proposal 1:** Election of nine directors for terms expiring in 2012.

**Proposal 2:** Initiating the process to elect directors by majority vote in uncontested elections.

**Proposal 3:** Ratification of Deloitte & Touche LLP as independent auditors for 2011.

**Proposal 4:** Approval of amendments to the Wisconsin Energy Corporation 1993 Omnibus Stock Incentive Plan, as amended and restated.

**Proposal 5:** Advisory vote on compensation of the named executive officers, commonly referred to as a Say on Pay vote.

**Proposal 6:** Advisory vote to establish the frequency of the advisory say on pay vote.

The Company is not aware of any other matters that will be voted on. If a matter does properly come before the Meeting, the persons named as the proxies in the accompanying form of proxy will vote the proxy at their discretion.

What are the Board's voting recommendations?

The Board of Directors recommends a vote:

**FOR** each of the nine nominated directors;

**FOR** the initiation of the process to elect directors by majority vote in uncontested elections;



## Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

**FOR** ratification of Deloitte & Touche LLP as independent auditors for 2011;

**FOR** the amendments to the Wisconsin Energy Corporation 1993 Omnibus Stock Incentive Plan, as amended and restated;

**FOR** approval of the compensation of the Company's named executive officers as disclosed in this proxy statement; and

For a frequency of every **THREE YEARS** for future non-binding say on pay advisory votes.

What is the vote required for each proposal?

**Proposal 1:** The nine individuals receiving the largest number of votes will be elected as directors.

**Proposal 2:** Approval of the proposal to initiate the process to elect directors by majority vote in uncontested elections requires the affirmative vote of a majority of the votes cast in person or by proxy at this meeting. Although your vote is advisory and will not be binding on the Board or the Company, if this advisory vote obtains the affirmative vote of a majority of the votes cast, the Board intends to initiate the process to elect directors by majority vote in uncontested elections.

**Proposal 3:** Ratification of the independent auditors requires the affirmative vote of a majority of the votes cast in person or by proxy at the Meeting.

**Proposal 4:** Approval of the amendments to Wisconsin Energy Corporation's 1993 Omnibus Stock Incentive Plan, as amended and restated, requires the affirmative vote of a majority of the votes cast in person or by proxy at the Meeting.

**Proposal 5:** Approval, on a non-binding, advisory basis, of the compensation of the named executive officers requires the affirmative vote of a majority of the votes cast in person or by proxy at this meeting. Because your vote is advisory, it will not be binding on the Board or the Company. However, the Board will review the voting results and take them into consideration when making future decisions regarding executive compensation.

**Proposal 6:** For purposes of determining the frequency of future advisory say on pay votes, the frequency receiving the greatest number of votes—every three years, every two years or every one

**Table of Contents**

year will be considered the frequency approved by stockholders. Because your vote is advisory, it will not be binding on the Board or the Company. However, the Board will review the voting results and take them into consideration when making future decisions regarding the frequency of the advisory say on pay vote.

Presuming a quorum is present, abstentions and broker non-votes will have no effect on the outcome of any of these proposals.

Who can vote?

Common stockholders as of the close of business on the record date, March 10, 2011, can vote. Each outstanding share of WEC common stock is entitled to one vote upon each matter presented. A list of stockholders entitled to vote will be available for inspection by stockholders at WEC's principal business office, 231 West Michigan Street, Milwaukee, Wisconsin 53203, prior to the Meeting. The list also will be available at the Meeting.

How do I vote?

There are several ways to vote:

By Internet. The Company encourages you to vote this way.

By toll-free touch-tone telephone.

By completing and mailing the enclosed proxy card.

By written ballot at the Meeting.

Instructions to vote through the Internet or by telephone are listed on your proxy card or the information forwarded to you by your bank or broker. The Internet and telephone voting facilities will close at 10:59 p.m., Central time, on Wednesday, May 4, 2011.

If you are a participant in WEC's Stock Plus Investment Plan ( Stock Plus ) or own shares through investments in the WEC Common Stock Fund or WEC Common Stock ESOP Fund in WEC's 401(k) plan, your proxy will serve as voting instructions for your shares held in those plans. The administrator for Stock Plus and the trustee for the 401(k) plan will vote your shares as you direct. If a proxy is not returned for shares held in Stock Plus, the administrator will not vote those shares. If a proxy is not returned for shares held in the 401(k) plan, the trustee will vote those shares in the same proportion that all shares in the WEC Common Stock Fund or WEC Common Stock ESOP Fund, as the case may be, for which voting instructions have been received, are voted.

If you are a beneficial owner and your bank or broker holds your shares in its name, they are permitted to vote your shares in the ratification of the independent auditors even if the broker does not receive voting instructions from you. However, for matters considered non-routine, which includes proposals 1, 2, 4, 5 and 6, your broker or other record holder of your shares will not be permitted to vote your shares unless you provide voting instructions. If your shares are held in the name of a broker, bank or other holder of record, you are invited to attend the Meeting, but may not vote at the Meeting unless you have first obtained a proxy executed in your favor from the holder of record.

What does it mean if I

It means your shares are held in more than one account. Please vote all proxies to ensure all of your shares are counted.

get more than one proxy?

What constitutes a quorum?

As of the record date, there were 233,746,331 shares of WEC common stock outstanding, which include the shares distributed as a result of the March 1, 2011 two-for-one stock split. In order to conduct the Meeting, a majority of the outstanding shares entitled to vote must be represented in person or by proxy. This is known as a quorum. Abstentions and shares which are the subject of broker non-votes will count toward establishing a quorum.

Can I change my vote?

You may change your vote or revoke your proxy at any time prior to the closing of the polls, by:

Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

entering a new vote by Internet or phone;  
returning a later-dated proxy card;  
voting in person at the Meeting; or

notifying WEC's Corporate Secretary by written revocation letter.

The Corporate Secretary is Susan H. Martin. Any revocation should be filed with her at WEC's principal business office, 231 West Michigan Street, P. O. Box 1331, Milwaukee, Wisconsin 53201.

P-6

---

**Table of Contents**

Attendance at the Meeting will not, in itself, constitute revocation of a proxy. All shares entitled to vote and represented by properly completed proxies timely received and not revoked will be voted as you direct. If no direction is given in a properly completed proxy, the proxy will be voted as the Board recommends.

Who conducts the proxy solicitation?

The WEC Board is soliciting these proxies. WEC will bear the cost of the solicitation of proxies. WEC contemplates that proxies will be solicited principally through the use of the mail, but employees of WEC or its subsidiaries may solicit proxies by telephone, personally or by other communications, without compensation apart from their normal salaries. It is not anticipated that any other persons will be engaged to solicit proxies or that compensation will be paid for that purpose. However, WEC may seek the services of an outside proxy solicitor in the event that such services become necessary.

Who will count the votes?

BNY Mellon Shareowner Services, which also will serve as Inspector of Election, will tabulate voted proxies.

How can I attend the Meeting?

The Meeting is open to all stockholders of WEC. **You must bring an admission ticket or other evidence of your stock ownership to enter the Meeting.** If you received proxy materials by mail, your admission ticket is included on your proxy card. The admission ticket admits the stockholder and one guest. If your shares are jointly owned and you need an additional ticket, or if you need directions to the Meeting or have questions regarding this process, contact Stockholder Services, 231 West Michigan Street, P.O. Box 1331, Milwaukee, Wisconsin 53201 or call 800-881-5882. A map to the Meeting is included on the admission ticket.

What information is available via the Internet?

The following documents can be found at <http://www.wisconsinenergy.com/proxystatement>:

Notice of Annual Meeting;

Proxy Statement;

2010 Annual Report; and

Form of Proxy.

How do I obtain an admission ticket if I received my proxy materials electronically?

If your shares are registered in your name, you can print an admission ticket by following the instructions provided in the e-mail which transmitted your proxy materials. If you hold your shares through a bank, brokerage firm, or other nominee, call 800-881-5882 or write to Stockholder Services at the above address to request an admission ticket. We will send you an admission ticket upon verification of your ownership. You may also bring a copy of your account statement or other evidence of your ownership as of the record date to the Meeting. That document will serve as your admission ticket.

What steps has WEC taken to reduce the cost of proxy solicitation?

WEC has implemented several practices that reduce printing and postage costs and are friendly to the environment. WEC encourages you to choose MLink<sup>SM</sup> for fast and secure 24/7 online access to proxy materials, investment plan statements, tax documents and more. Simply log on at <http://www.bnymellon.com/shareowner/equityaccess> where step-by-step instructions will prompt you on how to enroll in MLink<sup>SM</sup>.

The Company also has:

encouraged Internet and telephone voting of your proxies; and

implemented householding whereby stockholders sharing a single address receive a single annual report and proxy statement, unless the Company received instructions to the contrary from one or more of the stockholders.

If you received multiple copies of the annual report and proxy statement, you may wish to contact the Company's transfer agent, BNY Mellon Shareowner Services, at 800-558-9663, to request householding, or you may provide written instructions to Wisconsin Energy Corporation, c/o BNY Mellon Shareowner Services, P.O. Box 358035, Pittsburgh, PA 15252-8035. If you wish to receive separate copies of the annual report and proxy statement now or in the future, or to discontinue householding entirely, you may contact the Company's transfer agent using the contact information provided above. Upon request, the Company will promptly send a separate copy of either document. Whether or not a stockholder is householding, each stockholder will continue to receive a proxy card. If your shares are held through a bank, broker or other holder of record, you may request householding by contacting the holder of record.

P-7

**Table of Contents**

Who do I contact if I have questions about the Meeting or my account? If you need more information about the Meeting, write to Stockholder Services, 231 West Michigan Street, P.O. Box 1331, Milwaukee, Wisconsin 53201, or call us at 800-881-5882. For information about shares registered in your name or your Stock Plus account, call our transfer agent, BNY Mellon Shareowner Services, at 800-558-9663, or access your account via the Internet at <http://www.bnymellon.com/shareowner/equityaccess>.

**CORPORATE GOVERNANCE FREQUENTLY ASKED QUESTIONS**

Does WEC have Corporate Governance Guidelines? Yes, since 1996 the Board has maintained Corporate Governance Guidelines that provide a framework under which it conducts business. The Corporate Governance Committee reviews the Guidelines annually to ensure that the Board is providing effective governance over the affairs of the Company. The Guidelines are available in the Governance section of the Company's Website at [www.wisconsinenergy.com](http://www.wisconsinenergy.com) and are available in print to any stockholder who requests them in writing from the Corporate Secretary.

How are directors determined to be independent? No director qualifies as independent unless the Board affirmatively determines that the director has no material relationship with the Company. The Corporate Governance Guidelines provide that the Board should consist of at least a two-thirds majority of independent directors.

What are the Board's standards of independence? The guidelines the Board uses in determining director independence are located in Appendix A of the Corporate Governance Guidelines. These standards of independence, which are summarized below, include those established by the New York Stock Exchange as well as a series of standards that are more comprehensive than New York Stock Exchange requirements. A director will be considered independent by the Board if the director:

has not been an employee of the Company for the last five years;

has not received, in the past three years, more than \$120,000 per year in direct compensation from the Company, other than director fees or deferred compensation for prior service;

is not a current partner or employee of a firm that is the Company's internal or external auditor, was not within the last three years a partner or employee of such a firm and personally worked on the Company's audit within that time, or has no immediate family member who is a current employee of such a firm and personally works on the Company's audit;

has not been an executive officer, in the past three years, of another company where any of the Company's present executives at the same time serves or served on that other company's compensation committee;

in the past three years, has not been an employee of a company that makes payments to, or receives payments from, the Company for property or services in an amount which in any single fiscal year is the greater of \$1 million or 2% of such other company's consolidated gross revenues;

has not received, in the past three years, remuneration, other than *de minimus* remuneration, as a result of services as, or being affiliated with an entity that serves as, an advisor, consultant, or legal counsel to the Company or to a member of the Company's senior management, or a significant supplier of the Company;

has no personal service contract(s) with the Company or any member of the Company's senior management;

is not an employee or officer with a not-for-profit entity that receives 5% or more of its total annual charitable awards from the Company;

has not had any business relationship with the Company, in the past three years, for which the Company has been required to make disclosure under certain rules of the Securities and Exchange Commission;

is not employed by a public company at which an executive officer of the Company serves as a director; and

does not have any beneficial ownership interest of 5% or more in an entity that has received remuneration, other than *de minimus* remuneration, from the Company, its subsidiaries or affiliates.

## Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

The Board also considers whether a director's immediate family members meet the above criteria, as well as whether a director has any relationships with WEC's affiliates for certain of the above criteria, when determining the director's independence.

P-8

**Table of Contents**

Who are the independent directors?	The Board has affirmatively determined that Directors Bergstrom, Bowles, Chadwick, Cornog, Culver, Fischer, Payne and Stratton have no relationships within the Board’s standards of independence noted above and otherwise have no material relationships with WEC and are independent. This represents 89% of the Board. Director Klappa is not independent due to his present employment with WEC.
What are the committees of the Board?	The Board of Directors has the following committees: Audit and Oversight, Compensation, Corporate Governance, Finance, and Executive.  All committees, except the Executive Committee, operate under a charter approved by the Board. A copy of each committee charter is posted in the Governance section of the Company’s Website at <a href="http://www.wisconsinenergy.com">www.wisconsinenergy.com</a> and is available in print to any stockholder who requests it in writing from the Corporate Secretary. The members and the responsibilities of each committee are listed later in this proxy statement under the heading Committees of the Board of Directors.
Are the Audit and Oversight, Corporate Governance and Compensation Committees comprised solely of independent directors?	Yes, these committees are comprised solely of independent directors, as determined under New York Stock Exchange rules and the Board’s Corporate Governance Guidelines.  In addition, the Board has determined that each member of the Audit and Oversight Committee is independent under the rules of the New York Stock Exchange applicable to audit committee members. The Audit and Oversight Committee is a separately designated committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended.
Is the office of CEO combined with the office of Chairman of the Board?	Consistent with WEC’s Bylaws and its Corporate Governance Guidelines, the Board retains the right to exercise its discretion in combining or separating the offices of Chief Executive Officer and Chairman of the Board. Given the uniqueness and complexity of the Company’s industry, operations and regulatory environment, the Board believes that having a combined CEO and Chairman is the appropriate structure for the Company. This combined structure provides the Company with clear leadership and a single voice in implementation of its strategy and in leading discussions at the Board level.  The Board currently does not appoint a lead independent director; however, Director Bowles, the chair of the Corporate Governance Committee, acts as presiding director whenever the independent directors meet in executive session without any management present. The Board believes that such leadership evolves naturally and may vary depending upon the issue under consideration. Therefore, the appointment of a designated lead independent director is not necessary.
Do the non-management directors meet separately from management?	Yes, at every regularly scheduled Board meeting non-management (non-employee) directors meet in executive session without any management present. All non-management directors are independent. The chair of the Corporate Governance Committee, currently Director Bowles, presides at these sessions.
What is the Board’s role in risk oversight?	The Board oversees our risk environment and has delegated specific risk monitoring responsibilities to the Audit and Oversight Committee and the Finance Committee as described in each committee’s charter. Both of these committees routinely report back to the Board. The Board and its committees also periodically receive briefings from management on specific areas of risk as well as emerging risks to the enterprise. The Board’s role in risk oversight had no effect on the Board’s decision to combine the roles of Chairman and CEO.  The Audit and Oversight Committee periodically hears reports from management on the Company’s major risk exposures in such areas as compliance, environmental, legal/litigation and ethical conduct and steps taken



## Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

to monitor and control such exposures. This committee also devotes at least one meeting annually to risk oversight. The Finance Committee discusses the Company's risk assessment and risk management policies, and provides oversight of insurance matters to ensure that its risk management program is functioning properly. Both committees have direct access to, and meet as needed with, Company representatives without other management present to discuss matters related to risk management.

The CEO, who is ultimately responsible for managing risk, routinely reports to the Board on risk-related matters. The Company has implemented a quarterly process in which business unit leaders are to identify existing, new or emerging issues or changes within their business area that could have enterprise implications and report them to the Enterprise Risk Management Committee. This

P-9

**Table of Contents**

committee is comprised of management employees responsible for specific business units and is tasked with ensuring that these risks and opportunities are appropriately addressed. In addition, the Company has established a Compliance Risk Steering Committee, comprised of senior level management employees, whose purpose is to foster an enterprise-wide approach to managing compliance. The results of each of these risk-management efforts are reported to the CEO and to the Board or its appropriate committee.

How can interested parties contact the members of the Board?

Correspondence may be sent to the directors, including the non-management directors, in care of the Corporate Secretary, Susan H. Martin, at the Company's principal business office, 231 West Michigan Street, P.O. Box 1331, Milwaukee, Wisconsin 53201.

All communication received as set forth above will be opened by the Corporate Secretary for the sole purpose of confirming the contents represent a message to the Company's directors. Pursuant to instructions from the Board of Directors, all communication, other than advertising, promotion of a product or service, or patently offensive material, will be forwarded promptly to the addressee.

Does the Company have a written code of ethics?

Yes, all WEC directors, executive officers and employees, including the principal executive, financial and accounting officers, have a responsibility to comply with WEC's Code of Business Conduct, to seek advice in doubtful situations and to report suspected violations.

WEC's Code of Business Conduct addresses, among other things: conflicts of interest; confidentiality; fair dealing; protection and proper use of Company assets; and compliance with laws, rules and regulations (including insider trading laws). The Company has not provided any waiver to the Code for any director, executive officer or other employee.

The Code of Business Conduct is posted in the Governance section of the Company's Website at [www.wisconsinenergy.com](http://www.wisconsinenergy.com). It is also available in print to any stockholder upon request in writing to the Corporate Secretary.

The Company has several ways employees can raise questions concerning WEC's Code of Business Conduct and other Company policies. As one reporting mechanism, the Company has contracted with an independent call center for employees to confidentially report suspected violations of the Code of Business Conduct or other concerns, including those regarding accounting, internal accounting controls or auditing matters.

Does the Company have policies and procedures in place to review and approve related party transactions?

All employees of WEC, including executive officers, and members of the Board are required to comply with WEC's Code of Business Conduct. The Code addresses, among other things, what actions are required when potential conflicts of interest may arise, including those from related party transactions. Specifically, executive officers and members of the Board are required to obtain approval of the Audit and Oversight Committee chair (1) before obtaining any financial interest in or participating in any business relationship with any company, individual or concern doing business with WEC or any of its subsidiaries, (2) before participating in any joint venture, partnership or other business relationship with WEC or any of its subsidiaries, and (3) before serving as an officer or member of the board of any substantial outside for-profit organization (except the Chief Executive Officer must obtain the approval of the full Board before doing so and members of the Board of Directors must obtain the prior approval of the Corporate Governance Committee). Executive officers must obtain the prior approval of the Chief Executive Officer before accepting a position with a substantial non-profit organization; members of the Board must notify the Compliance Officer when joining the board of a substantial non-profit organization, but do not need to obtain prior approval.

In addition, WEC's Code of Business Conduct requires employees and directors to notify the Compliance Officer of situations where family members are a supplier or significant customer of WEC or employed by one. To the extent the Compliance Officer deems it appropriate, she will consult with the Audit and Oversight Committee chair in situations involving executive officers and members of the Board.

Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

Does the Board evaluate CEO performance?

Yes, the Compensation Committee, on behalf of the Board, annually evaluates the performance of the CEO and reports the results to the Board. As part of this practice, the Compensation Committee obtains from each non-employee director his or her opinion and input on the CEO's performance.

The CEO is evaluated in a number of areas including leadership, vision, financial stewardship, strategy development, management development, effective communication with constituencies,

P-10

**Table of Contents**

demonstrated integrity and effective representation of the Company in community and industry affairs. The chair of the Compensation Committee shares the evaluation results with the CEO. The process is also used by the Committee to determine appropriate compensation for the CEO. This procedure allows the Board to evaluate the CEO and to communicate the Board's expectations.

Does the Board evaluate its own performance?

Yes, the Board annually evaluates its own collective performance. Each director is asked to consider the performance of the Board on such things as: the establishment of appropriate corporate governance practices; providing appropriate oversight for key affairs of the Company (including its strategic plans, long-range goals, financial and operating performance, risks to the enterprise and customer satisfaction initiatives); communicating the Board's expectations and concerns to the CEO; overseeing opportunities critical to the Company; and operating in a manner that ensures open communication, candid and constructive dialogue as well as critical questioning. The Corporate Governance Committee uses the results of this process as part of its annual review of the Corporate Governance Guidelines and to foster continuous improvement of the Board's activities.

Is Board committee performance evaluated?

Yes, each committee, except the Executive Committee, conducts an annual performance evaluation of its own activities and reports the results to the Board. The evaluation compares the performance of each committee with the requirements of its charter. The results of the annual evaluations are used by each committee to identify both its strengths and areas where its governance practices can be improved. Each committee may adjust its charter, with Board approval, based on the evaluation results.

Are all the members of the Audit Committee financially literate and does the committee have an audit committee financial expert?

Yes, the Board has determined that all of the members of the Audit and Oversight Committee are financially literate as required by New York Stock Exchange rules and qualify as audit committee financial experts within the meaning of Securities and Exchange Commission rules. Director Fischer serves on the audit committee of three other public companies. The Board determined that his service on these other audit committees will not impair Director Fischer's ability to effectively serve on the Audit and Oversight Committee. No other member of the Audit and Oversight Committee serves as an audit committee member of more than three public companies. For this purpose, the Company considers service on the audit committees of Wisconsin Energy Corporation and Wisconsin Electric Power Company to be service on the audit committee of one public company because of the commonality of the issues considered by those committees.

What are the principal processes and procedures used by the Compensation Committee to determine executive and director compensation?

One of the principal responsibilities of the Compensation Committee is to provide a competitive, performance-based executive and director compensation program. This includes: (1) determining and periodically reviewing the Committee's compensation philosophy; (2) determining and reviewing the compensation paid to executive officers (including base salaries, incentive compensation and benefits); (3) overseeing the compensation and benefits to be paid to other officers and key employees; and (4) establishing and administering the Chief Executive Officer compensation package. The Compensation Committee is also charged with administering the compensation package of WEC's non-employee directors. Although it has not chosen to do so, the Committee may delegate all or a portion of its duties and responsibilities to a subcommittee of the Committee.

WEC engaged (outside of the Compensation Committee) Towers Watson, a compensation consulting firm, to provide the Compensation Committee and Chief Executive Officer with compensation data regarding general industry and the energy services industry. Although the Compensation Committee relies on this compensation data, Towers Watson does not recommend the amount or form of executive or director compensation. While Towers Watson was not engaged directly by the Compensation Committee, the Committee has unrestricted access to Towers Watson and may retain its own compensation consultant at its discretion.

The Chief Executive Officer, after reviewing the compensation data compiled by Towers Watson and each executive officer's individual experience, performance, responsibility and contribution to the results of the Company's operations, makes compensation recommendations to the Committee for all executive officers other than himself. The Compensation Committee is free to make adjustments to such recommendations as it deems appropriate. For more information regarding our executive compensation processes and procedures, please refer to the Compensation Discussion and Analysis later in this proxy statement.

---

**Table of Contents**

Does the Board have a nominating committee?

Yes, the Corporate Governance Committee is responsible for, among other things, identifying and evaluating director nominees. The chair of the Committee coordinates this effort.

What is the process used to identify director nominees and how do I recommend a nominee to the Corporate Governance Committee?

Candidates for director nomination may be proposed by stockholders, the Corporate Governance Committee and other members of the Board. The Committee may pay a third party to identify qualified candidates; however, no such firm was engaged with respect to the nominees listed in this proxy statement. No stockholder nominations or recommendations for director candidates were received.

Stockholders wishing to propose director candidates for consideration and recommendation by the Corporate Governance Committee for election at the 2012 Annual Meeting of Stockholders must submit the candidates names and qualifications to the Corporate Governance Committee no later than November 1, 2011, via the Corporate Secretary, Susan H. Martin, at the Company's principal business office, 231 West Michigan Street, P.O. Box 1331, Milwaukee, Wisconsin 53201.

What are the criteria and processes used to evaluate director nominees?

The Corporate Governance Committee has established criteria for evaluating all director candidates, which are reviewed annually. As set forth in the Company's Corporate Governance Guidelines, these include: proven integrity; mature and independent judgment; vision and imagination; ability to objectively appraise problems; ability to evaluate strategic options and risks; sound business experience and acumen; relevant technological, political, economic or social/cultural expertise; social consciousness; achievement of prominence in career; familiarity with national and international issues affecting the Company's businesses; contribution to the Board's desired diversity and balance; and availability to serve for five years before reaching the directors retirement age of 72.

The Committee does not have a specific policy with regards to the consideration of diversity in identifying director nominees. However, the Committee strives to recommend candidates who each bring a unique perspective to the Board in order to contribute to the collective diversity of the Board. As part of its process in connection with the nomination of new directors to the Board, the Committee considers several factors to ensure the entire Board collectively embraces a wide variety of characteristics, including professional background, experience, skills and knowledge as well as the criteria listed above. Each candidate will generally exhibit different and varying degrees of these characteristics.

In evaluating director candidates, the Corporate Governance Committee reviews potential conflicts of interest, including interlocking directorships and substantial business, civic and/or social relationships with other members of the Board that could impair the prospective Board member's ability to act independently from the other Board members and management. The Bylaws state that directors shall be stockholders of WEC.

Once a person has been identified by the Corporate Governance Committee as a potential candidate, the Committee may collect and review publicly available information regarding the person to assess whether the person should be considered further. If the Committee determines that the candidate warrants further consideration, the chair or another member of the Committee contacts the person. Generally, if the person expresses a willingness to be considered and to serve on the Board, the Committee requests information from the candidate, reviews the person's accomplishments and qualifications and conducts one or more interviews with the candidate. In certain instances, Committee members may contact one or more references provided by the candidate or may contact other members of the business community or other persons who may have greater firsthand knowledge of the candidate's accomplishments.

The Committee evaluates all candidates, including those proposed by stockholders, using the criteria and process described above. The process is designed to provide the Board with a diversity of experience and stability to allow it to effectively meet the many challenges WEC faces in today's changing business environment.

## Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

What is the deadline for stockholders to submit proposals for the 2012 Annual Meeting of Stockholders?

Stockholders who intend to have a proposal considered for inclusion in the Company's proxy materials for presentation at the 2012 Annual Meeting of Stockholders must submit the proposal to the Company no later than November 30, 2011.

Stockholders who intend to present a proposal at the 2012 Annual Meeting of Stockholders without inclusion of such proposal in the Company's proxy materials, or who propose to nominate a person for election as a director at the 2012 Annual Meeting, are required to provide notice of such proposal or nomination, containing the information required by the Company's Bylaws, to the

P-12

**Table of Contents**

Company at least 70 days and not more than 100 days prior to the scheduled date of the 2012 Annual Meeting of Stockholders. The 2012 Annual Meeting of Stockholders is tentatively scheduled for May 3, 2012.

Correspondence in this regard should be directed to the Corporate Secretary, Susan H. Martin, at the Company's principal business office, 231 West Michigan Street, P.O. Box 1331, Milwaukee, Wisconsin 53201.

What is WEC's policy regarding director attendance at annual meetings?

Generally all directors are expected to attend the Company's annual meetings of stockholders. Other than Mr. Culver, all directors attended the 2010 Annual Meeting.

Where can I find more information about WEC corporate governance?

The Company's Website, [www.wisconsinenergy.com](http://www.wisconsinenergy.com), contains information on the Company's governance activities. The site includes the Code of Business Conduct, Corporate Governance Guidelines, Board committee charters and other useful information. As policies are continually evolving, the Company encourages you to visit the Website periodically. Copies of these documents may also be requested in writing from the Corporate Secretary.

**PROPOSAL 1: ELECTION OF DIRECTORS    TERMS EXPIRING IN 2012**

WEC's Bylaws require each director to be elected annually to hold office for a one-year term. Directors will be elected by a plurality of the votes cast by the shares entitled to vote, as long as a quorum is present. Plurality means that the individuals who receive the largest number of votes are elected as directors up to the maximum number of directors to be chosen. Therefore, presuming a quorum is present, shares not voted, whether by withheld authority or otherwise, have no effect in the election of directors.

**The Board's nominees for election are:**

**John F. Bergstrom**

**Barbara L. Bowles**

**Patricia W. Chadwick**

**Robert A. Cornog**

**Curt S. Culver**

**Thomas J. Fischer**

**Gale E. Klappa**

**Ulice Payne, Jr.**

**Frederick P. Stratton, Jr.**

Proxies may not be voted for more than nine persons in the election of directors.

Each nominee has consented to being nominated and to serve if elected. In the unlikely event that any nominee becomes unable to serve for any reason, the proxies will be voted for a substitute nominee selected by the Board upon the recommendation of the Corporate Governance Committee of the Board. Information regarding each nominee is included on the next pages.

**The Board of Directors recommends that you vote FOR all of the director nominees.**

P-13



## **Table of Contents**

**Information about Nominees for Election to the Board of Directors.** The Corporate Governance Committee evaluates each individual director nominee in the context of the Board as a whole with the goal of recommending nominees with diverse backgrounds and experience that, together, can best perpetuate the success of WEC's business and represent shareholder interests. In addition to the unique experiences and skills identified below, the Corporate Governance Committee believes that each of the director nominees should possess the following characteristics and skills: proven integrity, mature and independent judgment, vision and imagination, ability to objectively appraise problems, strong leadership and communication skills, ability to evaluate strategic options and risks, sound business experience and acumen, social consciousness, and familiarity with issues affecting the Company's businesses.

Wisconsin Electric Power Company (WE) and Wisconsin Gas LLC (WG) do business as We Energies and are subsidiaries of Wisconsin Energy Corporation. Ages and biographical information for each of the director nominees are as of March 1, 2011.

**John F. Bergstrom.** Age 64.

Bergstrom Corporation Chairman since 1982 and Chief Executive Officer since 1974. Bergstrom Corporation owns and operates numerous automobile sales and leasing companies.

Director of Advance Auto Parts Inc. since 2008; Director of Associated Banc-Corp since December 2010; and Director of Kimberly-Clark Corporation since 1987.

Director of Banta Corporation from 1998 to 2007; Director of Midwest Air Group, Inc. from 1993 to 2007 and again from 2008 to 2009; and Director of Sensient Technologies Corporation from 1994 to 2006.

Director of Wisconsin Energy Corporation since 1987, Wisconsin Electric Power Company since 1985, and Wisconsin Gas LLC since 2000.

Mr. Bergstrom has over 25 years of experience as CEO of Bergstrom Corporation, one of the Top 50 automotive dealership groups in America, with dealerships across eastern Wisconsin, including several in We Energies' utility service territories. Therefore, Mr. Bergstrom provides the Board experience and insight with respect to understanding the needs of the Company's retail customers, as well as Wisconsin's regulatory and political environment. As the CEO of a large, diverse retailer, Mr. Bergstrom has a deep understanding of executive compensation issues and challenges, as well as a unique perspective on customer focus and satisfaction which continues to be a primary focus of the Company. Mr. Bergstrom also provides the Board with insight gained from his over 25 years of service as a director on WEC's and its subsidiaries' Boards, over 50 years of combined experience as a director on the boards of several other publicly traded U.S. corporations, and past or present directorships on the boards of several regional non-profit entities, including the Green Bay Packers, Inc.

**Barbara L. Bowles.** Age 63.

Profit Investment Management Retired Vice Chair. Served as Vice Chair from January 2006 until retirement in December 2007. Profit Investment Management is an investment advisory firm.

The Kenwood Group, Inc. Retired Chairman. Served as Chairman from 2000 until June 2006 when The Kenwood Group, Inc. merged into Profit Investment Management. Chief Executive Officer from 1989 to December 2005.

Director of Hospira, Inc. since 2008.

## Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

Director of Black & Decker Corporation from 1993 to July 2010; Director of Dollar General Corporation from 2000 to 2007; and Director of Georgia Pacific Corporation from 2000 to 2005.

Director of Wisconsin Energy Corporation and Wisconsin Electric Power Company since 1998, and Wisconsin Gas LLC since 2000.

As founder, president and CEO of The Kenwood Group, Inc., a Chicago-based investment advisory firm that managed pension funds for corporations, public institutions and endowments, Ms. Bowles has over 19 years of investment advisory experience. Before founding The Kenwood Group, Ms. Bowles, who is a Chartered Financial Analyst, was a chief investor relations officer for two Fortune 50 companies. Prior to that, she served as a portfolio manager and utility analyst for more than 10 years. With this combined experience, Ms. Bowles is uniquely qualified to provide perspective to the Board as to what issues are important to large investors, particularly what is important to analysts covering the Company's industry. Ms. Bowles also served as chief compliance officer for the mid-cap portfolios following the Kenwood Group's merger with Profit Investment Management, through which she gained a deep understanding of corporate governance issues and concerns. This experience is invaluable for Ms. Bowles' positions as chair of the WEC Corporate Governance Committee and presiding independent director. Ms. Bowles' past and present service as a director of other public companies, including service on several audit and finance committees, provides a resource to the Board in discussions of issues facing the Company.

P-14

**Table of Contents**

**Patricia W. Chadwick.** Age 62.

Ravengate Partners, LLC President since 1999. Ravengate Partners, LLC provides businesses and not-for-profit institutions with advice about the financial markets.

Director of AMICA Mutual Insurance Company since 1992; Director of ING Mutual Funds since 2006; and Director of The Royce Funds since December 2009.

Director of Wisconsin Energy Corporation, Wisconsin Electric Power Company, and Wisconsin Gas LLC since 2006.

Ms. Chadwick, who is a Chartered Financial Analyst, was an investment professional/portfolio manager or principal for 30 years, and served as a director of research for four of those years. Since 1999, Ms. Chadwick has been president of Ravengate Partners, LLC, a firm that provides businesses and not-for-profit institutions with advice about the economy and the financial markets. As indicated above, Ms. Chadwick currently serves as a director on the boards of two registered investment companies. She has served as the Chair of multiple committees at AMICA Mutual Insurance Company, including the Audit and Nominating and Governance Committees (which she currently chairs). She is also the Chair of the Domestic Investment Review Committee at ING Mutual Funds and serves on the Audit Committees for ING Mutual Funds and The Royce Funds and the Finance Committee for AMICA. Ms. Chadwick's career and experience allow her to provide needed advice and insight to the Board on the capital markets. This perspective is valuable to WEC and its subsidiaries, which operate in a capital-intensive industry and must consistently access the capital markets. In addition, Ms. Chadwick's service on the Board of AMICA has provided her with experience in dealing with insurance risk management issues.

**Robert A. Cornog.** Age 70.

Snap-on Incorporated Retired Chairman of the Board, President and Chief Executive Officer. Served as President and Chief Executive Officer from 1991 until 2001 and as Chairman from 1991 until 2002. Snap-on Incorporated is a developer, manufacturer and distributor of professional hand and power tools, diagnostic and shop equipment, and tool storage products.

Director of Johnson Controls, Inc. since 1992.

Director of Oshkosh Corporation from 2005 to 2009.

Director of Wisconsin Energy Corporation since 1993, Wisconsin Electric Power Company since 1994, and Wisconsin Gas LLC since 2000.

Mr. Cornog served as president and CEO of Snap-on Incorporated for 10 years. Snap-on is a Wisconsin-based manufacturer with significant operations in We Energies' utility service territories. Therefore, Mr. Cornog provides perspective as to the issues facing the Company's large commercial and industrial retail customers, as well as experience in navigating Wisconsin's regulatory and political environment. Mr. Cornog served for five years as a member of the Risk Committee while at Snap-on Incorporated where he identified, assessed and managed company risk. Mr. Cornog brings this experience to the Board and the Audit and Oversight Committee on which he serves. Mr. Cornog also has more than 18 years of service as a director on WEC's Board, including over 13 years of service on WEC's Audit and Oversight Committee, and over 20 years of combined experience as a director on the boards of two other publicly traded U.S. corporations headquartered in Wisconsin.

**Curt S. Culver.** Age 58.

## Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

MGIC Investment Corporation Chairman since 2005, Chief Executive Officer since 2000, and President from 1999 to January 2006. MGIC Investment Corporation is the parent of Mortgage Guaranty Insurance Corporation.

Mortgage Guaranty Insurance Corporation Chairman since 2005, Chief Executive Officer since 1999, and President from 1996 to January 2006. Mortgage Guaranty Insurance Corporation is a private mortgage insurance company.

Director of MGIC Investment Corporation since 1999.

Director of Wisconsin Energy Corporation, Wisconsin Electric Power Company, and Wisconsin Gas LLC since 2004.

Mr. Culver's experience as Chairman and CEO of MGIC, which is headquartered in Milwaukee, Wisconsin, not only provides the Board with expertise in the financial markets and risk assessment and management, but also knowledge of the challenges and issues facing a public company headquartered in the same city as the Company. In addition, with his experience in the insurance industry, Mr. Culver is in a position to advise the Finance Committee on the Company's insurance program and its effect on overall risk management. Mr. Culver also has past and present experience serving on the boards of numerous Milwaukee-area non-profit and two private, regional for-profit entities.

**Table of Contents**

**Thomas J. Fischer.** Age 63.

Fischer Financial Consulting LLC Principal since 2002. Fischer Financial Consulting LLC provides consulting on corporate financial, accounting, and governance matters.

Arthur Andersen LLP Retired as Managing Partner of the Milwaukee office and Deputy Managing Partner for the Great Plains Region in 2002. Served as Managing Partner from 1993 and as Partner from 1980. Arthur Andersen LLP was an independent public accounting firm.

Director of Actuant Corporation since 2003; Director of Badger Meter, Inc. since 2003; and Director of Regal-Beloit Corporation since 2004.

Director of Wisconsin Energy Corporation, Wisconsin Electric Power Company, and Wisconsin Gas LLC since 2005.

As Principal of Fischer Financial Consulting LLC, Mr. Fischer has provided consulting services to companies in the areas of corporate financial, accounting and governance matters since 2002. Prior to this, Mr. Fischer, who is a Certified Public Accountant, worked for Arthur Andersen, which was a large, international independent public accounting firm, for 33 years, the last 20 as a partner responsible for services provided to large, complex public and private companies and several public utility audits. Combined with Mr. Fischer's service as a director and member of the audit committee of three other Wisconsin-based public companies, Mr. Fischer provides the Board with a deep understanding of corporate governance issues, accounting and auditing matters, including financial reporting and regulatory compliance, and risk assessment and management. In light of this extensive experience, he is chair of the Audit and Oversight Committee.

**Gale E. Klappa.** Age 60.

Wisconsin Energy Corporation Chairman of the Board and Chief Executive Officer since May 2004. President since April 2003.

Wisconsin Electric Power Company Chairman of the Board since May 2004. President and Chief Executive Officer since August 2003.

Wisconsin Gas LLC Chairman of the Board since May 2004. President and Chief Executive Officer since August 2003.

Director of Badger Meter, Inc. since February 2010; and Director of Joy Global Inc. since 2006.

Director of Wisconsin Energy Corporation, Wisconsin Electric Power Company, and Wisconsin Gas LLC since 2003.

As Chief Executive Officer and President of WEC and its two principal utility subsidiaries, Mr. Klappa represents and communicates management's perspective to the Board. Mr. Klappa provides the Board with an understanding of the day-to-day operations of the Company, and, in turn, communicates the Board's vision and direction for the Company to the other officers and management. Mr. Klappa has more than 36 years of experience working in the public utility industry, the last 18 at a senior executive level. Immediately prior to joining WEC in 2003, Mr. Klappa served as Executive Vice President and Chief Financial Officer at The Southern Company, a public utility holding company serving

## Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

the southeastern United States. Mr. Klappa also served in various other positions during his tenure at Southern, including Treasurer and Chief Strategic Officer. Mr. Klappa currently serves on the boards of Edison Electric Institute, an association of U.S. shareholder-owned electric companies, and Electric Power Research Institute, an independent, non-profit research company performing research, development and demonstration in the electricity sector.

**Ulice Payne, Jr.** Age 55.

Addison-Clifton, LLC Managing Member since 2004. Addison-Clifton, LLC provides global trade compliance advisory services.

Director of Manpower Inc. since 2007; and Trustee of The Northwestern Mutual Life Insurance Company since 2005.

Director of Badger Meter, Inc. from 2000 to April 2010; Director of Midwest Air Group, Inc. from 1998 to 2008; and Director of State Financial Services Corporation from 1998 to 2005.

Director of Wisconsin Energy Corporation, Wisconsin Electric Power Company, and Wisconsin Gas LLC since 2003.

Mr. Payne has extensive leadership experience within the local community and the State of Wisconsin, previously serving as president and CEO of the Milwaukee Brewers Baseball Club, Inc., as managing partner of the Milwaukee office of Foley & Lardner, a Milwaukee-based law firm, and as Securities Commissioner for the State of Wisconsin. In addition, Mr. Payne is and has been involved in numerous Milwaukee-area non-profit entities, including serving as past chair of the Bradley Center Sports and Entertainment Corporation. Therefore, Mr. Payne is able to provide the Board with a unique perspective on the issues and challenges affecting the local Milwaukee community as a whole as well as a broad spectrum of the Company's customers. As a result of these positions, Mr. Payne also has experience in operating in the same regulatory and political environment as the Company. Mr. Payne presently advises on global trade compliance as Managing Member of Addison-Clifton, LLC, where Mr. Payne consistently deals with public policy and compliance matters, experience he brings to the Board. In addition, Mr. Payne's past and present directorship experience includes service as a member of either the audit or finance committee at each of these companies, which is beneficial to the Board.

P-16

**Table of Contents**

**Frederick P. Stratton, Jr.** Age 71.

Briggs & Stratton Corporation Chairman Emeritus since 2003. Chairman of the Board from 2001 to 2003. Chairman and Chief Executive Officer from 1986 until 2001. Chief Executive Officer from 1977 until 1986. Briggs & Stratton Corporation is a manufacturer of small gasoline engines.

Director of Baird Funds, Inc. since 2004; and Director of Weyco Group, Inc. since 1976.

Director of Midwest Air Group, Inc. from 1986 to 2007.

Director of Wisconsin Energy Corporation since 1987, Wisconsin Electric Power Company since 1986, and Wisconsin Gas LLC since 2000.

Mr. Stratton has held leadership positions, including 24 years as CEO, in Briggs & Stratton Corporation, a manufacturer headquartered in Milwaukee, Wisconsin, and with significant operations in We Energies utility service territories. As a result, Mr. Stratton provides the Board with perspective as to the issues facing the Company's large commercial and industrial retail customers, as well as experience working in Wisconsin's regulatory and political environment. As the former CEO of a large public corporation, Mr. Stratton has a deep understanding of the executive compensation issues and challenges the Company faces, as well as the challenges a public corporation can face raising capital. Mr. Stratton also brings to the Board his 25 years of service as a director on WEC's and its subsidiaries' Boards, and over 60 years of combined experience as a director on the boards of three other publicly traded U.S. corporations headquartered in Wisconsin, including service on the audit committee for two of those companies.

**COMMITTEES OF THE BOARD OF DIRECTORS**

**Members  
Audit and Oversight**

**Principal Responsibilities; Meetings**

Oversee the integrity of the financial statements.

Thomas J. Fischer, Chair

John F. Bergstrom

Oversee management compliance with legal and regulatory requirements.

Barbara L. Bowles

Patricia W. Chadwick

Review, approve and evaluate the independent auditors' services.

Robert A. Cornog

Oversee the performance of the internal audit function and independent auditors.

Review the Company's risk exposure in such areas as compliance, environmental, legal/litigation and ethical conduct.

## Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

Prepare the report required by the SEC for inclusion in the proxy statement.

Establish procedures for the submission of complaints and concerns regarding WEC's accounting or auditing matters.

The Committee conducted six meetings in 2010.

### **Compensation**

Identify through succession planning potential executive officers.

John F. Bergstrom, Chair

Ulice Payne, Jr.

Provide a competitive, performance-based executive and director compensation program.

Frederick P. Stratton, Jr.

Set goals for the CEO, annually evaluate the CEO's performance against such goals and determine compensation adjustments based on whether these goals have been achieved.

The Committee conducted seven meetings in 2010, including one joint meeting with the Corporate Governance Committee, and executed two signed, written unanimous consents.

### **Corporate Governance**

Establish and annually review the Corporate Governance Guidelines to ensure the Board is effectively performing its fiduciary responsibilities to stockholders.

Barbara L. Bowles, Chair

Robert A. Cornog

Establish and annually review director candidate selection criteria.

Curt S. Culver

Frederick P. Stratton, Jr.

Identify and recommend candidates to be named as nominees of the Board for election as directors.

Lead the Board in its annual review of the Board's performance.

The Committee conducted three meetings in 2010, including one joint meeting with the Compensation Committee.

### **Finance**

Review and monitor the Company's current and long-range financial policies and strategies, including its capital structure and dividend policy.

Curt S. Culver, Chair

Patricia W. Chadwick

Authorize the issuance of corporate debt within limits set by the Board.

Ulice Payne, Jr.



Frederick P. Stratton, Jr.

Discuss policies with respect to risk assessment and risk management.

Review, approve and monitor the Company's capital and operating budgets.

The Committee conducted three meetings in 2010.

P-17

---

**Table of Contents**

The Board also has an Executive Committee which may exercise all powers vested in the Board except action regarding dividends or other distributions to stockholders, filling Board vacancies and other powers which by law may not be delegated to a committee or actions reserved for a committee comprised of independent directors. The members of the Executive Committee are Gale E. Klappa (Chair), John F. Bergstrom, Barbara L. Bowles, Robert A. Cornog and Frederick P. Stratton, Jr. The Executive Committee did not meet in 2010.

In addition to the number of committee meetings listed in the preceding table, the Board met six times in 2010. The average meeting attendance during the year was 96.9%. No director attended fewer than 83.3% of the total number of meetings of the Board and Board committees on which he or she served.

**PROPOSAL 2: VOTE TO INITIATE THE PROCESS TO ELECT DIRECTORS**

**BY MAJORITY VOTE IN UNCONTESTED ELECTIONS**

The Company seeks your advisory vote to initiate the process to allow for a majority voting standard for uncontested elections of directors. Directors are currently elected by a plurality of the votes cast, meaning that the nominees who receive the largest number of votes are elected as directors up to the maximum number of directors to be chosen. The Board of Directors has, for some time, been considering implementing a majority voting standard for uncontested elections to replace the current plurality standard, and the Company has communicated with several shareholders regarding this topic, the most recent being the Sheet Metal Workers' National Pension Fund. After discussions with the Fund, the Board agreed, if stockholders approve this proposal, to have the Company initiate the process to amend the Articles of Incorporation and Bylaws to adopt a majority voting standard for uncontested elections of directors.

The Board believes that a majority vote standard is becoming the more prevalent voting standard among public companies. In fact, over 70% of the companies in the S&P 500 have adopted a majority vote standard for uncontested elections of directors. However, the Board's nominees for director have received an overwhelming majority of stockholder votes over the past several years. At the 2010 annual meeting no director received less than 96.72% of the votes cast. Therefore, before starting the process to formally amend the Articles and Bylaws to implement this significant change, the Company wants to determine whether its stockholders believe a majority vote standard is in their best interest.

If this proposal is approved, the Board intends to recommend to stockholders at the 2012 annual meeting amendments to WEC's Articles of Incorporation and Bylaws to provide for a majority voting standard in uncontested elections of directors. If approved, the first stockholder meeting at which the majority vote standard would apply would be the 2013 annual meeting, assuming such election is uncontested.

**The Board of Directors recommends that you vote **FOR****

**approval to initiate the process to elect directors**

**by majority vote in uncontested elections.**

**PROPOSAL 3: RATIFICATION OF DELOITTE & TOUCHE LLP AS INDEPENDENT AUDITORS FOR 2011**

The Audit and Oversight Committee of the Board of Directors has sole authority to select, evaluate and, where appropriate, terminate and replace the independent auditors. The Audit and Oversight Committee has appointed Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending December 31, 2011. The Committee believes that stockholder ratification of this matter is important considering the critical role the independent auditors play in maintaining the integrity of the Company's financial statements. If stockholders do not ratify the selection of Deloitte & Touche LLP, the Audit and Oversight Committee will reconsider the selection.

Deloitte & Touche LLP also served as the independent auditors for the Company for the last nine fiscal years beginning with the fiscal year ended December 31, 2002.

Representatives of Deloitte & Touche LLP are expected to be present at the Meeting. They will have an opportunity to make a statement if they so desire and are expected to respond to appropriate questions that may be directed to them.

**The Board of Directors recommends that you vote **FOR****

**the ratification of Deloitte & Touche LLP as independent auditors for 2011.**



**Table of Contents****INDEPENDENT AUDITORS FEES AND SERVICES**

**Pre-Approval Policy.** The Audit and Oversight Committee has a formal policy delineating its responsibilities for reviewing and approving, in advance, all audit, audit-related, tax and other services of the independent auditors. The Committee is committed to ensuring the independence of the auditors, both in appearance as well as in fact.

Under the pre-approval policy, before engagement of the independent auditors for the next year's audit, the independent auditors will submit a description of services anticipated to be rendered for the Committee to approve. Annual pre-approval will be deemed effective for a period of twelve months from the date of pre-approval, unless the Committee specifically provides for a different period. A fee level will be established for all permissible non-audit services. Any proposed non-audit services exceeding this level will require additional approval by the Committee.

The Audit and Oversight Committee delegated pre-approval authority to the Committee's Chair. The Committee Chair is required to report any pre-approval decisions at the next scheduled Committee meeting. Under the pre-approval policy, the Committee may not delegate to management its responsibilities to pre-approve services performed by the independent auditors.

Under the pre-approval policy, prohibited non-audit services are services prohibited by the Securities and Exchange Commission or by the Public Company Accounting Oversight Board to be performed by the Company's independent auditors. These services include bookkeeping or other services related to the accounting records or financial statements of the Company, financial information systems design and implementation, appraisal or valuation services, fairness opinions or contribution-in-kind reports, actuarial services, internal audit outsourcing services, management functions or human resources, broker-dealer, investment advisor or investment banking services, legal services and expert services unrelated to the audit, services provided for a contingent fee or commission and services related to planning, marketing or opining in favor of the tax treatment of a confidential transaction or an aggressive tax position transaction that was initially recommended, directly or indirectly, by the independent auditors. In addition, the Committee has determined that the independent auditors may not provide any services, including personal financial counseling and tax services, to any officer or other employee of the Company who serves in a financial reporting oversight role or to the chair of the Audit and Oversight Committee or to an immediate family member of these individuals, including spouses, spousal equivalents and dependents.

**Fee Table.** The following table shows the fees, all of which were pre-approved by the Audit and Oversight Committee, for professional audit services provided by Deloitte & Touche LLP for the audit of the annual financial statements of the Company and its subsidiaries for fiscal years 2010 and 2009 and fees for other services rendered during those periods. No fees were paid to Deloitte & Touche LLP pursuant to the de minimus exception to the pre-approval policy permitted under the Securities Exchange Act of 1934, as amended.

	2010	2009
Audit Fees <sup>(1)</sup>	\$ 1,684,795	\$ 1,654,525
Audit-Related Fees <sup>(2)</sup>		32,000
Tax Fees <sup>(3)</sup>	48,616	37,439
All Other Fees <sup>(4)</sup>	10,085	1,750
<b>Total</b>	<b>\$ 1,743,496</b>	<b>\$ 1,725,714</b>

<sup>(1)</sup> *Audit Fees* consist of fees for professional services rendered in connection with the audits of (1) the annual financial statements of the Company and its subsidiaries, and (2) the effectiveness of internal control over financial reporting. This category also includes reviews of financial statements included in Form 10-Q filings of the Company and its subsidiaries and services normally provided in connection with statutory and regulatory filings or engagements.

<sup>(2)</sup> *Audit-Related Fees* consist of fees for professional services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under *Audit Fees*. These services normally include consultations regarding implementation of accounting standards.

Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

- (3) *Tax Fees* consist of fees for professional services rendered with respect to federal and state tax compliance and tax advice.
- (4) *All Other Fees* consist of costs for certain employees to attend accounting/tax seminars hosted by Deloitte & Touche LLP.

P-19

**Table of Contents**

**AUDIT AND OVERSIGHT COMMITTEE REPORT**

The Audit and Oversight Committee, which is comprised solely of independent directors, oversees the integrity of the financial reporting process on behalf of the Board of Directors of Wisconsin Energy Corporation. In addition, the Committee oversees compliance with legal and regulatory requirements. The Committee operates under a written charter approved by the Board of Directors, which can be found in the Governance section of the Company's Website at [www.wisconsinenergy.com](http://www.wisconsinenergy.com).

The Committee is also responsible for the appointment, compensation, retention and oversight of the Company's independent auditors, as well as the oversight of the Company's internal audit function. The Committee selected Deloitte & Touche LLP to remain as the Company's independent auditors for 2011, subject to stockholder ratification.

Management is responsible for the Company's financial reporting process, the preparation of consolidated financial statements in accordance with generally accepted accounting principles and the system of internal controls and procedures designed to provide reasonable assurance regarding compliance with accounting standards and applicable laws and regulations. The Company's independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and issuing a report thereon.

The Committee held six meetings during 2010. Meetings are designed to facilitate and encourage open communication among the members of the Committee, management, the internal auditors and the Company's independent auditors, Deloitte & Touche LLP. During these meetings, we reviewed and discussed with management, among other items, the Company's unaudited quarterly and audited annual financial statements and the system of internal controls designed to provide reasonable assurance regarding compliance with accounting standards and applicable laws. We reviewed the financial statements and the system of internal controls with the Company's independent auditors, both with and without management present, and we discussed with Deloitte & Touche LLP matters required by Statement of Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU Section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

In addition, we received the written disclosures and the letter relative to the auditors' independence from Deloitte & Touche LLP, as required by applicable requirements of the Public Company Accounting Oversight Board regarding Deloitte & Touche LLP's communications with the Committee concerning independence. The Committee discussed with Deloitte & Touche LLP its independence and also considered the compatibility of non-audit services provided by Deloitte & Touche LLP with maintaining its independence.

Based on these reviews and discussions, the Audit and Oversight Committee recommended to the Board of Directors that the audited financial statements be included in Wisconsin Energy Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and filed with the Securities and Exchange Commission.

Respectfully submitted to Wisconsin Energy Corporation stockholders by the Audit and Oversight Committee of the Board of Directors.

Thomas J. Fischer, Committee Chair  
John F. Bergstrom  
Barbara L. Bowles  
Patricia W. Chadwick  
Robert A. Cornog

---

**Table of Contents**

**PROPOSAL 4: APPROVAL OF AMENDMENTS TO THE WISCONSIN ENERGY CORPORATION**

**1993 OMNIBUS STOCK INCENTIVE PLAN, AS AMENDED AND RESTATED**

The Wisconsin Energy Corporation 1993 Omnibus Stock Incentive Plan, as amended and restated (the "OSIP"), a long-term incentive plan, was last approved by WEC's stockholders at the 2001 annual meeting. Awards may not be made under the OSIP more than 10 years after the receipt of such approval, or May 2, 2011. Therefore, we need stockholder approval to extend the plan.

The OSIP is designed to link the interests of executives and other key employees to long-term shareholder value. The purpose of the OSIP is to enable the Company to offer directors, officers and key employees of WEC and its subsidiaries performance-based incentives and other equity interests in the Company to attract, retain and reward such individuals, and to strengthen the mutuality of interest between these individuals and WEC's stockholders.

The OSIP is designed to allow for the grant of certain types of awards that conform to the requirements for tax deductible performance-based compensation under Section 162(m) of the Internal Revenue Code, which allows for compensation of executive officers that meets certain conditions to be excluded from the \$1,000,000 limit on deductible compensation. The OSIP, as proposed to be amended, allows for the award of incentive and non-qualified stock options, stock appreciation rights, stock awards, performance units, restricted stock units and dividend equivalents, as the Compensation Committee in its discretion determines. The OSIP is being submitted to stockholders for approval in order to comply with the applicable requirements of the New York Stock Exchange and to qualify certain awards to certain executive officers as deductible for federal income tax purposes under Section 162(m). Stockholder approval is also necessary under the federal income tax rules with respect to the qualification of incentive stock options.

In order to allow the Company to continue to effectively utilize long-term equity incentive compensation, the Board of Directors is asking stockholders to vote on and approve amendments to the OSIP. The Board believes linking the interests of management and stockholders is in the best interest of the Company's stockholders. In addition, the Board believes a sufficient reserve of shares is critical to provide the Company the flexibility to attract key employees. If stockholder approval is not obtained, WEC will not be able to award long-term equity incentive compensation to management and will need to reward management for achieving the Company's goals using other forms of compensation.

**Proposed Amendments**

The Compensation Committee approved the amendments to the OSIP at its meeting on January 20, 2011, and subsequently increased the number of new shares reserved for issuance under the OSIP to account for the March 1, 2011 two-for-one stock split by a unanimous consent dated February 10, 2011. The principal changes to the OSIP are set forth below.

**Shares Available.** Shares reserved for issuance under the OSIP are running out. Taking into account the two-for-one stock split, it is proposed that the number of shares reserved for issuance be increased by 33,000,000 shares plus the 1,319,272 shares remaining from the shares previously authorized by stockholders at the 2001 annual meeting. Shares reserved for issuance may be authorized but unissued, treasury or repurchased shares.

**Establishing a Multiplier.** When issuing any full share awards such as restricted stock, each full share award will decrease the shares available for issuance under the OSIP by 4.23 shares, and each stock option or stand-alone stock appreciation right will decrease the available shares by one share.

**Extension of OSIP.** Because awards may not be made under the OSIP after May 2, 2011, it is proposed that the OSIP be amended to extend the expiration date to ten years after the approval of these proposed amendments, or May 5, 2021.

**Adding Restricted Stock Units and Dividend Equivalents as Forms of Awards.** It is proposed that the OSIP be amended to specifically allow for the award of restricted stock units and dividend equivalents. Restricted stock units would consist of the grant to a participant of the right to receive a specified number of shares of WEC common stock upon the satisfaction of certain conditions specified by the Compensation Committee.

Dividend equivalents would consist of the award to a participant, in connection with the award of a stock option, stand-alone stock appreciation right, performance unit or restricted stock unit, of a cash payment equal to all or a portion of the dividends that the participant would have received had he or she owned the number of shares of stock subject to the award on the record date for dividends paid by WEC. Dividend equivalents may be granted either at the same time as the underlying award or at any time while the award is outstanding, and will be subject to such terms and conditions as the Compensation Committee may determine. If the underlying award is conditioned upon the achievement of

## Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

performance goals, receipt of the dividend equivalent payments must also be conditioned upon achievement of a performance goal (which does not need to be the same goal as for the underlying award).

P-21



**Table of Contents**

**Expansion of the Performance Criteria.** Provisions of the OSIP related to performance criteria have been expanded to help ensure compliance with Section 162(m) of the Internal Revenue Code. Vesting or settlement of any award may be conditioned upon the achievement of such performance goals as the Compensation Committee may determine, which may include any of the following:

Earnings per share;	Sales;
Net earnings;	Operating margin;
Operating earnings;	Pre-tax margins;
Measures of return on shareholder equity, including total shareholder return;	Pre-tax or after-tax return on invested capital;
Return on assets;	Pre-tax or after-tax return on equity;
Cash flow;	Gross profit margin; or
Pre-tax earnings;	Stock price.

In the case of an award (other than a stock option or stand-alone stock appreciation right) that is intended to satisfy the requirements for the exception to the limitation of deductibility under Section 162(m), the following will apply:

The performance goal will be based upon one or more of the criteria set forth above and will be established by the Compensation Committee not later than the 90th day of the performance period, or within the first 25% of a performance period of less than one year;

Any adjustments to the performance goals will be provided for in the terms of the original award agreement and based upon objective criteria so that a third party with knowledge of the relevant performance results could calculate the amount of the benefit;

The Compensation Committee must certify that the applicable performance goal has been satisfied before any benefit may be paid; and

The Compensation Committee will not have any authority to increase the amount of the benefit.

No awards may be granted that are intended to qualify under Section 162(m) after the fifth annual stockholder meeting that occurs after the 2011 annual meeting, or the 2016 annual meeting, unless, prior to such date, the performance criteria are again approved by WEC's stockholders.

**Compliance with Section 409A.** The OSIP incorporates provisions to ensure that the plan and any award made thereunder is in compliance with Section 409A of the Internal Revenue Code, including all related Treasury regulations.

**Summary of Remaining Terms of the OSIP**

The information about the OSIP which follows is not complete and is subject to, and qualified in its entirety by reference to, the full text of the OSIP, which is attached to this proxy statement as Appendix A. We encourage you to carefully read the full text of the OSIP in its entirety.

**Administration of Plan.** The OSIP provides for administration by a committee (the Committee), to be comprised of either the Compensation Committee of the Board or another committee designated by the Board consisting of directors who are not employees of the Company. The WEC Compensation Committee currently administers the plan. Among the Committee's powers are the authority to interpret the plan, establish rules and regulations for its operation, select directors, officers and other key employees of WEC and its subsidiaries to receive awards, and determine the form, amount and other terms and conditions of awards. The Committee also has the power, with the participant's consent as to benefits already granted, to modify awards.

**Eligibility for Participation.** Directors, officers and other key employees of WEC or any of its subsidiaries are eligible to participate in the OSIP. The selection of participants is within the discretion of the Committee. Approximately 145 individuals currently participate in the plan.

**Limitation on Number of Awards.** A participant may not receive awards in any calendar year that exceed (i) in the case of stock options and stand-alone stock appreciation rights, 1,500,000 shares, and (ii) in the case of stock awards, performance units and restricted stock units, 1,500,000 shares (determined prior to the 4.23 multiplier). Each of these limits is applied separately.

**Stock Options.** Under the OSIP, the Committee may grant awards in the form of options to purchase shares of WEC common stock, which may be either incentive stock options or non-qualified stock options. The Committee will, with regard to each such stock option, determine the number of shares subject to the option, the manner and time of the option's exercisability and vesting, and the exercise price per share of stock subject to the option. The exercise price of a stock option will not be less than 100 percent of the fair market value of the common stock on the date the option is granted. No option will be exercisable prior to six months after the option grant date, unless accelerated upon a change in control as defined in the OSIP and the maximum term will be ten years. The exercise

## Table of Contents

price may be paid in cash or, in the discretion of the Committee, by delivering shares of common stock owned by the participant, by reducing the number of shares delivered upon exercise, by broker-assisted cashless exercise, or by any combination of these methods.

**Stock Appreciation Rights.** The OSIP authorizes the Committee to grant a stock appreciation right in tandem with any stock option granted under the plan or to a participant separate from any stock options granted to such participant. A stock appreciation right granted in tandem with a stock option permits the participant to receive, upon surrender of the related exercisable option, a payment equal to the spread between the exercise price and the current market value of the shares covered by the surrendered option.

Stand-alone stock appreciation rights awarded under the OSIP will specify the exercise price, which will not be less than the fair market value of a share of WEC common stock on the grant date, the time of exercisability and such other terms and conditions as the Committee may determine. No stand-alone stock appreciation right will be exercisable prior to six months after the date of grant, unless accelerated upon a change in control as defined in the OSIP, and the maximum term will be ten years. Upon exercise of all or a portion of a stand-alone stock appreciation right, the participant will receive a payment equal to the spread between the exercise price and the current market value of the shares covered by the surrendered stock appreciation right.

The Committee may, in its discretion, deliver shares of WEC common stock in lieu of cash to satisfy the exercise of a stock appreciation right. No stock appreciation rights have been granted to date under the OSIP.

**Stock Awards.** The OSIP authorizes the Committee to grant awards in the form of restricted or unrestricted shares of common stock. Such awards will be subject to such terms, conditions and restrictions, if any, as the Committee deems appropriate including, but not limited to, continued employment and achievement of performance goals established by the Committee over a designated period of time.

**Performance Units.** The OSIP allows for the award of performance units consisting of monetary units granted to participants which may be earned in whole or in part if WEC achieves certain performance goals established by the Committee over a designated period of time. No performance units previously granted under the OSIP remain outstanding.

**Non-transferability.** Awards granted under the OSIP are not transferable for value or consideration other than by will or the law of descent and distribution, and each stock option and stock appreciation right is only exercisable during the participant's lifetime by the participant or the participant's legal guardian.

**Change in Control.** In the event of a change in control of WEC as defined in the OSIP, all outstanding stock options and stock appreciation rights shall become immediately exercisable and all other benefits shall immediately vest with all performance goals deemed fully achieved.

**Adjustment Provisions.** The OSIP contains provisions for equitable adjustment of awards without new consideration to WEC in the event of merger, consolidation, reorganization or recapitalization, stock dividend, stock split, share conversion or any other similar type of event as the Committee may determine in its sole discretion.

**Term and Amendment.** No award shall be made more than ten years after the date of approval of the proposed amendments to the plan by WEC stockholders. The Board reserves the right to amend, suspend or discontinue the plan at any time, subject to the rights of participants with respect to any outstanding awards and to the requirements of any securities laws or exchange requirements to obtain stockholder approval for certain amendments. In addition, without stockholder approval WEC may not reduce the exercise price of outstanding options or stock appreciation rights or cancel outstanding options or stock appreciation rights and replace them with awards having a lower exercise price.

**Federal Tax Treatment.** Under current law, the following are the U. S. federal income tax consequences generally arising with respect to awards under the OSIP.

An employee participant who is granted an incentive stock option within the meaning of Section 422 of the Internal Revenue Code does not recognize any taxable income at the time of the grant or at the time of exercise. Similarly, WEC is not entitled to any deduction at the time of grant or at the time of exercise. If the participant makes no disposition of the shares acquired pursuant to an incentive stock option before the later of two years from the date of grant and one year from the date of exercise, any gain or loss realized on a subsequent disposition of the shares will be treated as a long-term capital gain or loss.

Under such circumstances, WEC will not be entitled to any deduction for federal income tax purposes. If the foregoing holding period requirements are not met, the participant will generally realize ordinary income and WEC will have a corresponding deduction at the time of disposition of the shares equal to the excess of the market value of the shares on the date of exercise over the exercise price. However, if the disposition of the shares is a taxable sale (as opposed to a gift or other form of non-taxable disposition), the amount of ordinary income realized

will not exceed the excess of the amount realized on the disposition of the shares over the exercise price.

P-23

**Table of Contents**

A participant who is granted a non-qualified stock option will not have taxable income at the time of grant, but will have taxable income at the time of exercise equal to the difference between the exercise price of the shares and the market value of the shares on the date of exercise. WEC is entitled to a tax deduction at that time for the same amount.

The grant of a stock appreciation right will produce no U. S. federal income tax consequences for the participant or WEC. The exercise of a stock appreciation right results in taxable income to the participant, equal to the difference between the exercise price of the stand-alone stock appreciation right or related option shares, as applicable, and the market price of the shares on the date of exercise, and a corresponding tax deduction to WEC.

A participant who has been granted performance units will not realize taxable income at the time of the grant, and WEC will not be entitled to a tax deduction at such time. A participant will realize ordinary income at the time the award is paid equal to the amount of cash paid or the fair market value of stock received, and WEC will have a corresponding tax deduction.

A participant who has been granted an award of restricted shares of common stock or restricted stock units will not realize taxable income at the time of the grant, and WEC will not be entitled to a tax deduction at the time of the grant, unless, in the case of an award of restricted shares, the participant makes an election to be taxed at the time of the grant. When the restrictions lapse (if the participant did not elect to be taxed at the time of grant), or upon a grant of unrestricted shares or transfer of shares in settlement of restricted stock units under the OSIP, the participant will recognize taxable income in an amount equal to the fair market value of the shares at such time. WEC will be entitled to a corresponding tax deduction.

A participant who has been granted dividend equivalents will not realize taxable income at the time of the grant, and WEC will not be entitled to a tax deduction at such time. A participant will realize ordinary income at the time the award is paid equal to the amount of cash paid or the fair market value of stock received, and WEC will have a corresponding tax deduction.

Section 409A of the Internal Revenue Code provides that participants in a covered non-qualified deferred compensation arrangement will be subject to accelerated taxation and penalties unless the covered plan, both as designed and administered, satisfies specified requirements, including limitations on the timing of deferral and distribution elections, if any, and triggers for the distribution or funding of deferred amounts. Section 409A may become applicable to certain types of awards under the OSIP (other than incentive stock options and restricted stock) depending on the terms and conditions to which the award is subject. The Board believes that the terms of the OSIP, as such, should not cause awards under the OSIP to violate the requirements of Section 409A.

**Recoupment of Awards.** The OSIP provides that, to the extent determined by the Committee, any award under the OSIP to an executive officer may include provisions requiring its forfeiture and/or recoupment if such award or any portion thereof either (i) was granted, vested and/or settled based on financial results that were subsequently restated in any material respect due to conduct by the participant that was knowing, intentionally fraudulent or illegal as determined by a committee of independent directors, or (ii) the value of such award was affected by the financial results that were subsequently restated in any material respect, or a forfeiture or recoupment is otherwise required by law or exchange requirements.

**Other Terms of the Awards.** Upon the grant of any award, the Committee may, by way of an award notice or otherwise, establish such other terms, conditions and restrictions covering the grant of the award as are not inconsistent with the OSIP.

**Equity Compensation Plan Information.** The following table summarizes the ability of WEC to issue common stock pursuant to equity compensation plans as of December 31, 2010 (adjusted solely to account for the two-for-one stock split on March 1, 2011):

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	13,036,466 <sup>(1)</sup>	\$ 20.82	1,852,302

Edgar Filing: WISCONSIN ENERGY CORP - Form DEF 14A

Equity compensation plans not approved by  
security holders

Total	13,036,466	\$	20.82	1,852,302
-------	------------	----	-------	-----------

<sup>(1)</sup> Represents options to purchase our common stock granted under our 1993 Omnibus Stock Incentive Plan, as amended.

P-24

## **Table of Contents**

Effective January 3, 2011, the Compensation Committee awarded a total of 229,090 non-qualified stock options with an exercise price of \$58.70, and a total of 37,425 shares of restricted stock under the OSIP. Taking these awards into account, and adjusting to account for the stock split, 1,319,272 securities remain available for future issuance under the OSIP. These awards are not dependent on stockholder approval of the proposed amendments to the OSIP as set forth in this Proposal 4.

Although the number of persons eligible to participate in the OSIP and the number of grantees may vary from year to year, the Compensation Committee expects to consider approximately 145 directors, officers and other key employees for participation in the OSIP.

The closing price of WEC's common stock on March 2, 2011, was \$29.08 per share.

Awards made under the OSIP during 2010 to the named executive officers are described in the Summary Compensation Table and in the table entitled Grants of Plan-Based Awards for Fiscal Year 2010 in this proxy statement. Awards to directors are described under Directors Compensation in this proxy statement. These awards are substantially similar to what would have been granted had the amendments to the OSIP discussed in this Proposal 4 been approved by stockholders prior to such awards.

**The Board of Directors recommends that you vote FOR the amendments to the Wisconsin Energy Corporation**

**1993 Omnibus Stock Incentive Plan, as amended and restated.**

## **COMPENSATION DISCUSSION AND ANALYSIS**

The following discussion provides an overview and analysis of our executive compensation program, including the role of the Compensation Committee of our Board of Directors, the elements of our executive compensation program, the purposes and objectives of these elements and the manner in which we established the compensation of our named executive officers for fiscal year 2010.

References to we, us, our and WEC in this discussion and analysis mean Wisconsin Energy Corporation and its management, as applicable.

**Executive Summary.** The primary objective of our executive compensation program is to provide a competitive, performance-based plan that enables the Company to attract and retain key individuals and to reward them for achieving both the Company's long-term and short-term goals. Our program has been designed to provide a level of compensation that is strongly dependent upon the achievement of short-term and long-term goals that are aligned with the interests of our stockholders and customers. To that end, a substantial portion of pay is at risk and generally, the value will only be realized upon strong corporate performance.

Despite a challenging economic and operating environment over the past few years, we have consistently delivered strong financial results. For 2010, WEC achieved record earnings per share of \$3.84 and maintained strong cash flows. In addition, we have continued to increase shareholder value, including the recent two-for-one split of WEC's common stock and 30% increase in its quarterly dividend rate to \$0.52 per share from \$0.40 per share on a pre-split basis. WEC has consistently outperformed the peer group used in connection with the performance units, described below, and the S&P 500. In fact, in 2010, WEC received the Edison Electric Institute's Index Award in the large utility category for the highest total shareholder return over the five-year period ended September 30, 2010.

We generally compensate our named executive officers through a mix of compensation elements, which primarily include:

annual base salary;

annual cash incentive compensation (based principally on earnings per share and cash flow performance) and short-term dividend equivalents;

long-term incentive compensation through a mix of: (1) stock options; (2) restricted stock; and (3) performance units; and

retirement programs.

With respect to each of these elements, we analyze market data provided by Towers Watson, a compensation consulting firm retained by management, to help determine the appropriate levels of compensation for each named executive officer. This Compensation Discussion and Analysis contains a more detailed discussion of each of these elements and the extent to which we analyzed market data in establishing each individual element in 2010.

P-25



**Table of Contents**

Specifically, for 2010:

base salaries were frozen for the second consecutive year at 2008 levels;

the death benefit only plan was amended to eliminate the payment of any benefit once participants in the plan have retired;

the annual cash incentive award represented 208.75% of the target award as a result of strong financial and operational performance;

eliminated the automatic payment of dividends on outstanding performance units, and instead granted short-term dividend equivalents that only vest upon the achievement of a performance target established by the Compensation Committee;

the short-term dividend equivalents vested because WEC achieved the 2010 performance target for earnings from continuing operations;

decreased the target value of long-term incentive compensation between 9% and 12%;

the long-term incentive awards consisted of 80% performance units, 10% stock options and 10% restricted stock, resulting in a significant part of the long-term award being tied to Company performance and shareholder value over a multi-year period; and

total stockholder return for the three-year performance period ended December 31, 2010 was at the 88.5<sup>th</sup> percentile of the peer group established by the Compensation Committee, resulting in the performance units granted in 2008 vesting at a level of 170.0%.

We also have long-standing policies regarding stock ownership to further align management's interests with those of our stockholders, including:

stock ownership guidelines that require executive officers to, generally within five years of appointment as an executive officer, acquire and hold Company common stock having a minimum fair market value ranging from 150% to 300% of base salary; and

a no-hedging policy that prohibits directors, officers and employees from hedging the economic interest in the WEC shares they hold.

**Compensation Committee.** The Compensation Committee of our Board of Directors is responsible for making decisions regarding compensation for executive officers of WEC and its principal subsidiaries and for developing our executive compensation philosophy. The assessment of the Chief Executive Officer's performance and determination of the CEO's compensation are among the principal responsibilities of the Compensation Committee. The Compensation Committee also approves the compensation of each of our other executive officers and recommends the compensation of our Board of Directors, with input from the Corporate Governance Committee, for approval by the Board. In addition, the Compensation Committee administers our long-term incentive compensation programs, including the 1993 Omnibus Stock Incentive Plan, as amended and restated, and the WEC Performance Unit Plan, as amended, which are discussed further below.

The Compensation Committee is comprised solely of directors who are independent directors under our corporate governance guidelines and the rules of the New York Stock Exchange. No member of the Compensation Committee is a current or former employee of WEC or its subsidiaries.

**Competitive Data.** As a general matter, we believe the labor market for WEC executive officers is consistent with that of general industry. Although we recognize our business is focused on the energy services industry, our goal is to have an executive compensation program that will allow us to be competitive in recruiting the most qualified candidates to serve as executive officers of the Company, including individuals who may be employed outside of the energy services industry. Further, in order to retain top performing executive officers, we believe our compensation practices must be competitive with those of general industry.

To confirm that our annual executive compensation is competitive with the market, we consider the market data obtained from Towers Watson. For 2010, Towers Watson provided us with compensation data from its 2010 Executive Compensation Data Bank, which contains information obtained from 430 companies of varying sizes in a wide range of businesses throughout general industry, including information from 102 companies within the energy services industry (i.e., companies with regulated and/or unregulated utility operations and independent power producers).

For Messrs. Klappa, Leverett and Fleming, the term market median means the median level for an executive officer serving in a comparable position in a comparably sized company (revenues of \$3 billion to \$6 billion) in general industry based on our analysis of the Towers Watson survey data. With respect to Mr. Kuester, given the nature of his position as principal executive officer of our electric utility generation operations in 2010, we consider the average of (1) the median level for an individual serving as the top generation officer of a company comparable in size to We Energies (revenues of \$3 billion to \$6 billion) in the energy services industry and (2) the median level for the chief executive officer in general industry in a business comparable in size to the generation operations of Wisconsin Energy. With respect to Ms. Rappé, given the scope of her responsibilities as Chief Administrative Officer of the Company, we consider the average of (1) the median level for an individual serving as the top administrative officer of a company

**Table of Contents**

comparable in size to We Energies in the energy services industry and (2) the median level for the top administrative officer in general industry in a business comparable in size to Wisconsin Energy.

Our comparison of each element of compensation with the appropriate market data when setting the compensation levels of our named executive officers drives the allocation of cash versus non-cash compensation and short-term versus long-term incentive compensation.

**Annual Base Salary.** The annual base salary component of our executive compensation program provides each executive officer with a fixed level of annual cash compensation. We believe that providing annual cash compensation through a base salary is an established market practice and is a necessary component of a competitive compensation program.

After careful consideration of the market data and in light of the economic conditions in our service territories at the end of 2009, the Compensation Committee agreed with Mr. Klappa's recommendation to freeze all officers', including the named executive officers', base salaries in 2010 for the second consecutive year. Officers' salaries were also frozen in 2009 at 2008 levels. The named executive officers did receive an increase in base salary in 2011, which reflects a return to our customary practice.

**Annual Cash Incentive Compensation.** We provide annual cash incentive compensation through our Short-Term Performance Plan (STPP). The STPP provides for annual cash awards to named executive officers based upon the achievement of pre-established stockholder, customer and employee focused objectives. All payments under the plan are at risk. Payments are made only if performance goals are achieved, and awards may be less or greater than targeted amounts based on actual performance. Payments under the STPP are intended to reward achievement of short-term goals that contribute to stockholder value, as well as individual contributions to successful operations.

*2010 Target Awards.* Each year, the Compensation Committee approves a target level of compensation under the STPP for each of our named executive officers. This target level of compensation is expressed as a percentage of base salary. Each of Messrs. Klappa, Leverett and Kuester, and Ms. Rappé has an employment agreement with WEC that specifies a style="width: 1%">

Table of Contents

Material Contracts

- 10
- (i) 2005 Taylor Devices, Inc. Stock Option Plan attached as Appendix B to Definitive Proxy Statement, filed with the Securities and Exchange Commission on September 27, 2005.
  
  - (ii) 2008 Taylor Devices, Inc. Stock Option Plan attached as Appendix C to Definitive Proxy Statement, filed with the Securities and Exchange Commission on September 26, 2008.
  
  - (iii) 2012 Taylor Devices, Inc. Stock Option Plan attached as Appendix C to Definitive Proxy Statement, filed with the Securities and Exchange Commission on September 21, 2012.
  
  - (iv) 2015 Taylor Devices, Inc. Stock Option Plan attached as Appendix B to Definitive Proxy Statement, filed with the Securities and Exchange Commission on April 8, 2016.
  
  - (v) The 2004 Taylor Devices, Inc. Employee Stock Purchase Plan, incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-8, File No. 333-114085, filed with the Securities and Exchange Commission on March 31, 2004.
  
  - (vi) Post-Effective Amendment No. 1 to Registration Statement on Form S-8, File No. 333-114085, for the 2004 Taylor Devices, Inc. Employee Stock Purchase Plan, filed with the Securities and Exchange Commission on August 24, 2006.
  
  - (vii) Form of Indemnification Agreement between registrant and directors and executive officers, attached as Appendix A to Definitive Proxy Statement, filed with the Securities and Exchange Commission on September 27, 2007.
  
  - (viii) Management Bonus Policy dated as of March 4, 2011 between the Registrant and executive officers, incorporated by reference to Exhibit 10(i) to Quarterly Report on Form 10-Q for the period ending February 28, 2011.
  
  - (ix) Negative Pledge Agreement dated August 30, 2017 by the Registrant in favor of M&T Bank, filed with this report.
  
  - (x) Employment Agreement dated as of June 14, 2018 between the Registrant and Alan R. Klembczyk, incorporated by reference to Exhibit 10(i) to Current Report on Form 8-K filed June 19, 2018.

(xi) Employment Agreement dated as of June 14, 2018 between the Registrant and Mark V. McDonough, incorporated by reference to Exhibit 10(ii) to Current Report on Form 8-K filed June 19, 2018.

Table of Contents

Statement regarding  
11 computation of per share  
earnings

REG.  
228.601(A)(11) Statement  
regarding computation of  
per share earnings

Weighted average of  
common stock/equivalents  
outstanding - fiscal year  
ended May 31, 2018

Weighted  
average  
common 3,458,049  
stock  
outstanding  
Common  
shares  
issuable  
under  
stock  
option 30,876  
plans  
using  
treasury  
stock  
method  
Weighted  
average  
common  
stock 3,488,925  
outstanding  
assuming  
dilution

Net  
income  
fiscal  
year  
(1) \$ 443,370  
ended  
May  
31,  
2018  
(2) 3,458,049

Weighted  
 average  
 common  
 stock  
 Basic  
 income  
 per  
 common \$ 0.13  
 share (1)  
 divided  
 by (2)

Net  
 income  
 fiscal  
 year  
 (3) \$ 443,370  
 ended  
 May  
 31,  
 2018

Weighted  
 average  
 common  
 stock (4) 3,488,925  
 outstanding  
 assuming  
 dilution  
 Diluted  
 income  
 per  
 common \$ 0.13  
 share (3)  
 divided  
 by (4)

Weighted average of  
 common stock/equivalents  
 outstanding - fiscal year  
 ended May 31, 2017

Weighted  
 average  
 common 3,432,112  
 stock  
 outstanding  
 Common 73,082  
 shares  
 issuable  
 under  
 stock  
 option

plans  
 using  
 treasury  
 stock  
 method  
 Weighted  
 average  
 common  
 stock 3,505,194  
 outstanding  
 assuming  
 dilution

Net  
 income  
 fiscal  
 year  
 (1) \$ 2,330,577  
 ended  
 May  
 31,  
 2017

Weighted  
 average  
 (2) 3,432,112  
 common  
 stock  
 Basic  
 income  
 per  
 common \$ 0.68  
 share (1)  
 divided  
 by (2)

Net  
 income  
 fiscal  
 year  
 (3) \$ 2,330,577  
 ended  
 May  
 31,  
 2017

Weighted  
 average  
 common  
 stock 3,505,194  
 outstanding  
 assuming  
 dilution  
 Dilute \$ 0.66  
 income  
 per



common  
share (3)  
divided  
by (4)

13 The Annual Report to  
Security Holders for the  
fiscal year ended May 31,  
2018, attached to this  
Annual Report on Form  
10-K.

14 Code of Ethics,  
incorporated by reference  
to Exhibit 14 to Annual  
Report on Form 10-KSB  
for the period ending May  
31, 2005.

20 Other documents or  
statements to security  
holders

News from Taylor  
Devices, Inc.

(i) Shareholder Letter,  
Summer 2018.

21 Subsidiaries of the  
registrant  
Tayco Realty Corporation  
is a New York corporation  
organized on September 8,  
1977, owned by the  
Company.

23 The Consent of  
Independent Registered  
Public Accounting Firm  
precedes the Consolidated  
Financial Statements.

31 Officer Certifications  
Rule 13a-14(a)  
(i) Certification of Chief  
Executive Officer.  
Rule 13a-14(a)  
(ii) Certification of Chief  
Financial Officer.

19

Table of Contents

32 Officer Certifications

(i) Section 1350 Certification of Chief Executive Officer.

(ii) Section 1350 Certification of Chief Financial Officer.

Interactive data files pursuant to Rule 405 of Regulation S-T: (i)

Consolidated Balance Sheets, (ii) Consolidated Statements of

101 Income, (iii) Consolidated Statements of Stockholders' Equity, (iv)

Consolidated Statements of Cash Flows, and (v) Notes to

Consolidated Financial Statements.

101.XBRL Taxonomy Extension Schema Document

101.XBRL Taxonomy Extension Calculation Linkbase Document

101.XBRL Taxonomy Extension Definition Linkbase Document

101.XBRL Taxonomy Extension Label Linkbase Document

101.XBRL Taxonomy Extension Presentation Linkbase Document

20

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TAYLOR DEVICES, INC.  
(Registrant)

By: /s/Alan R. Klembczyk      Date: August 9, 2018  
Alan R. Klembczyk  
President and Director  
(Principal Executive Officer)

and

By: /s/Mark V. McDonough                      Date: August 9, 2018  
Mark V. McDonough  
Chief Financial Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: <u>/s/John Burgess</u>	By: <u>/s/Randall L. Clark</u>
John Burgess, Director	Randall L. Clark, Director
August 9, 2018	August 9, 2018

By: /s/F. Eric Armenat  
F. Eric Armenat, Director  
August 9, 2018

Table of Contents

[Lumsden & McCormick, LLP Letterhead]

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors of  
Taylor Devices, Inc.

Gentlemen:

We hereby consent to the incorporation by reference in this Annual Report on Form 10-K (Commission File Number 0-3498) of Taylor Devices, Inc. of our report dated August 9, 2018 and any reference thereto in the Annual Report to Shareholders for the fiscal year ended May 31, 2018.

We also consent to such incorporation by reference in Registration Statement Nos. 333-114085, 333-133340, 333-155284, 333-184809 and 333-210660 of Taylor Devices, Inc. on Form S-8 of our report dated August 9, 2018.

/s/Lumsden & McCormick, LLP

Lumsden & McCormick, LLP

Buffalo, New York

August 9, 2018

Table of Contents

**TAYLOR DEVICES, INC. AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2018

23



Table of Contents

[Lumsden & McCormick, LLP Letterhead]

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

Taylor Devices, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Taylor Devices, Inc. and Subsidiary (the Company) as of May 31, 2018 and 2017, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial condition of the Company as of May 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 1998.

Buffalo, New York

August 9, 2018



Table of Contents

## TAYLOR DEVICES, INC. AND SUBSIDIARY

## Consolidated Balance Sheets

May 31,	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$2,858,323	\$3,324,934
Short-term investments	1,039,082	1,022,326
Accounts receivable, net (Note 2)	6,265,864	2,545,773
Inventory (Note 3)	11,317,775	11,488,610
Prepaid expenses	244,643	263,574
Prepaid income taxes	202,519	163,904
Costs and estimated earnings in excess of billings (Note 4)	6,356,963	6,868,393
Total current assets	28,285,169	25,677,514
Maintenance and other inventory, net (Note 5)	885,651	878,779
Property and equipment, net (Note 6)	9,935,625	9,994,716
Cash value of life insurance, net	185,730	180,579
Deferred income taxes (Note 10)	219,115	429,115
Total assets	\$39,511,290	\$37,160,703
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$1,460,175	\$1,329,321
Accrued commissions	983,260	846,941
Other accrued expenses	1,412,502	832,060
Billings in excess of costs and estimated earnings (Note 4)	2,043,002	1,295,989
Total current liabilities	5,898,939	4,304,311
Stockholders' Equity:		
Common stock, \$.025 par value, authorized 8,000,000 shares, issued 4,017,139 and 3,990,554 shares	100,428	99,763
Paid-in capital	9,382,202	9,070,278
Retained earnings	26,959,080	26,515,710
Stockholders' equity before treasury stock	36,441,710	35,685,751
Treasury stock - 550,872 shares at cost	(2,829,359)	(2,829,359)
Total stockholders' equity	33,612,351	32,856,392
Total liabilities and stockholders' equity	\$39,511,290	\$37,160,703

See notes to consolidated financial statements.

Table of Contents

## TAYLOR DEVICES, INC. AND SUBSIDIARY

## Consolidated Statements of Income

For the years ended May 31,	2018	2017
Sales, net (Note 9)	\$24,363,967	\$25,536,996
Cost of goods sold	18,439,760	17,551,163
Gross profit	5,924,207	7,985,833
Selling, general and administrative expenses	5,276,574	5,065,101
Operating income	647,633	2,920,732
Other income		
Interest, net	26,861	38,842
Miscellaneous	1,876	28,003
Total other income	28,737	66,845
Income before provision for income taxes	676,370	2,987,577
Provision for income taxes (Note 10)	233,000	657,000
Net income	\$443,370	\$2,330,577
Basic earnings per common share (Note 11)	\$0.13	\$0.68
Diluted earnings per common share (Note 11)	\$0.13	\$0.66

See notes to consolidated financial statements.

Table of Contents

## TAYLOR DEVICES, INC. AND SUBSIDIARY

## Consolidated Statements of Stockholders' Equity

For the years ended May 31, 2018 and 2017

	Common Stock	Paid-In Capital	Retained Earnings	Treasury Stock
Balance, May 31, 2016	\$98,738	\$8,529,542	\$24,185,133	\$(2,656,184)
Net income for the year ended May 31, 2017	—	—	2,330,577	—
Common stock issued for employee stock option plan (Note 14)	988	338,597	—	(173,175 )
Common stock issued for employee stock purchase plan (Note 13)	37	24,446	—	—
Stock options issued for services	—	177,693	—	—
Balance, May 31, 2017	99,763	9,070,278	26,515,710	(2,829,359)
Net income for the year ended May 31, 2018	—	—	443,370	—
Common stock issued for employee stock option plan (Note 14)	619	164,364	—	—
Common stock issued for employee stock purchase plan (Note 13)	46	22,629	—	—
Stock options issued for services	—	124,931	—	—
Balance, May 31, 2018	\$100,428	\$9,382,202	\$26,959,080	\$(2,829,359)

See notes to consolidated financial statements.

Table of Contents

## TAYLOR DEVICES, INC. AND SUBSIDIARY

## Consolidated Statements of Cash Flows

For the years ended May 31,	2018	2017
Operating activities:		
Net income	\$443,370	\$2,330,577
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	995,924	868,609
Stock options issued for services	124,931	177,693
Bad debts expense	—	100,000
Provision for inventory obsolescence	60,000	180,000
Deferred income taxes	210,000	(147,000 )
Changes in other current assets and liabilities:		
Accounts receivable	(3,720,091 )	1,346,441
Inventory	103,963	(2,245,390 )
Prepaid expenses	18,931	9,630
Prepaid income taxes	(38,615 )	35,173
Costs and estimated earnings in excess of billings	511,430	(1,367,622 )
Accounts payable	130,854	(437,696 )
Accrued commissions	136,319	163,341
Other accrued expenses	580,442	(1,901,787 )
Billings in excess of costs and estimated earnings	747,013	(167,632 )
Net operating activities	304,471	(1,055,663 )
Investing activities:		
Acquisition of property and equipment	(936,833 )	(1,868,821 )
Increase in short-term investments	(16,756 )	(22,326 )
Increase in cash value of life insurance	(5,151 )	(5,229 )
Net investing activities	(958,740 )	(1,896,376 )
Financing activities:		
Proceeds from issuance of common stock	187,658	190,893
Net financing activities	187,658	190,893
Net change in cash and cash equivalents	(466,611 )	(2,761,146 )
Cash and cash equivalents - beginning	3,324,934	6,086,080
Cash and cash equivalents - ending	\$2,858,323	\$3,324,934

See notes to consolidated financial statements.





Table of Contents

TAYLOR DEVICES, INC. AND SUBSIDIARY

**Notes to Consolidated Financial Statements**

**1. Summary of Significant Accounting Policies:**

**Nature of Operations:**

Taylor Devices, Inc. (the Company) manufactures and sells a single group of very similar products that have many different applications for customers. These similar products are included in one of eight categories; namely, Seismic Dampers, Fluidicshoks®, Crane and Industrial Buffers, Self-Adjusting Shock Absorbers, Liquid Die Springs, Vibration Dampers, Machined Springs and Custom Actuators for use in various types of machinery, equipment and structures, primarily to customers which are located throughout the United States and several foreign countries. The products are manufactured at the Company's sole operating facility in the United States where all of the Company's long-lived assets reside. Management does not track or otherwise account for sales broken down by these categories.

74% of the Company's 2018 revenue was generated from sales to customers in the United States and 21% was from sales to customers in Asia. Remaining sales were to customers in other countries in North America, Europe and South America.

80% of the Company's 2017 revenue was generated from sales to customers in the United States and 13% was from sales to customers in Asia. Remaining sales were to customers in other countries in North America, Europe, Australia and South America.

**Principles of Consolidation:**

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Tayco Realty Corporation (Realty). All inter-company transactions and balances have been eliminated in consolidation.

**Subsequent Events:**

The Company has evaluated events and transactions for potential recognition or disclosure in the financial statements through the date the financial statements were issued.

**Use of Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Cash and Cash Equivalents:**

The Company includes all highly liquid investments in money market funds in cash and cash equivalents on the accompanying balance sheets.

Cash and cash equivalents in financial institutions may exceed insured limits at various times during the year and subject the Company to concentrations of credit risk.

**Short-term Investments:**

At times, the Company invests excess funds in liquid interest earning instruments. Short-term investments at May 31, 2018 include “available for sale” corporate bonds stated at fair value, which approximates cost. The bonds (13) mature on various dates during the period September 2018 to December 2021. Unrealized holding gains and losses would be presented as a separate component of accumulated other comprehensive income, net of deferred income taxes. Realized gains and losses on the sale of investments are determined using the specific identification method.

The bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Table of Contents

**Accounts Receivable:**

Accounts receivable are stated at an amount management expects to collect from outstanding balances. Management provides for probable uncollectible accounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

**Inventory:**

Inventory is stated at the lower of average cost or net realizable value. Average cost approximates first-in, first-out cost.

**Property and Equipment:**

Property and equipment is stated at cost net of accumulated depreciation. Depreciation is provided primarily using the straight-line method for financial reporting purposes, and accelerated methods for income tax reporting purposes. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

**Cash Value of Life Insurance:**

Cash value of life insurance is stated at the surrender value of the contracts.

**Revenue Recognition:**

Sales are recognized when units are delivered or services are performed. Sales under fixed-price contracts are recorded as deliveries are made at the contract sales price of the units delivered. Sales under certain fixed-price contracts requiring substantial performance over several periods prior to commencement of deliveries, are accounted for under the percentage-of-completion method of accounting whereby revenues are recognized based on estimates of completion prepared on a ratio of cost to total estimated cost basis. Costs include all material and direct and indirect charges related to specific contracts. Other expenses are charged to operations as incurred. Total estimated costs for

each of the contracts are estimated based on a combination of historical costs of manufacturing similar products and estimates or quotes from vendors for supplying parts or services towards the completion of the manufacturing process. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. If total costs calculated upon completion of the manufacturing process in the current period for a contract are more than the estimated total costs at completion used to calculate revenue in a prior period, then the revenue and profits in the current period will be lower than if the estimated costs used in the prior period calculation were equal to the actual total costs upon completion. In the fiscal year ended May 31, 2018, 60% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 40% of revenue was recorded as deliveries were made to our customers. In the fiscal year ended May 31, 2017, 66% of total revenue recognized was accounted for using the percentage-of-completion method of accounting while the remaining 34% of revenue was recorded as deliveries were made to our customers.

For financial statement presentation purposes, the Company nets progress billings against the total costs incurred on uncompleted contracts. The asset, "costs and estimated earnings in excess of billings," represents revenues recognized in excess of amounts billed. The liability, "billings in excess of costs and estimated earnings," represents billings in excess of revenues recognized.

#### **Shipping and Handling Costs:**

Shipping and handling costs on incoming inventory items are classified as a component of cost of goods sold, while shipping and handling costs on outgoing shipments to customers are classified as a component of selling, general and administrative expenses. The amounts of these costs classified as a component of selling, general and administrative expenses were \$264,696 and \$127,796 for the years ended May 31, 2018 and 2017.

#### **Research and Development Costs:**

Research and development costs are classified as a component of cost of sales. The amounts of these costs were \$263,000 and \$903,000 for the years ended May 31, 2018 and 2017.

Table of Contents

**Income Taxes:**

The provision for income taxes provides for the tax effects of transactions reported in the financial statements regardless of when such taxes are payable. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the tax and financial statement basis of assets and liabilities. Deferred taxes are based on tax laws currently enacted with tax rates expected to be in effect when the taxes are actually paid or recovered.

The Company's practice is to recognize interest related to income tax matters in interest income / expense and to recognize penalties in selling, general and administrative expenses. The Company did not have any accrued interest or penalties included in its consolidated balance sheets at May 31, 2018 or 2017. The Company recorded no interest expense or penalties in its consolidated statements of income during the years ended May 31, 2018 and 2017.

The Company believes it is no longer subject to examination by federal and state taxing authorities for years prior to May 31, 2015.

**Sales Taxes:**

Certain jurisdictions impose a sales tax on Company sales to nonexempt customers. The Company collects these taxes from customers and remits the entire amount as required by the applicable law. The Company excludes from revenues and expenses the tax collected and remitted.

**Stock-Based Compensation:**

The Company measures compensation cost arising from the grant of share-based payments to employees at fair value and recognizes such cost in income over the period during which the employee is required to provide service in exchange for the award. The stock-based compensation expense for the years ended May 31, 2018 and 2017 was \$124,931 and \$177,693.

**New Accounting Standards:**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09, as amended, is effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2017 (fiscal year 2019 for the Company). Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company has not completely determined the potential effects of the adoption of ASU 2014-09 on its Consolidated Financial Statements, however it will likely require the Company to slow the recognition of revenue for contracts currently accounted for under the percentage-of-completion method.

Other recently issued Accounting Standards Codification (ASC) guidance has either been implemented or are not significant to the Company.

Table of Contents**2. Accounts Receivable:**

	2018	2017
Customers	\$5,515,848	\$1,978,108
Customers - retention	859,771	677,420
Gross accounts receivable	6,375,619	2,655,528
Less allowance for doubtful accounts	109,755	109,755
Net accounts receivable	\$6,265,864	\$2,545,773

**3. Inventory:**

	2018	2017
Raw materials	\$726,852	\$709,174
Work-in-process	9,990,225	10,071,179
Finished goods	700,698	808,257
Gross inventory	11,417,775	11,588,610
Less allowance for obsolescence	100,000	100,000
Net inventory	\$11,317,775	\$11,488,610

**4. Costs and Estimated Earnings on Uncompleted Contracts:**

	2018	2017
Costs incurred on uncompleted contracts	\$12,512,350	\$14,197,223
Estimated earnings	5,157,890	6,071,776
Total costs and estimated earnings	17,670,240	20,268,999
Less billings to date	13,356,279	14,696,595
Costs and estimated earnings not billed	\$4,313,961	\$5,572,404

Amounts are included in the accompanying balance sheets under the following captions:

	2018	2017
Costs and estimated earnings in excess of billings	\$6,356,963	\$6,868,393
Billings in excess of costs and estimated earnings	2,043,002	1,295,989
Costs and estimated earnings not billed	\$4,313,961	\$5,572,404

**5. Maintenance and Other Inventory:**

	2018	2017
Maintenance and other inventory	\$2,287,897	\$2,261,892
Less allowance for obsolescence	1,402,246	1,383,113
Maintenance and other inventory, net	\$885,651	\$878,779

Maintenance and other inventory represent stock that is estimated to have a product life-cycle in excess of twelve-months. This stock represents certain items the Company is required to maintain for service of products sold, and items that are generally subject to spontaneous ordering.

This inventory is particularly sensitive to technical obsolescence in the near term due to its use in industries characterized by the continuous introduction of new product lines, rapid technological advances and product obsolescence. Therefore, management of the Company has recorded an allowance for potential inventory obsolescence.

The provision for potential inventory obsolescence was \$60,000 and \$180,000 for the years ended May 31, 2018 and 2017.



Table of Contents**6. Property and Equipment:**

	2018	2017
Land	\$ 195,220	\$ 195,220
Buildings and improvements	9,342,431	9,342,431
Machinery and equipment	10,302,681	9,466,340
Office furniture and equipment	1,652,711	1,588,219
Autos and trucks	84,256	84,256
Land improvements	455,429	419,429
Gross property and equipment	22,032,728	21,095,895
Less accumulated depreciation	12,097,103	11,101,179
Property and equipment, net	\$9,935,625	\$9,994,716

Depreciation expense was \$995,924 and \$868,609 for the years ended May 31, 2018 and 2017.

The Company has commitments to make capital expenditures of approximately \$530,000 as of May 31, 2018.

**7. Short-Term Borrowings:**

The Company has a credit facility with a \$10,000,000 demand line of credit from a bank (\$6,000,000 at May 31, 2017), with interest payable at the Company's option of 30, 60 or 90 day LIBOR rate plus 2.25%. The line is secured by a negative pledge of the Company's real and personal property. This line of credit is subject to the usual terms and conditions applied by the bank and subject to renewal annually.

There is no amount outstanding under the line of credit at May 31, 2018 or May 31, 2017.

The Company uses a cash management facility under which the bank draws against the available line of credit to cover checks presented for payment on a daily basis. Outstanding checks under this arrangement totaled \$57,042 and \$239,200 as of May 31, 2018 and 2017. These amounts are included in accounts payable.

**8. Legal Proceedings:**

There are no legal proceedings except for routine litigation incidental to the business.

## 9. Sales:

The Company manufactures and sells a single group of very similar products that have many different applications for customers. These similar products are included in one of eight categories; namely, Seismic Dampers, Fluidicshoks®, Crane and Industrial Buffers, Self-Adjusting Shock Absorbers, Liquid Die Springs, Vibration Dampers, Machined Springs and Custom Actuators. Management does not track or otherwise account for sales broken down by these categories. Sales of the Company's products are made to three general groups of customers: industrial, construction and aerospace / defense. A breakdown of sales to these three general groups of customers is as follows:

	2018	2017
Construction	\$12,192,836	\$13,907,139
Aerospace / Defense	10,205,945	10,086,316
Industrial	1,965,186	1,543,541
Sales, net	\$24,363,967	\$25,536,996

Sales to five customers approximated 49% (14%, 13%, 9%, 7% and 6% respectively) of net sales for 2018. Sales to five customers approximated 44% (14%, 9%, 8%, 7% and 6% respectively) of net sales for 2017.

Table of Contents**10. Income Taxes:**

	2018	2017
Current tax provision:		
Federal	\$23,000	\$803,200
State	—	800
Total current tax provision	23,000	804,000
Deferred tax provision:		
Federal	210,000	(146,500 )
State	—	(500 )
Total deferred tax provision	210,000	(147,000 )
Total tax provision	\$233,000	\$657,000

A reconciliation of provision for income taxes at the statutory rate to income tax provision at the Company's effective rate is as follows:

	2018	2017
Computed tax provision at the expected statutory rate	\$193,500	\$1,015,800
State income tax - net of Federal tax benefit	(1,200 )	500
Tax effect of permanent differences:		
Research tax credits	(110,000 )	(273,000 )
Tax rate change on deferred taxes	164,000	—
Other permanent differences	(3,700 )	(93,700 )
Other	(9,600 )	7,400
Total tax provision	\$233,000	\$657,000
Effective income tax rate	34.4 %	22.0 %

Significant components of the Company's deferred tax assets and liabilities consist of the following:

	2018	2017
Deferred tax assets:		
Allowance for doubtful receivables	\$23,000	\$37,400
Tax inventory adjustment	18,800	213,000
Allowance for obsolete inventory	315,500	505,800
Accrued vacation	40,900	77,800
Accrued commissions	14,000	20,900
Warranty reserve	27,600	51,800
Stock options issued for services	223,100	320,100
Total deferred tax assets	662,900	1,226,800
Deferred tax liabilities:		
Excess tax depreciation	443,785	797,685
Net deferred tax assets	\$219,115	\$429,115

In December 2017, the Tax Cuts and Jobs Act (the 2017 Act) became law. It includes a broad range of tax reform proposals affecting businesses, including corporate tax rates, business deductions, and international tax provisions. Among the changes, the 2017 Act reduces the corporate rate from 34% to 21% for periods beginning after December 31, 2017. Because of the rate change, the Company recorded a non-cash write down of deferred tax assets and recognized incremental deferred tax expense of \$164,000 during the year ended May 31, 2018.

Realization of the deferred tax assets is dependent on generating sufficient taxable income at the time temporary differences become deductible. The Company provides a valuation allowance to the extent that deferred tax assets may not be realized. A valuation allowance has not been recorded against the deferred tax assets since management believes it is more likely than not that the deferred tax assets are recoverable. The Company considers future taxable income and potential tax planning strategies in assessing the need for a potential valuation allowance. The amount of the deferred tax assets considered realizable however, could be reduced in the near term if estimates of future taxable income are reduced. The Company will need to generate approximately \$3.2 million in taxable income in future years in order to realize the deferred tax assets recorded as of May 31, 2018 of \$662,900.

Table of Contents

The Company and its subsidiary file consolidated Federal and State income tax returns. As of May 31, 2018, the Company had State investment tax credit carryforwards of approximately \$369,000 expiring through May 31, 2024.

**11. Earnings Per Common Share:**

Basic earnings per common share is computed by dividing income available to common stockholders by the weighted-average common shares outstanding for the period. Diluted earnings per common share reflects the weighted-average common shares outstanding and dilutive potential common shares, such as stock options.

A reconciliation of weighted-average common shares outstanding to weighted-average common shares outstanding assuming dilution is as follows:

	2018	2017
Average common shares outstanding	3,458,049	3,432,112
Common shares issuable under stock option plans	30,876	73,082
Average common shares outstanding assuming dilution	3,488,925	3,505,194

**12. Related Party Transactions:**

The Company had no related party transactions for the years ended May 31, 2018 and 2017.

**13. Employee Stock Purchase Plan:**

In March 2004, the Company reserved 295,000 shares of common stock for issuance pursuant to a non-qualified employee stock purchase plan. Participation in the employee stock purchase plan is voluntary for all eligible employees of the Company. Purchase of common shares can be made by employee contributions through payroll deductions. At the end of each calendar quarter, the employee contributions will be applied to the purchase of common shares using a share value equal to the mean between the closing bid and ask prices of the stock on that date. These shares are distributed to the employees at the end of each calendar quarter or upon withdrawal from the plan. During the years ended May 31, 2018 and 2017, 1,835 (\$11.025 to \$13.415 price per share) and 1,498 (\$13.835 to \$19.58 price per share) common shares, respectively, were issued to employees. As of May 31, 2018, 223,169 shares were reserved for further issue.

**14. Stock Option Plans:**

In 2015, the Company adopted a stock option plan which permits the Company to grant both incentive stock options and non-qualified stock options. The incentive stock options qualify for preferential treatment under the Internal Revenue Code. Under this plan, 160,000 shares of common stock have been reserved for grant to key employees and directors of the Company and 95,500 shares have been granted as of May 31, 2018. Under the plan, the option price may not be less than the fair market value of the stock at the time the options are granted. Options vest immediately and expire ten years from the date of grant.

Using the Black-Scholes option pricing model, the weighted average estimated fair value of each option granted under the plan was \$2.86 during 2018 and \$3.59 during 2017. The pricing model uses the assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company's stock. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life of options granted is derived from previous history of stock exercises from the grant date and represents the period of time that options granted are expected to be outstanding. The Company uses historical data to estimate option exercise and employee termination assumptions under the valuation model. The Company has never paid dividends on its common stock and does not anticipate doing so in the foreseeable future.

	2018	2017		
Risk-free interest rate	2.179%	1.852%		
Expected life in years	3.7	3.5		
Expected volatility	30	27	%	%
Expected dividend yield	0	0	%	%

Table of Contents

The following is a summary of stock option activity:

	Shares	Weighted Average Exercise Price	Intrinsic Value
Outstanding - May 31, 2016	243,500	\$ 9.53	\$ 1,745,254
Options granted	49,500	\$ 15.95	
Less: options exercised	39,500	\$ 8.60	
Outstanding - May 31, 2017	253,500	\$ 10.93	\$ 817,629
Options granted	43,750	\$ 11.15	
Less: options exercised	24,750	\$ 6.67	
Less: options expired	750	\$ 19.26	
Outstanding - May 31, 2018	271,750	\$ 11.33	\$ 304,252

We calculated intrinsic value for those options that had an exercise price lower than the market price of our common shares as of the balance sheet dates. The aggregate intrinsic value of outstanding options as of the end of each fiscal year is calculated as the difference between the exercise price of the underlying options and the market price of our common shares for the options that were in-the-money at that date (93,000 at May 31, 2018 and 174,000 at May 31, 2017.) The Company's closing stock price was \$10.26 and \$13.26 as of May 31, 2018 and 2017. As of May 31, 2018, there are 64,500 options available for future grants under the 2015 stock option plan. \$164,983 and \$339,585 was received from the exercise of share options during the fiscal years ended May 31, 2018 and 2017.

The following table summarizes information about stock options outstanding at May 31, 2018:

Outstanding and Exercisable	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price
Range of Exercise Prices			
\$2.00-\$3.00	10,000	0.9	\$2.83
\$5.01-\$6.00	15,000	2.9	\$5.69
\$6.01-\$7.00	15,750	1.8	\$6.34
\$7.01-\$8.00	20,000	4.9	\$7.74
\$8.01-\$9.00	32,250	5.7	\$8.74
\$10.01-\$11.00	25,000	9.9	\$10.30
\$11.01-\$12.00	20,000	3.9	\$11.29
\$12.01-\$13.00	55,000	7.7	\$12.35
\$13.01-\$14.00	30,000	8.9	\$13.80
\$16.01-\$17.00	30,000	7.9	\$16.40
\$19.01-\$20.00	18,750	8.2	\$19.26
\$2.00-\$20.00	271,750	6.5	\$11.33

The following table summarizes information about stock options outstanding at May 31, 2017:

Outstanding and Exercisable			
Range of Exercise Prices	Number of Options	Weighted Average Remaining years of Contractual Life	Weighted Average Exercise Price
\$2.00-\$3.00	10,000	1.9	\$2.83
\$5.01-\$6.00	25,000	2.7	\$5.49
\$6.01-\$7.00	20,500	2.2	\$6.30
\$7.01-\$8.00	25,000	5.9	\$7.74
\$8.01-\$9.00	37,250	6.7	\$8.77
\$11.01-\$12.00	20,000	4.9	\$11.29
\$12.01-\$13.00	36,250	8.0	\$12.39
\$13.01-\$14.00	30,000	9.9	\$13.80
\$16.01-\$17.00	30,000	8.9	\$16.40
\$19.01-\$20.00	19,500	9.2	\$19.26
\$2.00-\$20.00	253,500	6.5	\$10.93



Table of Contents

**15. Preferred Stock:**

The Company has 2,000,000 authorized but unissued shares of preferred stock which may be issued in series. The shares of each series shall have such rights, preferences, and limitations as shall be fixed by the Board of Directors.

**16. Treasury Stock:**

Treasury shares are 550,872 at May 31, 2018 and 2017.

**17. Retirement Plan:**

The Company maintains a retirement plan for essentially all employees pursuant to Section 401(k) of the Internal Revenue Code. The Company matches a percentage of employee voluntary salary deferrals subject to limitations. The Company may also make discretionary contributions as determined annually by the Company's Board of Directors. The amount expensed under the plan was \$74,279 and \$74,261 for the years ended May 31, 2018 and 2017.

**18. Fair Value of Financial Instruments:**

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments.

The fair values of short-term investments were determined as described in Note 1.

**19. Cash Flows Information:**

2018	2017
------	------

Interest paid        **none**        none

Income taxes paid \$61,615    \$768,827